
SOUTH AFRICA:

Private Sector Strategy Assessment: Phase I

DRAFT REPORT
RESTRICTED DISTRIBUTION

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

*Prepared for: USAID/South Africa
 and
 AfricalMDI*

Prepared by: J.E. Austin Associates, Inc.

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

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1. Introduction

1.1 The Purpose of the BPED Assessment Team

The purpose of the South Africa private sector strategy assessment is to develop detailed guidance for the Mission regarding the programming of Black Private Enterprise Development (BPED) project funds. The assessment is being carried out at the request of the AID Mission.

Although USAID/SA assistance to private sector support organizations preceded the BPED, this project has been the major channel for supporting private sector development objectives since 1987. Given the fluidity of the political situation, the project has emphasized since its inception a strategy that is "responsive."

BPED has enabled USAID/SA to mobilize funds in support of black community initiatives and opportunities that arise in 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.

Assistance activities have covered a wide variety of institutions and initiatives, because at the time the BPED project was begun, USAID/SA (and indeed perhaps the donor community in general) had relatively little experience in assisting black entrepreneurs, scant information and knowledge about the key players and mechanisms available for private enterprise development, and few contacts with extra-parliamentary groups whose support was crucial to the acceptability and success of any foreign donor program. BPED has remained responsive to local initiatives, particularly from grassroots organizations or associations with broad membership, because of the distrust of larger businesses by the black community. Moreover, the nature of the U.S. relationship with the South African Government (SAG) since the program started made it imprudent for the Mission to raise its profile and assume a more proactive stance.

Since February 1990, political events in the RSA have dramatically altered USAID's ability to communicate directly with key political actors in the opposition. Moreover, donor interest (both foreign and local) in the country and in private sector support has also increased, as the magnitude of the growing unemployment problem has come to the fore.

*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 informal microenterprise level.

The need to maintain the flexibility to respond to specific initiatives emanating from the black community will continue to be a necessary element of USAID strategy. For maximum impact, the shape that this response takes must be consistent with a clear vision of USAID/SA's role in assisting black private sector development, and how assistance under BPED can best leverage the activities of other donors and other parts of the Mission portfolio. That clear vision must be formed on the basis of (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.

1.2 Activities of the BPED Assessment Team

The BPED Assessment Team, which arrived on July 24 and departed on August 10, 1990, completed the first phase of the strategy assessment process, which was to review the current Mission strategy. The team also initiated the second phase, which involved collection and analysis of interview and secondary source data critical for assessing the extent to which the private sector assistance strategy meets the evolving needs of the black community.

Interviews were conducted with entrepreneurs and representatives of 36 institutions, including private for- and non-profit organizations, foreign donors and SAG-sponsored small and/or black business support institutions.** In addition, the Team interviewed well-regarded economic research and consulting institutions.

Using the information gathered from these interviews, the team refined the private sector secondary source research agenda and

**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 rather was heavily skewed to organizations known to USAID and operating in the PWV area. Section 3 of this report discusses in greater depth the characteristics of the organizations interviewed and presents a preliminary analysis of the interviews.

developed terms of reference for research aimed at filling critical gaps in the knowledge regarding the role of the emerging black private sector in the country's economy. The Team subcontracted secondary source data collection and analysis which will seek to quantify the role of the private sector in general and the various types of black private sector firms in particular over the last five years, a review of recent regulatory and legal changes and their effect on various types of business activity, particularly black businesses, and a review of all survey research seeking to gather black entrepreneurs' perceptions of the opportunities and constraints facing their operations and the effectiveness of business support groups and organizations. Contracts have been signed with Consumer Behavior and the Economic Research Unit at the University of Natal. The terms of reference for these contracts are found in Annex A. In addition, the team has formed 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.

The secondary source research activity will require roughly six weeks to complete. All secondary research and analysis activities will run concurrently. It is anticipated that all subcontracted work will start immediately and be completed by the third week in September.

AFR/MDI and PRE assistance through the Ernst & Young Private Enterprise Development and Support (PEDS) Project will be provided to analyze the collected data, to identify opportunities and constraints to private sector-led growth, to guide the dialogue with the private sector, and to generate specific recommendations for the BPED project, assuming several funding scenarios (see section 2 below). The preparation of the final report will take an additional two to three weeks with completion scheduled for the end of October 1990.

The BPED assessment team to South Africa consisted of Dr. John Ickis, Dr. Tessie San Martin, Mr. Michael Grossman, and Dr. Jim Cobbe. Mr. David Himelfarb of USAID/SA and Mr. Stephen Wade of COMAD supported the team along with other Mission personnel.

2. **The BPED Project and the USAID/SA Portfolio: Existing and Potential Complementarities**

2.1 The BPED project

Exhibit 1 below presents an overview of the BPED project. A number of issues regarding BPED strategy arise from a review of the project paper, the project implementation reports and the various supporting project documents with the Mission:

- a) In the original PP, funds were supposed to be divided more or less equally among all three action areas. In practice most of the funds have been spent on activities which fall under objective 1 (41 percent) or objective 2 (over 40 percent). USAID/SA has undertaken some initiatives to promote greater advancement of blacks within "primary" sector businesses, but these have been limited primarily to research and training (such as bursaries to train accountants, the leadership exchange program, the planning grant to investigate the feasibility or desirability of a think tank, and the new venture capital activity). What should the appropriate emphasis among project components be in the future? What new types of activities and outputs can/should be expected from each of these project components?
- b) Resources channeled into institutional development have had limited direct impact on business development. Over the last two and a half years approximately 41 percent of BPED's resources have been channeled into institutional development activities. However, the Mission has found that much of the work in the area of institutional development has yet to yield many concrete benefits for the intended beneficiaries themselves -- black businesses. Organizations which were felt to have great potential as "implementing agents" have been highly politicized or plagued by weak leadership and internal controls. Many of the initiatives proposed by these organizations and funded by USAID/SA under the BPED project have been very slow to get off the ground. As a result much of the assistance provided by USAID/SA in this area has yet to yield significant direct benefits to members in the form of improved ability to act within the wider economy. How can project inputs, in the form of assistance to grantees, be linked more closely to specific desired outputs in each project area?

EXHIBIT 1
Brief Summary of BPED Project

Umbrella project providing grants to NGOs

3 basic areas of support:

1. Institutional Development and Advocacy

Purpose: Support to black entrepreneurs and business persons and business organizations for network development and structures to increase their ability to lobby and promote black businesses.

% of funds originally allocated: 32

Implementing agents/Grantees: NAFCOC, BMF, ACNHA)

2. Micro and Small Private Enterprise Development

Purpose: Relieve unemployment and introduce legally disadvantaged South Africans to private enterprise by providing support to groups providing financial and business skills to micro/informal entrepreneurs.

% of funds originally allocated: 29

Grantees: GAF

3. Participation in the Primary Economy

Purpose: Provide assistance to business persons and organizations to enable them to increase the influence of blacks in decision-making in the primary economy and in the political arena through management skills development programs, the provision of assistance for equity and credit guarantee schemes, feasibility studies).

% of funds originally allocated: 29

Grantees: FABS, IDED

In addition 8% was allocated to Project Guidance/Coordination -- which funds 2 long-term advisors to evaluate progress of program and adjust the project plan as necessary, analyze project ideas and proposals, gather information and monitor implementation.

- c) BPED is restricted to using primarily ESF funding, which is seen as "political" money. This fact has often limited the nature of programs which could be supported and the project's flexibility to respond and work with other programs. Conversations with Mission personnel however suggest that the political criterion may be far less important for determining the type of assistance provided. Nevertheless one must assume that most BPED resources will continue to come primarily if not exclusively from ESF funds, and the strategy assessment must provide the Mission with enough information and direction to make funding allocation under various "scenarios." Some of the most likely scenarios may be:

Scenario 1

- ◆ US\$1-1.5 million in FY91;
- ◆ US\$3.3 million from FY92 on

Scenario 2

- ◆ US\$1-1.5 million in FY91;
- ◆ US\$3.3 million FY92;
- ◆ US\$4-5 million FY93 on (project gets increased to US\$30 million.)

Other alternative scenarios may be identified and incorporated into the strategy design process, in consultation with the Mission.

2.2 Overview of the Mission's Portfolio

Private sector development as carried out under BPED has had fairly limited interaction with other parts of the Mission's portfolio of activities; BPED activities have been seen as incidental rather than central and supportive of the Mission's overall strategy for promoting an end to apartheid and the empowerment of blacks in the country. But as Exhibit 2 illustrates, all of BPED's objectives and activities overlap and complement those of other Mission projects, particularly the COLD and STEP projects. A review of the Mission's project papers, PIRS, and other documents (see Annex C) as well as consultations with USAID/SA officers has shown that while the largest portion of the Mission's resources have been channeled to community development and education, growing attention is being directed to the private sector and its interrelation with the rest of the Mission's portfolio. The following issues thus arise:

<p>Exhibit 2</p> <p>Overview of Mission Portfolio</p>

Project	Yrly. obligations	MISSION OBJECTIVES ACHIEVED		
		Strengthen Black Instit.	Promote Social Justice	Empower Disadvant. S.African
TDSA	US\$5.0		X	X
S.A. Bursaries	US\$2.3		X	X
STEP	US\$14.0	X	X	X
ESAT	US\$3.3	X	X	x
COLD	US\$3.3	X		
Human Rights	US\$2.0		X	
BPED	(US\$3.3)	X	X	x

- a) Some BPED activities could well have been funded through other Mission projects. The BPED female accountant bursary scheme (FABS), for example, could have been undertaken by the bursary program (SAB); USSALEP training or business leader exchanges might have been channeled through STEP or COLD. What other types of private sector support activities should be funded through other Mission projects? What mechanisms need to be established to insure the productive interaction between BPED and other Mission projects?
- b) BPED activities can be used to support and strengthen other parts of the Mission portfolio: BPED funds have already supported a fairly detailed training needs assessment in the Natal region. This report could then be used to develop short-term training strategies in human resource development for STEP or community leadership development support programs for COLD in that region. BPED funding could be used to identify specific issues and mechanisms for enhancing the effectiveness of the Mission's education program -- e.g., Black Management Forum's research and dialogue on the barriers encountered by educated black managers could fit into STEP's career planning and placement activities; BPED funds can be used to develop a detailed training needs assessment of the private sector which might then feed into the STEP strategy. BPED grantees and programs can be used to strengthen and support income generating activities sponsored under COLD. How can/should BPED activities be structured so as to strengthen and support other parts of the Mission portfolio?

The strategy assessment will help clarify Mission objectives and identify specific means to accomplish those objectives through the private sector portfolio.

2.3 The Agenda for Research and Dialogue

The strategy review exercise and Mission discussions have raised a number of questions, which will be addressed more thoroughly in the weeks to come through the dialogue and research activities related to this private sector strategy assessment:

- ◆ Employment generation is an area of growing concern. It is projected that by the year 2000, given present growth trends, only 8 of the total 18 million economically active population will be employed by the formal sector. Unemployment in some areas and townships is already over 50 percent. As a result community organizations have shown an increased interest in undertaking income generating projects. Is there a role for BPED in

fostering productive employment and collaborating with grassroots organizations to implement grassroots employment generation activities?

- ◆ There is a problem with a growing number of qualified, highly trained blacks who cannot find jobs once they finish the university. USAID is placing over US\$14 million a year on tertiary education, 70 percent of which is to go into science and management. A growing number of internal and foreign private and public donors are also contributing to the supply of professional and managerial cadre. Will these people and many more others to follow benefit from changes in the modern sector without significant "affirmative action" efforts to bring them up to speed? What is the role of BPED in supporting training programs? How can it complement and use existing STEP resources most effectively?
- ◆ Are there opportunities for leveraging BPED funds through increased cooperation with other donors in private sector-led development activities? Foreign official assistance to black private firms is limited primarily to USAID and the Canadian Mission under CABBSA (see Annex B, section XXXVI, for a description of CABBSA). But private sector assistance to black entrepreneurs is far larger. According to a recent report by the Institute of International Education, there are over 1,390 private US corporation-sponsored projects in the RSA, over 60 percent of which are in education and 10 percent in black private enterprise development. This does not include projects for black private enterprise development support provided by major South African firms such as Anglo-American's R50mn Chairman's Fund or its Small Business Unit, which has sponsored and helped develop over R10mn of subcontracting activity for small entrepreneurs. Has/should the Mission considered joint efforts? With what groups and in what areas and regions? What is the likely shape private and external donor assistance will take given current political and legal/regulatory changes in the country (recent tax rebates for training, for example, and possible changes in tax laws for philanthropic activity)?

The observations and issues raised in this section should be taken as preliminary and tentative. The Mission should use these comments as a springboard for discussions of how to relate project objectives to overall Mission goals and how to best coordinate project and other donor activities to achieve those goals.

The examination of how current projects are related and how they affect the private sector is one of the activities involved in a strategy assessment. As stated in section 1 of this report, a

second activity is to identify critical constraints and new opportunities for black advancement through the private sector and to stimulate thinking on alternative implementing agents. In the following section we present some preliminary findings regarding the basic needs faced by black entrepreneurs at the present time, the types of implementing agents available to carry out private sector development objectives, and the various models which seem to be most successful in supporting different black private sector entrepreneurs and entities.

3. Preliminary Findings from Interviews

During the July 25 to August 10 period the Team had the opportunity to interview over 50 individuals in over 35 organizations directly or indirectly involved with black private enterprise development activities, as well as a number of economic analysts and entrepreneurs operating in the country. Detailed memoranda of conversations from each of these interviews are provided in Annex B of this report. The Team has reviewed these memoranda and summarized the key findings regarding perceptions of key black private sector constraints to growth; it has also identified some of the more promising approaches to overcoming these constraints. Over the weeks which follow, data from these interviews as well as data gathered through the various subcontracts will be analyzed in greater depth and possible approaches to black enterprise development in the country further developed.

The following comments are preliminary observations only. They should not be taken as recommendations or conclusions as they are based on limited work in-country and a limited number of interviews and discussions. More and better data on the economic environment and policy and its effect on various types of business operations and business support institutions, useful in discussing the thoughts contained below, will become available through the research being subcontracted and the dialogue discussions which will follow. Within this framework of present limited knowledge, the following thoughts are offered for discussion.

3.1 Perceived Constraints to Black Private Sector Development

Below is a summary of the key problem areas identified through the interviews:

EXHIBIT 3 SUMMARY OF NEED AREAS TO BE ADDRESSED IN BLACK PRIVATE SECTOR ASSISTANCE
--

Need/Problem	No. Times Mentioned***
1. Related to Training/Education	31 (86%)
♦ Blacks lack business savvy and skills (general)	8
♦ Black businessmen lack skills (e.g. numeracy, marketing)	3
♦ Education/Training is not practical	10
♦ Training should provide follow-up/after care	3
♦ Experience packaging loan applications and proposals is needed	2
2. Related to Poor Service Delivery	20 (56%)
♦ No methodology for evaluating success of programs	3
♦ No effective method for identifying "winners/real" entrepreneurs	3
♦ Donors only interested in PWV region	3
♦ Foreign assistance politically, not developmentally oriented	4
♦ Foreign assistance money spent on foreign consultants	1
♦ Assistance should be focused on successful programs to assist entrepreneur not inst. dev.	2
♦ Organizations are attempting to deliver services that they are not suited to deliver	3
♦ There is a need to foster dissemination of information on small business development and support models not known in RSA	1

***The denominator used to calculate the percentages was 36, the total number of institutions interviewed between July 25 and August 10.

<p>EXHIBIT 3 SUMMARY OF NEED AREAS TO BE ADDRESSED IN BLACK PRIVATE SECTOR ASSISTANCE</p>

Need/Problem	Total No. Times Mentioned
3. Related to Attitudes	19 (53%)
♦ Need to change view on free market/competition	3
♦ Need to change black "dependence" attitude	7
♦ Need to encourage positive white attitude to black business	5
♦ Need to encourage growth mentality not just survival	3
♦ Need to encourage unity among blacks	1
4. Related to Finance/Capital	18 (50%)
♦ Black business lacks access to capital (general)	7
♦ Black business lacks access to growth capital	5
♦ Need to mobilize black savings <u>for</u> black community	3
5. Related to Black and White Business Relationships	13 (36%)
♦ Need more subcontracting to encourage transfer of skills and facilitate access to markets, capital, etc.	5
♦ Blacks underrepresented and underutilized in corporate South Africa	4
♦ Need a greater exchange of ideas and technology between whites and blacks	4

<p>EXHIBIT 3 SUMMARY OF NEED AREAS TO BE ADDRESSED IN BLACK PRIVATE SECTOR ASSISTANCE</p>

Need/Problem	Total No. Times Mentioned
6. Related to Legislation/Regulation	4 (11%)
♦ Legislation impeding advance of black business	3
♦ Need lobbying for pro-informal sector regulation	1
7. Other Issue Areas	8 (22%)
♦ Private sector promotion must concentrate on creating jobs	2
♦ Blacks need to band together to achieve economies of scale	2
♦ Need for premises	3

3.2 Interventions to Address Problem Areas

Given the high interest in training, it is important to examine the types of institutions interviewed; to the extent that the majority were training institutions, one would expect to see such a high interest in the training area. Exhibit 4 below summarizes the services offered by the institutions interviewed and compares this break down to the types of assistance being offered by the organizations listed in the GAF small business resource directory:

Exhibit 4

Type of Service Offered	% of the Organizations Interviewed by RPED Team offering:	% of the Organizations listed in GAF Directory offering:
Training:	36	56
Lobbying/Legal:	14	32
Resources:		
-Capital	17	23
-Marketing Support	19	43
-Information	17	20
-Premises	8	10
-General consulting /TA	42	58
Research:	17	39

The relatively low level of emphasis placed on the capital constraint needs to be clarified. The sample interviewed by the BPED Team tended to emphasize general consulting services and technical assistance; those in the CAF directory emphasize training. Thus the figures in Exhibit 4 suggest that the sample interviewed by the Team may have been less biased towards training than the "universe" of black support institutions, as catalogued in the Get Ahead Directory. In this light it is noteworthy that training was still perceived as the number one constraint to black business development by those interviewed (see Exhibit 3).

The relatively low level of emphasis placed on capital as a critical constraint in Exhibit 3 needs to be explained. The consensus among those interviewed was that capital was a critical constraint primarily for the larger firms. Many support institutions questioned believe that financing, specially bridge financing was particularly critical for the building industry and

manufacturing firms, specially those who had grown to a certain size and did not qualify to apply for the special microenterprise or mini-loan programs backed by a variety of donor programs. Most interviewees agreed that the smallest (micro) firms were often able to accumulate and access sufficient capital to start and operate their business. For the smallest firm lack of capital was most often a symptom rather than the cause of poor business performance.

Lack of premises again received relatively little emphasis. But again the gravity of this constraint varied by firm size and sector. Premises are felt to be of critical importance to manufacturing firms and to those firms which had "graduated" from the micro to the "small" level.

Regarding donor concentration in the PWV area, again an brief examination of the GAF business directory illustrates the point:

Exhibit 5

Percentage of support institutions with an office or a branch in:

PWV	60%
W. Cape	23%
Orange Free State	5%
Natal	5%
E. Cape (PE)	4%

The issue was thus raised by a variety of interviewees: to what extent should/can USAID assistance be targeted outside the PWV region? What are the perceptions of entrepreneurs and institutions operating outside the PWV area regarding private sector needs and opportunities?

3.3 Preliminary Assessment of Implementing Agents for Black Private Sector Support

Based on the interviews carried out thus far, Exhibit 6 identifies what we believe is the unique contribution or talent offered each of the organizations interviewed can offer in addressing each of the critical needs identified in Exhibit 3. For those organizations where the Team felt could have a role in meeting BPED objectives, we also identified the specific target group it was best suited to assist based on its unique strength and also noted the type of intervention the institution is currently offering. This table can be viewed as a very preliminary framework for evaluating project ideas and identifying potential implementing agents. The final determination of the suitability of these institutions as implementing agents for BPED as well as the feasibility for using them in the role specified cannot be determined however until we have finished collecting and analyzing the data on the private sector trends and conducted more extensive dialogue sessions on the basis of that analysis.

<p>EXHIBIT 6 PRELIMINARY FRAMEWORK: BLACK PRIVATE SECTOR ASSISTANCE OPTIONS</p>

<u>Institution</u>	<u>Target Group</u>	<u>Unique Contribution</u>	<u>Current Support Offered</u>
ABASA	Other implementing agents; prof. cadre	Improving service delivery	Ntwking
Workwise	Microenterp.	Attitudinal/Motivation Sowetan link	Trng
USSALEP	Bus. Leaders	Exchange Network	Ntwking
Wits CDB	Small enterp.	Research/dissemination	Research Trng
ERIN	Black commun.	Econ resources/community links/credibility	Devp't Projects
ECCDT	small	Attitudinal	Fin.
Urban Found.	Prof. cadre micro/small firms	PRISCO/CDA (housing/builders)	Trng/TA
Sunnyside	All	Lobbying	Lobby
DBSA		Equity fin./Econ resources	
Black Enter. Magazine group	Bus. Leaders Small enterpr.	Netwking/Dissem.	Ntwking
African Bank	small/medium	Pot'lly innovative financing	Capital
Bus. Challenge	small entrep.	Innovative financial pooling mechanism; Attitudinal	Capital
NAFCOC	All	ANC link; wide membership base	Lobbying
FED	unemployed; micro-enterpr.	Integrated model of entrep. devmnt	T/TA/P

<p>EXHIBIT 6 PRELIMINARY FRAMEWORK: BLACK PRIVATE SECTOR ASSISTANCE OPTIONS (Page 2)</p>

<u>Institution</u>	<u>Target Group</u>	<u>Unique Contribution</u>	<u>Current Support Offered</u>
Anglo-Am.	small bus	Econ resources; simplified subcontractng scheme	Subcontr.
SBDC	small bus	Subsidized lending; venture K; premises provision	
Job Creation	unemployed/ micro-entrep.	Successful job creation model; brokering TA and premises	TA
Self-Employmnt Institute	micro/small	Attitudinal; Lobbying; bridging gap btwn black & white	Trng
CBED		Tapped into national assoc. of coop societies	
CABBSA		Technical assist to black manufacturers	
Law Review Project		Sectoral legal consult.	
CBM		Effective policy dialogur; credibility in corp. SA	
GAF	micro/small	Reputation effective; diversified geogr. base& funding	Trng/ TA/Credit/ Rsch/Lobby

<p>EXHIBIT 6 PRELIMINARY FRAMEWORK: BLACK PRIVATE SECTOR ASSISTANCE OPTIONS (Page 3)</p>

<u>Institution</u>	<u>Target Group</u>	<u>Unique Contribution</u>	<u>Current Support Offered</u>
WR Consultants	small/med.	Technical assist./ service brokering	TA/Ntwking
Malimela & Associates	small	TA/Attitudinal Training	Training/ TA/Ntwking
FABCOS	micro	Wide member base/ lobbying/mktg	TA/lobby/ credit/ research
BMI	large	mkt research	research
Institute for Soc. & Econ Rsch	all	research	research/ policy dialogue
BMF	med/large prof.cadre	lobby	rsch/TA lobby/ training
HODECO	small bldr	capital, TA	TA/ capital/ trng/mktg support
P-E Corp. Services	med/large/ prof. cadre	Training for managers	Trng/TA

Note that we have made a distinction between those organizations which target the unemployed primarily (and hence more concerned with facilitating entry) and those concerned with existing businesses (and thus more concerned with promoting firm growth and/or enhancing chances for firm survival).

ANNEX A

TERMS OF REFERENCE FOR SUBCONTRACTED WORK

SCOPE OF WORK FOR STUDY OF THE IMPACT OF RECENT POLICY CHANGES
ON THE PRIVATE SECTOR TO BE UNDERTAKEN BY
THE ECONOMIC RESEARCH UNIT OF THE UNIVERSITY OF NATAL

Objective:

The objective of this exercise is to review the literature and summarize the key policy changes since 1987 and their effect on private sector, especially Black private sector. The contractor will examine the effect of the regulatory environment on growth patterns, geographic/sectoral distribution of the black private sector, as well as on the evolution of linkages between the Black private sector and non Black firms. The contractor will also be expected to evaluate the possible areas of growth and opportunities to be emerging for the Black private sector in light of these changes as well as continuing constraints to entrepreneurial growth.

1. For the period since 1987, provide a description of:
 - 1.1 Changes in the legal environment that affect the prospects and operations of the private sector, particularly the Black private sector; together with a summary of the impact of the remaining racially-discriminatory legislation on the Black private sector (Group Areas Act) and the differential impact of general legislation on small business.
 - 1.2 Changes in the regulatory environment governing the private sector, particularly a chronology of the removal of racially-discriminatory regulations, a summary of remaining racially-differentiating regulations, and a summary of regulations that differentially impact small business.
 - 1.3 Changes in the fiscal and monetary policies of government that affect the private business sector, with particular attention to changes in taxation, subsidy, credit, and privatization policies and how they impact small business in general and the Black private sector in particular.
 - 1.4 Changes in training policies (including tax rebates and credits) of government and how these affect the prospects for entry and growth of Blacks to the formal private sector both as entrepreneurs and as employees of private businesses.
 - 1.5 The contractor will be expected to develop indicators with which to assess and measure "impact" on the Black private sector.

♦ Some key indicators with which to assess "impact" may be: effect on business growth patterns,

geographic/sectoral distribution of private sector activity, as well as on the evolution of economic, educational, credit and philanthropic linkages between the Black private sector and non Black firms and organizations (e.g. level of subcontracted output).

- ◆ In this regard, it is expected that the contractor will develop a framework for combining the results of the quantification study with those of the policy changes study to develop indicators of policy/regulatory impact on the private sector in general, the black private sector in particular, and the evolution of linkages between the two.
 - ◆ The contractor will define in every case what is meant by Blacks (Colored, Asian, African).
- 1.6 The report should be organized in sections 1.1 through 1.4 as above, each providing a succinct chronology of changes and their effects, followed by a summary of the current policy environment. To the extent that the impacts are different for different segments of the Black private sector (according to segment of the economy, geographic location, size, formal/informal, etc.), so specify.
 2. Provide a preliminary analysis of:
 - 2.1 Which of the above changes are most significant in altering the prospects of Black advancement in the private sector.
 - 2.2 Which aspects of the current policy environment are most significant as obstacles to Black advancement in the private sector.
 - 2.3 Possible future changes in the policy environment (currently under discussion or anticipated) that will have importance for the prospects of Black advancement in the private sector.
 - 2.4 For 2.1 through 2.3, to the extent that impacts are differential by sector of the economy (e.g. retailing, manufacturing, construction, etc), size of business, formal/informal, or geographic area, so specify.
 3. The contractor will provide a comprehensive bibliography of all the sources consulted for this assignment, and source all information and data to be provided.

3.1 The contractor will submit to JAA and Mr. Ian Clark at the Center for Developing Business at the University of the Witwatersrand a detailed discussion of the technical approach and methodology for completing this assignment, including sources to be consulted. The contractor will be responsible for informing Mr. Clark and JAA of any problems, difficulties which arise and affect the quality of the work or schedule for submissions (see point 5 for schedule of submissions).

4. The budget for this assignment is as follows.

Item	LOE	Amount (US\$)
Professional labor Typing/secretarial Communications Pagemaking and Production	8 days @US\$285/day	
Subtotal		
Contingencies (@ 10%)		
Total		

5. The schedule for the completion of this contract is as follows:

August 20	Submit detailed proposal summarizing proposed methodology, outline of report and sources to be consulted to Mr. Ian Clark and JAA.
August 30	Submit draft report to Mr. Clark and JAA
Seven days after receipt of comments	Submit final draft

5.1 The contractor will submit the draft report in hard copy and also an electronic file on three and a half inch diskette to JE Austin Associates by August 31.

6. Payment will be made as follows:

25 percent no later than 10 days upon submission and approval of the detailed research plan

75 percent no later than 10 days upon submission and approval of the final report

Agreed to:

For the Economic Research Unit

For J.E. Austin Associates

Date (day/month/year)

Date (day/month/year)

SCOPE OF WORK AND BUDGET FOR THE DESCRIPTION OF
THE PRIVATE SECTOR UNDERTAKEN BY THE ECONOMIC RESEARCH UNIT
OF THE UNIVERSITY OF NATAL

Objective: To quantify the involvement of the African, Indian and Colored private sectors in the economy of South Africa and its evolving relation to wider South African economy. This information will be used to identify constraints to and possible sources of economic growth and opportunities for economic advancement for the black private sector.

Scope of Work

1. The contractor will identify data sources and develop reliable statistics that describe the private sector contribution to GDP, export earnings, investment, savings and employment, at both the national and sectoral levels using secondary sources of data. In particular, it is expected that the contractor will:
 - a. Calculate the contribution of the private sector to the GDP (constant prices) of South Africa both in percentage and absolute terms for the period 1985-90.
 - b. Calculate the contribution of the private sector to the sectoral GDP (constant prices) of South Africa both in percentage and absolute terms for the period 1985-90.
 - c. Sectors of interest are: Agriculture, Agroindustry, Finance, Manufacturing, Mining, Commerce, and other Services. Within each of these sectors, data will be broken down at the following level of detail, unless otherwise specified:
 - i. Finance: Commercial and development banks, building societies, non-bank financial institutions, insurance companies, and other.
 - ii. Manufacturing: handicraft (pottery, jewelry, etc), clothing (textiles), footwear and leather goods, plastics, bricks, metal products, food processing and other manufactures.
 - iii. Services: sales/repairs of vehicles, transportation (including air, road, rail), building and construction,

communications, tourism, catering and liquor, retail/wholesale and other services.

iv. Mining and Quarrying

v. Agriculture

- d. For each of these sectors, the contractor will assemble this information of each of the major sub-sectors of activity, i.e. in "other services" transport, construction, banking, real estate, insurance, communications, etc. may be areas to be considered.
- e. Calculate the contribution of public enterprises to total GDP and the sectoral and sub-sectoral areas indicated in point 1.c above for the period 1985-90.
- f. Calculate the contribution of the private sector to GDP as well as sectoral and sub-sectoral output by firm size in the following manner for the period of 1980-90.
- Microenterprises
 - Small enterprises
 - Medium enterprises
 - Large enterprises
- g. Size may be defined according to number of employees (number of full time equivalent employees -- e.g. microenterprises can be defined as those with less than five FTE employees; small enterprises defined as those between 5 and 20 FTE workers; medium enterprises are those employing 21 through 100 FTE workers and large enterprises employing over 100 FTE workers), or by fixed assets. The contractor will in every case state explicitly the manner in which each of these size categories is defined and will make every attempt to employ these definitions consistently.
- h. Calculate the contribution of the private and public sectors to wage employment in South Africa, both at the macroeconomic level and the sectoral and sub-sectoral levels for the period 1985-90 indicated in point 1.c above.
- i. Calculate the contribution of the private sector to employment overall and at sectoral and subsectoral levels by firm size for the period 1985-90 as indicated in point 1.f above.

- j. Calculate the demand for professional managerial labor and related fields (accounting, economics), at the sectoral levels specified in point 1.c above.
- k. These statistics will, to the extent possible, cover the period 1985-90. It is understood that the latest published data in most cases only cover up to the 1988/90 fiscal year. However, the contractor will in each case provide statistics for the last five published years and provide estimates for 1989 and/or 1990 to the extent possible.

--These statistics should come from the most recent and reliable sources available.

- 2. Using Lotus (or another comparable spreadsheet program), the contractor will incorporate the statistics identified and developed in point no.1 into a matrix which will be used to estimate the above parameters at both the national, sectoral and subsectoral level (as described in 1 above).
- 3. The contractor will also collect data to estimate the following:
 - a. Contribution of internal and external sources to credit availability (1967 to 1988 at the national level only).
 - b. Government budget (central and parastatal) as percentage of GDP (1980 to 1990).
- 4. The contractor will identify and develop descriptive statistics on the "major" parastatals, including:
 - a. The contribution of each parastatal to GDP (1980 to 1990)
 - b. Contribution of each parastatal to direct employment.
 - c. Contribution of each parastatal to foreign exchange generation and to volume of exports.
 - d. The contractor should provide an estimate (for the most recent year available) of the total contribution to employment and/or GDP for the parastatals for which the

data in paragraphs 4.a through 4.d was obtained (e.g in other words, be able to show what is meant by "major").

5. The contractor will gather data on the Black private sector to:
 - a. Determine the contribution to total GDP of the African, Colored and Indian (henceforth collectively referred to as "black") private sectors for the period 1985-90.****
 - b. Determine the black private sector contribution to sectoral and sub-sectoral outputs for the period 1985-90 as indicated in point 1.02 above.
 - c. Determine the black private sector contribution to GDP as well as sectoral and sub-sectoral output by firm size for the period 1985-90 as indicated in point 1.04 above.
 - d. Determine the black private sector contribution to wage employment at the macro level as well as sectoral and sub-sectoral levels for the period 1985-90 as indicated in point 1.02 above.
 - e. Determine the black private sector contribution to employment at the macro, sectoral and sub-sectoral levels by firm size for the period 1985-90 as indicated in point 1.04 above.
 - f. Determine the black private sector contribution to gross fixed capital investment at the macro, sectoral and sub-sectoral levels for the period 1985-90.
 - g. Determine the black private sector utilization of commercial bank credit, both in absolute terms and as a share of total credit utilization and informal sources of credit (i.e. stokvels) for the period 1985-90.

**** It should be noted that this information (and that which follows in the data points below) will be presented, to the extent possible, in a disaggregated fashion: i.e. the African contribution to GDP, the Colored contribution to GDP and the Indian contribution to GDP will all be presented independently and that the term "black" is employed for simplicity's sake only. However it is understood that in many cases it may not be possible to arrive at "hard" disaggregated estimates; in such cases, ranges will be provided, the sources for those estimates identified, the contractor's "best estimate" highlighted and the reasons for settling on this estimate presented.

- h. Estimate the magnitude of productive linkages between Black private sector firms and non Black firms (e.g. subcontracting activity) for each of the major sectors described in point 1 above.
6. The contractor will provide bi-weekly updates to Mr. Ian Clark, at the Center for Developing Business, as well as to Dr. Tessie San Martin, or another J.E. Austin Associates designated by her summarizing the progress towards the objectives specified above and identifying any special problems, difficulties encountered. These reports can be provided in writing or verbally.
7. The team will comprise Professor Gavin Maasdorp, Mr. Alan Whiteside, and Mr. N. Wilkins of the Economic Research Unit. ERU will use expert subcontractors to evaluate the estimate being formulated, the validity of the sources being quoted. Expert sub-contractors identified for this assignment are: Professor W. Thomas (Western Cape Regional Director of the SBDC), Professor S. van der Berg (Department of Economics, University of Stellenbosch), Professor M. McGrath (Department of Economics, University of Natal), Mr. John September (formerly with BP Southern, private consultant), Mr. Eric Mafuna (Executive Director, Consumer Behaviour). It is understood that the contractor will be free to determine the use and composition of its team, though all major changes in personnel should be notified to JAA.
8. The level of effort and budget required for this effort is estimated as follows:

Personnel	LOE	Total (US\$)
Research Director		
Research assistant		
Sub-consultants		
Typing		
Pagemaking and production		
Communications		
 Sub-Total		
 Contingency (10%)		
 Total		

8. The schedule is as follows:

August 10	Finalize contracting
August 24	Submit preliminary results in spreadsheet format covering at least sections 1-4, along with discussion of sources used, problems encountered.
September 7	Submit preliminary draft in spreadsheet format of sections 1-6, with sources identified and description of research methodology used.

Seven days after receiving comments on the preliminary results from JAA

Final tables/graphics due

9. Payment will be made in US dollars.

10. The payment schedule is as follows:

25 percent of the total no later than 2 weeks upon signing the contract

75 percent of the total upon approval of the final draft.

Agreed to by

for the Economic Research Unit

Date (day/month/year)

for J.E. Austin Associates

Date (day/month/year)

SCOPE OF WORK FOR THE REVIEW AND SYNTHESIS OF THE RESEARCH ON
ENTREPRENEURIAL PERCEPTIONS OF OPPORTUNITIES AND CONSTRAINTS
FACING THE BLACK PRIVATE SECTOR

TO BE UNDERTAKEN BY CONSUMER BEHAVIOUR (PTY) LTD.

Objective:

Review and synthesis of surveys undertaken of the Black private sector over the last 24 months, in order to identify and quantify the distribution of entrepreneurial perceptions regarding opportunities and constraints to Black private enterprise development and growth, and perceptions regarding the effectiveness of black private enterprise support organizations.

Scope of Work:

1. The contractor will undertake a review of the survey research which has targeted Black private businesses at every level of economic activity and of all size categories, and synthesize all statistical significant information gathered through these on the perceptions of local entrepreneurs regarding opportunities and constraints for private sector development.
2. The research review should cover and disaggregate data for all industry sectors, in which there is Black participation, including the social services sector.
3. The research review will cover and disaggregate information by geographic region.
4. The report will first summarize the purpose of all the research undertaken, the sampling frames used, size of sample involved, sampling methodology (purposive vs stratified or simple random sampling, non probability vs probability sampling), statistical tests of significance, methodology for interviewing (e.g open ended vs. closed ended questionnaires, follow-up focus group discussions), and other key methodological issues involved in interpreting the validity of the results. It will also provide a comprehensive bibliography of the research reviewed.
5. The output expected from the data processing will include the following:
 - a. A summary of all research conducted for the last 24 months, the methodology used, size of sample, and other methodological issues as discussed in point 4 above.

- b. Synthesis of the results of the research, cataloguing distribution of respondents by type of business/regulatory constraints, broken down by size category of responding firm, geographic area and sector in which the respondent operates.
 - c. Synthesis of the results of the research review, cataloguing distribution of perceived opportunities for Black business growth and development by geographic area, sector of economic activity of the respondents and size of firm.
6. The level of effort of this activity is 3 person weeks. The contractor will submit a draft report to J.E. Austin Associates no later than September 7, 1990.
 7. The Budget for this contract is as follows:

Item	LOE	Amount (US\$)
Professional Labor		
Research assistant		
Communications		
Typing		
Reproduction		
Contingencies		
 Total		

8. The contractor will submit a detailed discussion of the methodological approach to this exercise, including possible sources to be consulted, the framework for organizing the information and the methodology for assessing the reliability of the research results to Mr. Ian Clark of the Center for Developing Business no more than one week after signing the contract (see point 9 for a schedule of submissions).

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9. The schedule for this contract is as follows:

August 10	Finalize contracting
August 17	Submit detailed research plan, including sources to be consulted, and outline of report.
August 24	Submit progress report to Mr. Ian Clark and JAA
September 7	Submit draft of report to Mr. Ian Clark and JAA
Seven days after receipt of comments on the draft	Submit final draft

10. Payment will be made as follows:

25 percent no later than 10 days upon submission and approval of the detailed research plan.

75 percent no later than 10 days upon approval of the final report.

Agreed to by:

for Consumer Behaviour
(Pty) Ltd.

For J.E. Austin Associates, Inc.

Date (dd/mm/yr)

Date (dd/mm/yr)

ANNEX B

MEMORANDA OF CONVERSATIONS

I.

Person/Organization: Himelfarb, USAID/SA
Creamer, US Embassy, Economic Officer
Wade, BPED/COMAD

BPED Team: San Martin, Grossman, Cobbe, Ickis

Date: July 23-24, 1990.

Our discussions centered around the tasks involved in the strategic planning process and the agenda for our initial TDY. Below is a summary of our initial understanding with the Mission:

Agenda

- I. Our understanding of the task
 - A. Assess short-term USAID strategy for BPED
 - B. Generate options and analysis through dialogue
 - C. Recommend strategic changes. Recommendations must
 - 1. be data heavy (macro and sector policy)
 - 2. take into account other donors and programs
 - 3. be directed at high priority segments
 - 4. yield impact
 - 5. allow for experimentation
- II. Our approach to carrying out the task
 - A. Private sector description (subcontract)
 - 1. "what's out there"
 - 2. by segment: size; sector; geographic; gender
 - 3. linkages
 - 4. magnitude in relation to economy
 - B. Policy impact chain (partially subcontract)
 - C. Institutional analysis
 - D. Opportunities and constraints for PSD
(Subcontract literature search)
 - E. Dialogue sessions to generate & analyze options

III. USAID response (questions, expectations, concerns)

IV. Information required from USAID

1. Recommendations for subcontractors
2. Who to talk to? Financial journalists?
3. Training institution for dialogue sessions?
4. Obtaining other research?

II.

Person/Organization: Mashudu Ramano, Executive Director

BPED Team: San Martin, Ickis

Date: July 26, 1990

1. Mr. Ramano identified a number of key needs among the Black business community, as well as a number of options and opportunities for addressing these:

1.1 **Consciousness raising.** ABASA believes that increasing awareness of the critical role of the accounting profession is the foundation for increasing the effectiveness and credibility of Black support groups in general, as well as for preparing the leadership for the managerial and leadership tasks ahead.

1.2 ABASA approaches this task several ways: a) by building awareness at the grassroots level about the usefulness of and opportunities offered by the accounting profession; b) by building grassroots and leadership support for and understanding of the role of the accounting professional cadre in the process of Black community and organizational development.

o on point (a), a number of activities are planned or underway, such as creating a new Business Person of the Year prize, which would reward those organizations which have shown excellence in their internal controls and proven efficiency and track record.

o On point (b), he notes that many Black support organizations, be they politically, commercially, or socially oriented, never focused on their internal effectiveness and efficiency; accountants can help by designing and helping to implement effective management information and internal control systems which increase their accountability to their membership as well as increasing the effectiveness with which they can manage the increasing amount of government and donor resources

being offered to them: "accounting goes with accountability."

- This last point is important. Ramano believes donor funds have too often been squandered. Considerable amount of financial resources have been handed to organizations which simply lacked the internal controls and information systems to absorb them. Donors have been under increasing pressure to give money in a show of support; but donors have had little capacity to and shown little interest in evaluating the accountability of the organizations to which they have been granting assistance. The organizations themselves have lacked the experience, the incentive and the tools to administer these funds effectively. ABASA has been addressing this gap by providing their members services to Black support organizations. ABASA acts as a broker of accounting consulting services. USAID has been supporting this program under BPED.

1.3 Increasing access to financial control/management skills.

Besides the USAID model whereby ABASA brokers consulting services for a nominal fee, they are thinking of diversifying their programs and increase their outreach capabilities, with the support of two other donor organizations.

- ◆ One idea, to be potentially financed by the Rockefeller Foundation, would identify and form a support network of accounting professionals outside the PWV area with at least 3 years of experience, and a basic university degree (an accounting technician). Ramano believes that the basic accounting and financial management support which is needed by the majority of black organizations can be amply handled by experienced accounting technicians; a CA is too much "gunpower" for small organizations handling generally fairly limited amounts of money. ABASA would serve as a clearinghouse, identifying, recruiting technicians for the network and placing them in various organizations; ABASA would charge fees for network technician services provided on an on-going basis. These technicians would in turn assess the basic organizational needs and provide referrals to more specialized financial control services, as needed to other ABASA members. ABASA would take a percentage (they have been talking on the order of a 10-50% cut) of the referral business generated for its members.
- ◆ The second assistance model currently being designed is being sponsored by the South Africa Council of Churches (SACC). SACC has asked ABASA to improve the internal controls and managerial capability throughout their

various branch organizations. ABASA would identify, recruit and train people in different regions with the appropriate background and education to serve as accountants for the SACC branches. ABASA would run training courses through Coopers & Lybrand for these SACC employees; it would also provide referral services as needed.

1.4 Increase supply of critical accounting and internal financial control skills. Part of the reason why Black support organizations use accounting professionals with less frequency is because they tend to be very expensive. ABASA is undertaking action along two fronts to address this problem.

- ◆ Increase the supply of "lower" level technicians. Ramano believes the formal education system channels too many resources to train a small elite of CAs, whose skills are often far and above what the smaller organizations require. There is a need to quickly increase the supply of qualified competent accountants who can at least provide counseling and guidance at basic levels. One does not need to be a CA to provide competent accounting consulting services.
- ◆ Increase the supply of CA-level accountants. ABASA is exploring options outside the local formal education system for increasing the supply of CA-level accountants. One possibility is change the laws to allow those accountants trained abroad (there are 900 Blacks acquiring a CPA degree in the USA) to take simple equivalency tests that would certify them as CAs in the RSA. The local CA profession is currently protected by the Companies Act. The Canadians are financing research and lobbying efforts by ABASA in this regard.
- Accounting firms in the southern Africa region will be attending a conference in Arusha, Tanzania to discuss the possibility of developing joint training and degree programs.
- ABASA is also participating in the FAFISA project which is examining accounting education curricula and its relevance to the needs of the country. At the moment the CA curriculum is seen as too narrow and parochial. In addition the system of accreditation of the universities does not recognize most of the degrees obtained by Blacks. In this last respect, ABASA will be bringing an expert in accreditation from Birmingham University in the UK.

1.5 **Policy dialogue and enabling environment.** Ramano sees the critical need to examine closely the various legislative issues that are still impeding the progress of the Black private sector. ABASA has joined forces with the Sunnyside Group. They are also thinking of lobbying parliament for the creation of a small business commissioner.

- ◆ He was impressed with the work being done by the National Association of Public Accountants (NAPA) in the USA. He sees this as a particularly effective lobbying organization. ABASA is hoping to organize a national conference on lobbying strategy and will invite the NAPA.

1.6 **Access to finance.** Another area not being addressed properly is increasing/facilitating access to finance. In part this problem is addressed by increasing supply of and access to trained accountants among black firms and organizations; increased expertise in basic accounting and access to services of qualified accountants will enable Black firms and organizations to meet the reporting requirements of formal credit institutions and thus compete on a more equal footing with other firms for formal credit resources.

But such programs must be complemented by programs or mechanisms which increase the level of financial and capital resources going to the Black enterprise sector. In this regard he has several ideas:

- ◆ Provide an economic development fund for SA.
- ◆ Create a credit reinvestment act that forces financial institutions in a particular area to reinvest funds in the community they serve, either through loans or other community development efforts.
- ◆ Create mechanisms that force formal financial institutions to reinvest a portion of their funds in the Black community. An idea in this regard has started to take concrete shape, with the help of the Center for Black Economic Development, in the form of the National Association of Burial Societies. At the moment Ramano estimates the financial resources of burial societies to be over R52bn. This considerable capital is dispersed among a large number of building societies and banks. By creating a national body, the power that comes with the economic clout of this capital can be harnessed and institutions can be more easily persuaded to reinvest in the Black community, or face the threat of substantial withdrawals of their invested capital. The Association will be launched August 23.

1.7 **Increase supply of entrepreneurs.** ABASA has planned with The Sowetan, as part of the paper's High School Business Awareness Program, another program that would encourage dropouts to take an interest in business. It would ask candidates to prepare and submit business plans. ABASA would help evaluate feasibility of each plan, and the best idea would be awarded R10,000 to get started. ABASA would also provide referrals to members who could provide the start-ups with on-going support.

♦ The burial society association described above is appealing because this capital base can help finance a series of services with potentially large multiplier effects for the Black business community: e.g. the creation of coffin factories, catering services for the funerals, transports services, uniform manufacturing, as well as potentially large contracts to ABASA and their members, as well as other consulting services groups who would evaluate the feasibility of these various projects. In addition, he points out that this type of organization can be in a position to provide the capital for launching a Black insurance company; this was after all the manner in which SANLAM started for the Afrikaaner community.

1.8 **Promote projects with large multiplier effects.** ABASA has been asked by ESCOM to help implement a R6bn rural electrification program. This interests them because of the potentially large multiplier effects, since electrification would open the door to large number of spinoff business activity: manufacturing, repair, retail of electrical appliances, etc. ABASA wants full control of the program, so that it does not go through the local Community councils. The Councils have a very poor record of providing electricity. The new electricity supply scheme could benefit potentially from a new design of a circuit board which designed by the Human Sciences Research Council and which has substantially reduced the cost of providing electricity at the household level.

2. Few donors have been offering direct assistance to Black entrepreneurs. The Dutch and Germans have been involved primarily in working with trade unions. But there are no concerted efforts at economic development, that would create a favorable environment for the entrepreneur.

3. ABASA and other groups helped established the Center for Human Resources Development, which is an arm of the Department of Manpower of the ANC.

♦ Ramano believes that the level of acceptance for the Black business community is high among the political leadership of the ANC and even the PAC. Even the PAC is

no longer talking about prohibiting free enterprise. They talk about the need for a "planned economy" but only insofar as the large firms are concerned. He feels the small firms will be allowed to continue in private hands, and individuals will be allowed to own firms.

Nevertheless he feels the need to increase the level of policy dialogue concerning the contribution and role of the private sector in the economy, and greater dissemination of information regarding the actual and potential contribution of the business sector to the economy and the goals of economic development. Projects such as the Sowetan Business Awareness project need to become national, so as to raise the level of consciousness and support for private enterprise and the opportunities it can offer for Black advancement and the advancement of a post-apartheid RSA.

4. Summary:

4.1 The key criteria for business development programs should be:

- ◆ to promote policy dialogue and lobbying efforts that will a) increase the level of awareness regarding the need for accountability in all organizations, b) increase the level of awareness and facilitate rational discussion concerning the role of the business sector in economic development;
- ◆ identify and target projects for assistance that have a large multiplier effect in terms of Black private business opportunities;
- ◆ emphasize and increase supply of management training at all levels.

4.2 Ramano believes the old barriers towards emphasizing business development and private enterprise due to the political suspicions surrounding such activity have since dissipated.

III.

Person/Organization: Juliet Rostowsky, Director
Mel Stamelman, Managing Director
The Workwise Business Development

BPED Team Participants: San Martin, Ickis, Cobbe

Date: July 26, 1990

1. The Group runs the Sowetan Business Development program. On the surface, it seems to be another group providing basic business and management skills training to microentrepreneurs, primarily in the informal sector. They do so in the form of 2 basic types of 4-day workshops on management and marketing. They also offer a series of "advanced" follow-up courses in a series of specific management and more technical business operations areas. The 4 day workshops are currently offered every other month, to an average of 12 participants. The advanced workshops are offered much less frequently. They feel they could increase the number of courses and participants to be able to cover a total of 500 over a year in both the basic and advanced level courses. The basic purpose of the courses, currently sponsored in part by the Sowetan in the form of free advertising and write-ups, as well as some small grants from Mobil and some banks, is to bring the informal entrepreneur to a level where he/she will be able to run the company as a formal "first world" operation.
2. Workwise is a for-profit institution; only 10-15 percent of the revenue is derived from these courses. The bulk of firm revenues come from their consulting practice with private corporate clients in a wide variety of areas. They also provide training for employees or contractors of a number of private clients such as Metro.
3. The Sowetan course operated for 4 years under NCR sponsorship, but when the company moved out, they had to seek a different sponsor. The Sowetan agreed to take this on as part of their nation-building program. Their clientele under the Sowetan is in their opinion more committed than that under the NCR program.
4. They provide bursaries, in that students do not pay the full cost of the course. Students are asked to contribute R50 as a registration fee, which also helps insure that those who register do show up. Their students come primarily from the JNB area, but have also come from as far as Durban, several of the homelands, Botswana and Swaziland.

5. About 33 percent of their participants are employed in a firm; they have not been sponsored, which means that they have taken leave often without pay to attend the course. Another 15-20% own their own businesses; the remainder are either employed in a family business or they are unemployed and looking for guidance and ideas. The participants' background vary from those who are running fairly large sphaza shops to those running the little shebeens to bone throwers; from those who have formal schooling as far up as the B-com level to those that barely can write.
6. What makes Workwise a different organization is the manner in which they provide the training and the type of training they provide. It is very interactive, and each program works closely to shape itself to the varying needs and levels of expertise and experience of the participants. They are also very careful about who they give the course to and make sure the person taking it has the commitment and is ready to make the most use of the knowledge derived from the course. It also emphasizes heavily "assertiveness" training, to increase the level of confidence of the small business operator, and skills in management of the business. It is also very hands on. It places heavy emphasis in actual problem solving.
7. They have not been very assiduous in terms of evaluating the results of their programs. They do ask students to fill out a short evaluation at the end of the last session. Recently they undertook a telephone poll of 25 of the approximately 400 students they have trained over the last 4 years. The results indicate a high degree of participant satisfaction with the training.
8. Workwise also has scant information regarding who their clientele is, what they have been doing, what the participants end up doing after their training is over. Hence they have no quantitative data with which to evaluate themselves or sell their program to prospective donors and sponsors. We suggested that they go beyond the anecdotal and really begin keeping records of their clients, and undertake some longitudinal studies to ascertain where these people have ended up, and to get a better sense of who may profit the most (what level of entrepreneurs) from this very specialized type of training.
9. This training is quite expensive, and covers a very limited number of individuals. It may very well have a niche in the spectrum of Black private enterprise assistance, but given their own lack of knowledge regarding when (at what level of business growth or development cycle) and for what type of entrepreneur their training design and approach may be most beneficial, it is difficult to identify what this niche may be. It may complement very well the more advanced training

being provided by the university-linked small business development services. But it is difficult to assess the extent to which it represents a viable business development model because of the scant data with which to evaluate results.

Moreover, because it is so interactive and tailored so carefully for each client attending, and because their clientele is so diverse, it is difficult to see how it may be readily expanded to cover a larger number of people or how to readily expand its benefits. It seems to depend heavily on the personalities of those involved. One possible answer may be to have them concentrate on "train the trainer" courses, which would enable them to replicate and expand their services eventually. But again, it is not clear what aspects of their courses may be worthwhile to replicate.

10. Summary: The key type of intervention offered is motivation/skills; the key purpose of the intervention is to increase entry into the business sector and enhance the possibility of growth among established businesses through negotiation skills and placement and networking opportunities. The program seems to offer few opportunities for replication because it is expensive and very dependent on the personalities and interactive skills of its staff; the staff has not thought through issues behind the expansion of the program, such as how to train trainers to be able to reach a wider audience. The organization has not thought through self-financing and sustainability issues, nor carried out a rigorous assessment of its impact on the business sector, nor the role it may be able to play in promoting the small business sector.

IV. Person/Organization: Mr. Chris Mbleni, Assistant Director,
USSALEP
Mr. , New Executive Director

MDI/PRE Team: Ickis

Date: July 26, 1990, 11:15 am

The United States - South Africa Leader Exchange Programme, Inc. (USSALEP) was founded in 1958 as a private, multi-racial association of Americans and South Africans dedicated to promoting communication and understanding through the exchange of professionals and to developing leadership skills. Its role is that of catalyst, "quietly fostering the creative interaction of individuals and organizations sharing its concerns and goals."

Chris Mbleni describes its programs as follows:

"We have exchange and leadership development programs. In our exchange programs we use a two-pronged focus: sending South Africans to the U.S. and receiving people from the U.S. in South Africa. These are usually influential people from U.S. government departments and educational institutions.

"The exchanges to the U.S. are of three types: (a) Neimann Fellows at Harvard University [these have included, for example, the editor and assistant editor of The Sowetan]; (b) fellowships to Johns Hopkins School of Advanced International Studies (SAIS); and travel awards sponsored by the Carnegie Corporation for South African academics that allow them to conduct scholarly exchanges with colleagues and to obtain research information in U.S. universities.

"Our major educational thrust in leadership development is the Community Leader Training Program, started in 1986 in collaboration with the University of the Witwatersrand with pilot workshops after extensive research. There are lectures twice a week on five topics of critical importance for community leaders: financial controls, leadership skills, communications systems and functions, project management, and socio-political analysis.

"We also have a collaborative effort with the Legal Education Center, known as the Advocacy Skills Programme, which involves bringing lawyers from the U.S. who conduct "mock trials" so that local lawyers may obtain practical experience. These simulated court sessions are conducted as workshops in different centers throughout the country.

"Another leadership development program is the Alternative Journalist Workshop, conducted in collaboration with the Media Workers' Association to train free-lance journalists in different aspects of journalism and management. Boston University's School of Public Communication has provided us with assistance in professional training in journalism. There is a growing interest in this program.

"Our newest program is the Entrepreneur Exchange Program, started early this year [as part of BPED]. South African entrepreneurs are sent to do internships in U.S. businesses during a four to six week period. So far we have sent nine entrepreneurs; there is a commitment to send another five.

"Selection of entrepreneurs is made by a panel that includes USSALEP, USAID, and a consulting firm that has been providing us with assistance.

"Labor workshops have also been held as a direct result of conflicts raging in the Eastern Cape cities of Port Elizabeth and East London in the mid-1980s. Our focus is on teachers, who were in the midst of the school crisis because they were viewed as collaborators [with the Government]. Other programs were focussing

on school principals and heads of departments, but ignoring teachers. Thus, when teachers were faced with conflict, they did not know how to resolve it."

(Do you assist in resolving labor-management conflicts?)

"For labor conflict resolution, businesses can use the Independent Mediation Services of South Africa, a very well known organization that draws upon the services of attorneys and labor specialists to facilitate negotiations. These experts do not make the decisions, they simply facilitate."

Recommendations for people to talk to regarding dialogue for business development:

- SBDC, Parktowne
- Consultative Business Movement (CBM), an outshoot of P.G. Wood Industries. Talk to Christo Nel at 618-1640.
- W.R. Consultants
- Coordinated Marketing and Management. Talk to Mr. Khoza, tel. 835-2361.
- Soweto Chamber of Commerce and Industry
- NAFCOC
- FABCOS
- South African Consultative Council on Labor (SACCOLA), on employers' side. Trying to get an amendment to the Labor Relations Act, which contains many restrictions on trade unions. Bobby Godsell has been involved in this.
- Center for Developing Business. Talk to Simon Aphane, Barney Tsita, Elias Maseko who is directly involved in policy issues.

(What is the future strategy of USSALEP?)

The Executive Director: "This is a subject of debate. What is our true mission? Negotiations are a key issue. Does USSALEP have a role in assisting in that process? It's a process that must be carried out not only at the highest levels but carries right down to the grass roots. There are many recently unbanned organizations and there is a need to assist these organizations in developing an infrastructure... things are happening too quickly. There is a massive need for education. Do we plan a bigger role here?"

Members of the Board of USSALEP include highly influential people, including Bob Tucker, a well-known Cape Town advocate; the Executive Director of the Urban Foundation; the head of the Institute of International Affairs; the Principal of West Cape Technical; the Director of Labor at Anglo...

V.

Person/Organization: Mr. Eric Louw, Center for Developing Business, School for Business Admin., University of the Witwatersrand

BPED Team: Ickis, Cobbe, San Martin

Date: July 26, 1990

We began with a discussion of the segments of black business. Eric described three segments:

"First are the very small number of successful "formal" black businesses. These include some successful retail operations, gas stations, bottle stores; as well as some well-known service organizations providing accounting and legal services. [Financial services would include the African Bank but it is not a good example given the recent scandal with its Executive Director.] It also includes some construction firms although these have a poor image among both the black and the white communities because some of the early ones were fly-by-night operations. There are practically no successful formal black businesses in the manufacturing sector, with the exception of some smaller repair operations and some tailoring and dressmaking. That's about the extent of manufacturing.

"Second are the financially successful but not entirely formal operations that operate in a quasi-legal manner. These include some of the taverns. They are in a continual battle with the law. Some have been very successful.

"And finally are the microenterprises that include hawkers and sphaza shops. There is little statistical data on these."

(How can small-scale manufacturing operations with growth potential be developed?) "...have to change attitudes on the part of white businesses. Sometimes they are well-intentioned but they have no confidence in what the blacks can accomplish. Can they actually manufacture components, for example. There is one interesting case of a black manufacturer of "non-critical springs" for an auto maker. The company (a multinational) changed hands and was taken over by South Africans who promptly cancelled the supply contract. When the Black contractor attempted to find out why, it turned out that the springs were never used in the manufacture of the

automobile, they were simply discarded. The former owners had been doing it out of charity; they never intended to use the springs. But with some minor adjustments the black firm could have been capable of producing springs to specifications."

(What are the activities of the Center?) Mainly training and consulting, though recently we have had some requests for research. Before we had done only ad hoc research. So we began to map out the whole black business arena as an ongoing project. Now we're confining it to a literature search and talking to people in the institutions, talking to interveners find out what they've been doing. We've conducted 10-15 interviews of people involved in interventions and in organizations like wholesalers that interface with small business. We've also been talking to the "philosophers" who write a lot on the subject. There is really not that much quantitative material available."

(With whom have you spoken?) "...to SBDC, Job Creation, Get Ahead, the Urban Foundation. So we're starting to get a feel...There has been a consistency in the problems we've identified though the rankings differ to some extent. Most of the people we have talked to are optimistic. They feel that small businesses are immune to political changes because they are universally acceptable, and are therefore less vulnerable, except for their connections with big business. Deregulation is generally favorable for them."

(What have you found to be effective approaches or programs?) "One effective intervention has been lobbying for deregulation because this has actually occurred. Another is education and training. And also access to funds, but this has not been the central focus. Some say that it's more than a question of financing; the whole system has to be changed. They point to the fact that there is no socialization process for blacks. Metro, for example, focuses entirely on training. The Urban Foundation is focusing its work on policy changes.

"With respect to financing, there is often access but some of the financing schemes don't work with black business, especially with microenterprises. They're not getting the job creation effects. One successful program appears to be Get Ahead where the repayment rates are very high. They are lending R100-R500. But they do it on the basis of the person rather than on credit ratings, etc. Stokvels operate in a similar way.

"SBDC claims that 55% of its clients are black but our estimate is that they're only getting 20-30% of the resources [Ramano's estimate was 30%].

(What are the black business sectors with most growth potential?) "There is a 'no growth' phenomenon at the micro level where complacency sets in. Survival rather than growth is the goal. There is a stream of microenterprises that are opening and closing.

The growth tends to come from those enterprises in the middle segment, which move on to become larger. But it is very difficult to identify those individuals with entrepreneurial potential."

(Have any of the McClelland concepts in Entrepreneurial Development Training been tested here?) The approaches used here have not been literature-based. Our respondents in interviews cite mentors or their own experience in the field as the basis for their approach. The reasons stated for success and failure are fairly standard; the reasons for failure are often related to management skills. The schooling system squashes entrepreneurship.

"Interesting approaches are Keith Foster's model (Urban Foundation) and Wolfgang Thomas' (SBDC). Our model is based upon the assumption that if you take an existing business and give its managers the necessary management skills and access to consultation, they're the people who will be able to take it and run with it." (What types of consulting assistance do they seek?) "They tend to consult us about financing types of problems, or about raising funds. Others ask about the product itself, or about marketing. We are giving market information to potential entrepreneurs, which is a much neglected area. Also they may need assistance in identifying opportunities. We've identified 60 general opportunities, such as "services for elderly people," etc. We also get a lot of requests for very technical types of consultations, such as "expert systems." I'm not sure why so many come to us with these types of requests."

(What about management education for black managers in the larger corporations?) There have been recent initiatives by companies to train black managers. We have been approached to design an "intra-preneurship" program for 30 managers each year. Another interesting training initiative for black middle managers is the Joint Management Development Programme [see brochure], sponsored by the Paris Chamber of Commerce."

(And at the MBA level?) There are only three genuine MBA programs in South Africa--WITS, U. of Cape Town, and the MBL at UNISA; maybe four if you count the program at Stellenbosch. There are fewer than one hundred black MBAs in the country and many of them have come from U.S. undergraduate programs. The black universities here are not seen as contributing much. You're eligible to enter an MBA program if you have graduated from the University of the North (a black university) but they look at you very closely."

Some tentative conclusions from the interview:

1. Management training must be a component of any Black private enterprise support program because of the importance of management skills as well as the "socializing" aspect.

2. Greatest growth potential comes from the businesses, either formal or informal, that are larger than microenterprises.
3. Credit can be important but only when provided in combination with other inputs and extended on the basis of personal integrity rather than business qualifications.

VI.

Person/Organization: Meeting with East Rand Industrialists Assoc (ERIN): Mr. Andries Robbertse, Chairman (Caterpillar), tel. 974-3381 (office); Mr. Louis ---, Vice-Chairman (Eli Lily); Ms. Carla V-----, Head of Community Development Subcommittee (Scherag).

BPED Team: Ickis, San Martin

Date: July 27, 1990

Mr. Robbertse: "We're a group of companies located near East Rand who have associated ourselves as a regional task group of U.S. companies whose objective it is to fulfill the aims of the Sullivan Program." [Compliance with Sullivan Principles for operating in South Africa includes such things as payment of a decent wage and investment in social responsibility programs. Each year compliance is evaluated by an independent audit by Arthur D. Little, Inc. Originally there were 103 signatories; of these all but about fifty have disinvested and left the country.]

"At the present time there are about forty companies in our group. We have been able to attract non-U.S. companies and now our membership has a minority of U.S. companies. Each of our companies has its own social responsibility program, and ERIN's role is to take responsibility for those programs that can be handled collectively. We are pooling the resources of our total membership to work in specific areas. We have four subcommittees: (1) education; (2) community development; (3) manpower; and (4) industrial affairs. The C.D. subcommittee embraces small business development as well as health, housing, and recreation.

"Our assistance is not simply financial. There are about 70 people involved in this effort, who have been seconded by the companies to work in these programs. We have a proven record of successful cooperation with the communities. We involve the communities and would never embark on any activity without consultation. Consequently the projects are accepted in the communities and none has been affected by the violent disturbances that have occurred.

"We have only one full-time employee, the others have been seconded. The annual membership fee varies from R100 to R500; these fees go to pay the salary of the full-time secretary. Because we use shared facilities, there are no overhead costs. All moneys go directly to the communities, and people from the communities manage the projects' money. For example, when we recently launched a career guidance center, some managing directors and legal people were initially involved, but then we "stand back" and let the community take over. Some people from the community have also donated. We list donors in alphabetical order; it doesn't matter how much one donates. As a result we've built up credibility in those communities."

The ERIN members then responded to questions in specific areas:

1. On policy changes that would facilitate the promotion of black business: "Companies cannot claim training expenses; if they could it would encourage training programs that provide management skills."

2. On local organization in the communities: "Each community is organized differently but most have a resident's or civic association, as well as charity associations. In the Eastern Cape there are self-imposed leaders who are under a lot of community pressure to "deliver the goods."

3. On successful initiatives:

(a) The Industrial Park: "We have created an industrial park in which informal businesses can locate, in cooperation with the Urban Foundation.

(b) The "Fun Fair." A fun fair is held on a vacant property made available by ERIN each year in which small manufacturers demonstrate their wares for industrialists. This year it will be a family affair with a circus, held in October. Schools will provide entertainment. This will give people an opportunity to see that there is more to business than just profit. The whole fair is run like a business. There is a nominal admission fee though ERIN covers most of the costs.

(c) Youth orientation. This is a program run by Lily for youth. It includes some "outward bound" type activities like scaling a wall blindfolded while relying on the help of team-mates. It also includes scholarships for study (a bursaries program) and the supplying of venues and advisors for Junior Achievement.

(d) New business start-ups. "We've put people through courses given by the Free Market Foundation and given them some venture capital.

4. On subcontracting: Caterpillar contracts with a black sheet metal worker. Other subcontractors include brick-makers, manufacturers of panel heating. There are also many black services used, from accounting to car buffing.

5. On policy dialogue:

"We have gotten together with political groups like ANC and PAC to discuss health issues in the East Rand area. There is not a lot of philosophizing or ideological discussion at these meetings... we ask what they see as the future of health in South Africa..."

"In the future, bridge building will be more important than uplifting activities."

6. On the Government's role in policy dialogue:

"There is more goodwill than imagined. You have to know the people personally. They will attend meetings and speak as individuals but are reluctant to attend in their official roles. Of course there must be no press present. We have influence [with government] because of the taxes we pay. They are aware of what we are doing and are supportive. They cannot take initiative because of their right-wing constituencies. It is important that you talk to the right wing as well as to the black political groups, to get their perspective..."

7. On policy research:

Louise Tager is doing work on de-regulation of businesses. Also work done at Wits Business School and University of Stellenbosch on such issues as zoning of lands and opening of central business districts to black business. Prof. Hupkis (economics) of Durban is writing about the concept of a white homeland.

8. On recommendations for the USAID program:

- (a) Prepare children to think differently about the "free market."
- (b) Get adults to consider entering into business as the first option rather than the last option.
- (c) Think about products in which SA can compete internationally, that can take advantage of low labor costs and can be exported.
- (d) Concentrate on building management skills.
- (e) Insist on good reporting. Don't let everyone on the bandwagon.

(f) Job creation is important... but for whom?

VII.

Person/organization: M. Jack, Chairman; Youseff, member,
Eastern Cape Community Development Trust

Coopers & Lybrand Accountants

Comrade Ivy, et al., employees Taleni Dry
Cleaners

BPED Team: San Martin, Grossman

Date: July 30, 1990

1. In 1989 USAID/SA through the BPED project awarded a US\$300,000 grant to ECCDT. The purpose of the grant was to provide capital with which to buy out a dry cleaning business in the township being offered for sale and to provide the business and the trust with the resources to purchase technical assistance on an on-going basis, to strengthen the business operations side.
2. The impact of the Trust and the business venture it finances can be evaluated at several levels:
 - 2.1 **At the political/attitudinal level.** If one of the objectives of the BPED project is to help foster more positive attitude towards business, and educate the Black community at the grassroots level concerning the role and potential for the private sector to serve as avenue for Black empowerment and change, then the project must be judged favorably. The members of the trust are essentially all political activists, who have important links to the Black community and the extra-parliamentary political groups in the region. It was clear from our interviews with the various employees in this business and with the members of the trust, that the project has had a very positive effect on the attitudes of the Black community towards business. According to Ernie Bergins, Mr. Jack has developed great respect for the potential of the private sector to bring advancement and power to the black community. To the extent that the people involved in this venture have important linkages with the community, then the potential "multiplier effects" of this type of activity on community attitude may be even greater.
 - 2.2 **At the economic level.** The dry cleaning business run by the Trust (Taleni Dry Cleaners), currently employs 14 people, both in dry cleaning and in an ancillary shoe repair business attached to it. The potential for the business and indeed the

Trust to make a positive economic impact rests on the ability of the business to generate a lot of employment and/or profits. Profits can then be ploughed back into other businesses financed by the Trust, and thus have a true multiplier effect. But the potential for the business to either generate employment or profits significant enough to build up the capital base of the Trust seems severely limited:

- ◆ The potential to generate employment seems to be very limited. The business currently employs 14 people, almost twice the number of people employed by the former owner. Moreover the staff are on average paid 70 percent higher than other comparable business in the area. The Trustees agree that it will be necessary to reduce the workforce. But how they will actually go about doing so remains to be seen; it will probably be through attrition, since they are loathe to fire anyone, nor are they willing to reduce wage levels (nor perhaps should they -- one could argue that the problem is not that the dry cleaner's average wages are too high but that other employers in the area are being exploitative and not providing an adequate living wage for workers). According to their accountants, Coopers & Lybrand, the business has lost over R25,000 over the last 6 months (taking into account depreciation, otherwise it is breaking even), due primarily to the high wage bill (R10,000/month). Coopers & Lybrand believes that the ability of the firm to grow out of its overstaffing problem by expanding to a larger locale (and thus be able to fully utilize the labor currently employed) is also rather limited, unless they are able to diversify to another type of cleaning (industrial cleaning). Any expansion would entail buying different machinery since the one they currently have in place is being utilized to full capacity. The Trust has insufficient resources to finance any new machinery or the purchase or leasing of the premises for the business expansion. The Trust was hoping to get USAID or another donor to consider financing this expansion.

- ◆ The prospects for generating large surplus profits from this type of business is also rather limited. As noted above, the business is barely breaking even, and that is if one does not count depreciation. Thus they are not even able to generate surplus funds to replace sorely outdated equipment. In addition, the business is treating the funds channelled through the ECCDT to buy the dry cleaning service as an interest free loan, and in fact have not even begun to repay the principal. Even if the cleaning business lays off workers and reduces its wage bill, Coopers & Lybrand estimates that it would take them over 10 years to repay the R200,000 used to buy the

business, not counting interest charges. Part of the bind the company presently finds itself in is that it may have paid too high a price for the dry cleaning business. C&L raised questions regarding how the feasibility of this particular project was performed and on what basis the price was deemed to be adequate. In C&L's opinion the most that can be expected from the dry cleaners business is that it will provide a living wage for 8-10 people, and break even, after depreciation allowances.

- ♦ Another potential problem facing the business is that it owes a large amount (R40,000 excluding penalties) in back taxes (GST). Since it is not a registered business at the moment, it has not been collecting this tax and its prices have been lower than those of the established competitors. Once it legalizes its status and begins having to collect the GST, then it will have to increase its prices to cover the tax, and it may end up losing clientele.
 - ♦ The Trust is exploring the idea of franchising the dry cleaning business to other areas, but C&L believes this potential is limited because competition is very keen and the capital costs are very high. Most of the machinery is imported.
2. There seems to be little communication between the Trust, the management of the business and the accountants. The Trustees are all quite involved in the community. No one has been full time overseeing the management of the operation, (though apparently the Trust has now brought in Yousseff, an experienced businessman to serve as the executive director and be the liaison between the Trust leadership, the business managers and the accounting advisors). As a result there has been no follow up to the recommendations from the accountants regarding the need to curtail staff and take action regarding the GST. Moreover, the Trust has not used its technical assistance funds effectively; aside from what has been spent on the accountants, it has not accessed these funds to carry out feasibility studies regarding other business operations, or to evaluate the efficiency of its own operations and set the structures required to meet USAID reporting requirements. It is possible that these technical assistance funds could be used to help the Trust buy additional managerial services, both for itself and the businesses it has spawned.
 3. On the other hand, the Trust is currently looking at another business (apparently they have gotten as far as arranging a loan through SBDC), a BP service station in Uitenhage. According to the C&L accountants, this is a high margin business with the potential to generate surplus profits, particularly from the ancillary services. Again the issue is

who has made the valuation of this business and whether this has been done properly. SBDC has undertaken a preliminary feasibility analysis and advised them that this would be potentially a very attractive venture; it has also recommended that the Trust should not try to manage directly the ancillary services of the service station but lease these out. BP will advise them on marketing strategies. The purchase price they would like to negotiate is R100,000. SBDC is willing to advance a loan for that amount, but this would mean loan repayments of R2,000/mo., considered too high to be affordable to the Trust. Thus they are currently trying to raise equity from a variety of sources.

4. The Trust is interested in other business opportunities with a high potential for generating income and employment. One such area of potential they see is shoe repair (at the moment are running a small shoe repair operation out of the dry cleaning establishment, but C&L reports that this activity accounts for a very small part of the total revenues). They have other shoe repair outfits in the townships.
4. A fourth area under investigation is the pane and glazing services. The current housing boom, a result of the large pent up demand that has been released by the relaxation of the various settlement laws, may make this a potentially high volume business.
5. In summary, the idea of helping to support a development trust, particularly one made up of important political activists and designed to assist directly ex-detainees seems to have been a major breakthrough. In one sense this may be USAID's greatest success in terms of reaching and affecting the attitudes towards business of some of the critical political players. On the other hand, its limited impact in an economic sense makes one wonder whether this is the most cost effective use of limited resources in terms of private enterprise promotion.

VIII.

Person/Organization: Lee Samuels, developer, Port Elizabeth

BPED Team: San Martin, Grossman

Date: 30/7/90

1. Samuels is a large developer in the P.E. area. He has been the moving force behind the Cleary Park development, the largest commercial development in a colored township, certainly in the Eastern Cape region. Despite the supposed

"depressed state" of this region of the country, Samuels sees much opportunity for business growth and development because of the large pent up demand for housing, services, and a variety of goods related to the large housing demand in the region. The fact that such large scale developments are taking place indicates a great economic growth potential and a large degree of business confidence in the region.

♦ He has also designed the financing of the shopping center and the premise rental schemes to provide participants a real stake in the growth and development of the area. Premise rentals have turnover clauses, whereby what they contribute depends on their turnover and contemplate the possibility of building up equity in the shopping center.

2. Unfortunately, along with the great potential, there is little support for Black business initiatives in the area. There is very little donor activity, most of it remaining concentrated in the PWV area. There is a small amount of Urban Foundation activity, centered primarily around business counseling services (see observations below); there is also a small amount of support from some of the larger white-owned manufacturing establishments in the area, such as General Tyres. But the amount of resources being channeled by donors to support initiatives in the region are very small. Even important Black support organizations such as ACHIB are not willing to support any regional development. The ACHIB leadership came to PE recently but only to raise money for a project in the PWV area, rather than to promote or invest in the Eastern Cape region.
3. SBDC was heavily criticized. Samuels sees it as a "sounds good" organization. In theory what it wants to do is worthwhile. In practice, what it is actually doing in terms of backing the Black entrepreneurs in the region is very limited and some of it even detrimental. It is not interested in financing the larger black entrepreneur at all. Its perception of the black entrepreneur is that he/she has little aptitude for other than the most basic and rudimentary business activity, and it is not willing to back anything larger than this unless it is white controlled. Their loans require very heavy collateral. Property remains the only acceptable form of collateral; there is little project lending and little willingness on SBDC's part to experiment and take risks. Unclear the extent to which financial conservatism on the part of SBDC and other formal lenders is due to intangible attitudinal barriers and the extent to which it is due to the nature of the financial regulations and practices (regulations on interest rates or spreads for example).
4. Samuels is currently trying to implement another commercial development scheme, whereby the anchors that would attract

buyers would be the transport terminals (taxis and buses). In between the taxi and bus terminal he would set up stalls for hawkers. This is an expansion of his concept of setting up flea market within a shopping center. He believes that the demand from hawkers for this type of premise would be enormous. Hawkers only remain ambulatory because they have to and not because they want to. Given the opportunity, they would certainly move into more stable premises. In fact he believes one of the largest constraints to small business development and growth in the region is the lack of suitable premises. Thus small cottage industries remain unable to compete, to build the type of infrastructure to allow them to reach the customers and provide quality products.

5. The housing boom presents an enormous opportunity to the black builders association. But there is a need to provide builders with bridging finance to enable them to get geared up, purchase the materials they need. There is also a need to coordinate their purchases, so they can acquire the materials for better prices. Over the last few years, black entrepreneurs such as the builders and the hawkers have become very organized and built up the organizational infrastructure. This has made it easier for people such as himself to approach them, negotiate purchasing and contracting agreements. It has also bought these entrepreneurs greater clout in the market, with suppliers and greater ability to compete for business.
6. But nevertheless many entrepreneurs with good ideas and the numbers, the market to back them up remain unable to obtain financing and get underway or expand because they lack access to services which will be able to translate these ideas and package them into viable packages and proposals for financiers. Thus consulting services are necessary to provide this infrastructure. These consultancies would help serve as clearinghouse of ideas and financiers, and to inform community of potential development activities. No good to set up a loan guarantee scheme if no one knows it exists.
7. Such consulting "packaging" services must be complemented by the development of loan guarantee schemes. At the moment there is no guarantee fund that helps facilitate development.
8. Samuels believes that at the moment USAID has built up a lot of credibility. But this credibility will not last long if there are no visible results. USAID must get involved in a constructive and practical number of project that provide concrete results with large multiplier effects.
9. The PE area is an attractive place for a donor to get involved because there is so little going on and because this is a hotbed for political and intellectual activity, the Bikos,

Mandelas were all from the region. Donors must learn to think beyond the Transvaal.

IX.

Person/Organization: Business counselor, Urban Foundation

BPED Team: Grossman, San Martin

Date: 30/7/90

1. The PRISCO program (see interview XIV below) is not yet operating in the region. The particular services being provided are management information consultancies.
2. The counselor we talked to had started working in December 1989. He was the only counselor for the township. Since December 1989 he had provided services to only 6 clients. These are business with average yearly turnovers of R500,000 employing 8-10 people. They are primarily retailers -- supermarkets, liquor stores, service stations.
3. The UF business counselor feels that he could handle almost 10 times the number of clients he has now, but there is problem building up interest on the part of the small entrepreneur in purchasing these services. People come to him for help and when he tells them how much he charges they go away.
4. In a recent Urban Foundation-sponsored survey of the businesses in the area over 100 business were uncovered, from dressmaking, welding, knitting, uniforms, brickmaking. On average 2 people were employed by each business. SBDC will help to produce this directory. This directory of businesses could then serve as a way of coordinating and informing the larger firms of contracting opportunities. But the UF have yet to get the funds to analyze and categorize the information.
5. Summary: There is obviously entrepreneurial activity and interest in the township. The challenge, which the UF business counselor does not seem to be predisposed to tackle is reaching these people, making them aware about the need for these various consulting services, educating them about how these skills and expertise can be the key to the door of finance. Our interview with this counselor illustrated the importance of the service delivery mechanisms and train the trainer programs. The best designed programs will fall or stand on the quality of the personnel they recruit to interface with the businessman and manage the outreach and support infrastructure.

X.

Person/Organization: Gillian Godsell, Senior Researcher, Center
for Developing Business at Wits

BPED Team: Grossman, San Martin

Date: July 31, 1990

1. We discussed emerging patterns in the responses from the survey of small business support organizations being undertaken by the CDB. On the basis of the initial responses (they have interviewed 15 organization out of a universe of almost 100 they hope to survey by the end of September), the CDB Team has developed a typology for business support organizations, types of interventions, and types of intended beneficiaries. The CDB is examining the extent to which there may be a consensus regarding the effectiveness of certain approaches for certain types of business. One issue which is of special interest is the effectiveness of interventions aimed not at the "survivors" (those who are entrepreneurs because they have no other option and given the chance they would take a wage job) but at the "thrivers" or the "real" entrepreneurs, those who are willing to take measured risks and have the potential to grow in substantial businesses.
2. The CDB is using semi-structured interviews (a copy of the questionnaire being used is attached). The aim is to go beyond the directories and assess what the various small business support institutions are doing, why they are doing it, and how they are doing it and how they have chosen to target.
3. The types of institutions being interviewed have been identified through the CDB and GAF directories as well as by word of mouth:

non profits

for profits (Metro, proprietary)

Expertise providers (consultants)

Researchers (they have compiled a database of over 50 researchers who are doing work on various aspects of small enterprise development, a potentially useful databank of experts for use in program design, monitoring and evaluations)

Philosophers (those who are simply known for writing on the subject, but cannot be said to be providing direct assistance)

Political/official (SAG regulators who in the course of their work come into contact with small business -- this

latter category is not seen as a priority for this CDB research and in the end may get left out altogether)

4. The CDB research team has developed a typology for the types of intervention being emphasized or implemented by each of the types of organizations catalogued above:

Skill/Motivational

Market: access/knowledge

Resources: human, capital, premises

Environmental: legal/social

4. The most difficult analytic part of the research, and one which has not yet been developed fully is how to evaluate the effectiveness/adequacy of the various types of interventions given the needs of the clientele groups being served by each type of organization:

- 4.1 It may be that certain factors/constraints facing a type of business or client are critical to the success of the client, yet this particular factor may not be greatly amenable or susceptible to manipulation -- e.g. what a business really needs to develop and growth may be land in a particular location, but this requires major changes in the legislation, which clearly falls beyond the ability of the support organization to affect directly. In other cases the factor may not be totally critical to the success of the venture, but it is being provided simply because it is clearly within the resources of the organization. One would suppose that the most effective organizations are those providing a factor which is critical to their clientele and over which they have direct control.

- 4.2 In the case of organizations which are seeking to target those firms which are ready for growth, the issue becomes how susceptible to intervention are those factors most affecting the ability of an entrepreneur to make the business grow: e.g. what are the characteristics of a successful entrepreneur, and how can organizations targeting these individuals facilitate the growth process. Godsell speculates that the answer may be "do nothing": failure is externally caused -- what succeeds is the individual. A corollary to this hypotheses is that the best thing for institutions wishing to encourage small business growth and development is simply to encourage entry, letting all who feel they want to try to be entrepreneurs try, and let the best simply rise to the top on their own, making sure the enabling environment is right, that there are as few obstacles as possible in the way. This argues for a development strategy which seeks to reduce obstacles, reduce transaction costs, rather than provide any one particular service or ingredient. The issue is then one of identifying key obstacles facing the entrepreneur and

removing these, rather than putting in very complicated schemes, or heavy subsidies.

5. One factor which makes it difficult to evaluate the effectiveness of any one strategy for business development and growth is that there has been very little research and few rigorous evaluations of the impact of the various programs on the intended beneficiaries. Even the CDB at Wits has never undertaken a longitudinal study of its own participants, and have very little other than anecdotal information on the fate of their "graduates." They feel that this would be very useful to do but lack the resources to do so.
6. Summary observations:
 - 6.1 The database being developed by Wits will be used by the BPED Team to assess the various types of interventions being undertaken to assist small business development and growth. The CBD and BPED Team will cooperate and share information on the various types of intervention schemes. The database on researchers may be used as the need for additional data and consultation on the small business sector is undertaken.
 - 6.2 There may be a need to undertake a more in-depth assessment of the impact of various schemes on beneficiaries. One approach may be to use the Wits exercise to develop criteria for successful interventions and then evaluate carefully these data with the results of the literature research sponsored by the BPED Team regarding perceptions of constraints and opportunities. The literature research should probably include research to uncover any type of evaluations of various types of programs. On the basis of this, one may then begin developing useful notions of what organizations are effective and investigate in further depth the impact on the clientele.

XI.

Person/Organization: Joseph M. Manchu, Chief Executive, Manchu Associates

BPED Team: San Martin

Date: August 2, 1990

1. Mr. Manchu, a graduate of the School of Business Administration at the University of the Witwatersrand, began his own firm after growing increasingly frustrated with his role and advancement within a large corporation in the city. He started undertaking primarily small feasibility studies for a number of private clients, but has since moved on to do increasingly more strategic planning work, his main area of

interest. He has become increasingly involved in the design of strategies for a number of large clients, including ESCOM and the Development Bank of Southern Africa. Both institutions have begun examining strategies for addressing the gross imbalances and inefficiencies created by the apartheid system. Manchu feels both these large parastatals have begun to think seriously about strategies for stimulating black involvement in business and decision-making at a higher level than the usual small enterprise development scale.

2. Mr. Manchu was highly critical of USAID's methodology for assisting the Black private sector. USAID needs to clarify both its objectives with respect to the private sector and its approach to implementing the program. He feels there has been much confusion and lack of clarity among USAID officials concerning the role of the private sector in the country and the purpose of the US program. The perception is that the program was meant to be nothing more than a token show of concern to help clear the conscience of the US government and that there has been little commitment regarding the support for the private sector itself. As a result a large amount of USAID assistance has been wasted, awarded on the basis of the political points the US government wants to make rather than on the impact it wishes to have on Black advancement within the economy.

♦ USAID also needs to rethink the role of external technical assistance. There is a need for external TA, but he feels often outsiders are called in when there is ample talent in-country to undertake these activities. The environment in the country is extremely complex and it is unfair and a waste of resources to bring in people from the outside to do work which can best be done within the country. In this regard he has been especially critical of the manner in which the BPED program has been implemented through outside consultants.

3. Given the limited size of USAID assistance funds for private sector it is imperative that it focus its resources. It should reevaluate its focus on the micro and informal sector. That is not where the interest of the Black community is. Small business development is often nothing but a means of maintaining the status quo and reducing the opposition to the system by giving individuals a stake in the system. Assistance of this type is often not seen as a means to an end, but as an end in and of itself. There is very little support, among many supposed assistance organizations, for assisting the established enterprise to grow.
 - 3.1 Blacks are now thinking about how the move into positions of responsibility and power in the future; how they should be thinking about restructuring a new post-apartheid economy and

private sector. USAID should focus on assisting in that transition process, on empowering individuals to take over positions of responsibility, on backing assistance programs with potentially large multiplier effects. It needs to focus on educating people, especially those in touch with the opposition and the corporate sector.

- 3.2 In his opinion the most effective use of a donor's limited resources may be to concentrate on education and training, rather than funding small trading operations. In his opinion it is not for lack of funding that businesses fail but primarily because of lack of training. USAID should target training programs which again have large multiplier effects, either as train the trainer programs or in terms of the types of individuals who are picked and their potential impact on the thinking of a post-apartheid regime.
- 3.3 He feels the role of consultants will grow in the country, as advisors and counselors to a post-apartheid regime. Black consultants in the country can serve to help advise and train politicians and policymakers in a post apartheid regime regarding acceptable alternatives in the transition process. The Black consulting community is underdeveloped. It lacks access to the latest "technology" thinking, knowledge base to which the white firms have access. This imbalance needs to be addressed so that the Black intellectual contribution to the shape of a post apartheid regime will be as strong as that of the whites. He feels that as this juncture, much of the intellectual firepower regarding the shape of the transition and the content of the empowerment programs has been coming from the white liberal community. But this community needs to be linked up to the Black community so that it may also gain credibility, within and outside the country. Thus direct training of consultants, through either exchange programs with other consultancies, through observation tours of specific programs or operations would greatly enhance the intellectual firepower of the Black consulting community. There is a need to encourage greater exchange of ideas, exposure to alternative models.
- 3.5 Any training program, short or longer-term needs to examine closely the issue of post-training placement and use of the individuals. Skilled black managers and professionals in the country are greatly underutilized once they finish their training. Often Blacks already have the skills, they simply lack the experience.
- 3.6 Management training in the country needs to become less theoretical and more practical. Skills transfer must take place in an interactive manner.

4. Another area where much can be done is encouraging greater use of joint ventures as a way of facilitating technology transfer from abroad between Black local entrepreneurs and outside firms and corporations. He has seen many trade Missions and exchanges take place, but none has borne any fruit and this starts becoming frustrating. He realizes the CAAA exists, but sees no reason why this should have ended up hurting the Black businessperson, who is supposed to be exempt. There is a need to educate both US and local firms regarding the CAAA and use it as a tool to encourage business growth through joint ventures with Black firms and partners in the RSA, not as a way of prohibiting cooperation and technology transfer.
5. In summary:
 - 5.1 Management training is critical, but the training needs to be more practical and interactive and less theoretical.
 - 5.2 Any management training program must think about the post-training issue, and how the skills acquired will be put to use, what type of support institutions exist for the graduates of these programs.
 - 5.3 Development of the Black consulting profession is critical, as its members will have the credibility with the new post apartheid government to have an impact on the thinking of the new politicians and policy makers. There is a need to develop this cadre of thinkers, experts who can help shape the thinking regarding the transition process.

XII.

Person/Organization: COLD Evaluation Team (Alice Morton,
Michelle Garrity)

Cecily Mango (sector manager USAID)

BPED Team: San Martin

Date: August 3, 1990

1. COLD is an umbrella project focused on community priorities. It has at the moment 21 grantees, all NGOs dealing with one of the 5 priority areas for the project: a) youth, b) rural community outreach, c) women, d) leadership training and e) promoting programs which encourage development of democratic initiatives and processes. Under the COLD project over 30 grants totally \$12mn have been provided to a variety of community organizations. In FY 91 AID plans to obligate \$3.3mn under this project. COLD funds run out in FY 91, and

the purpose of the evaluation is to assess the potential for amending the project to increase funding until 1995.

2. Though the purpose of the project is not to support entrepreneurs directly, Cecily estimates that 20-25 percent of the project funding has gone into income generating projects which in a sense directly address entrepreneurial initiatives. Cecily has found that increasingly the concerns of community based groups have moved from the purely political to the more economically empowerment oriented. Though the project does not fund directly community initiatives whose sole purpose is to generate income, increasingly projects by these community organizations have come to emphasize income generation activities for their members.
 - ◆ For example, one of the initiatives funded by the project has been a church-based service and training service sponsoring a wide variety of community initiatives, from forming consumer credit unions, to establishing a publishing house for women writers.
3. There is the need to define more clearly the lines between what BPED should be doing and what COLD does. Much of the training in leadership aimed at strengthening the NGOs through which assistance is being provided could very well be channeled through COLD. In addition COLD initiatives could consider funding BPED grantees to help strengthen the income generating activities associated with their various grantees. For example, it may be possible to use COLD funds to support ABASA services aimed at strengthening the internal controls of grantees, or the beneficiaries of those grantees currently engaged in income generating activities.
 - ◆ In the past, the division of labor between COLD and BPED has been arbitrary. At one point it was decided that COLD would deal with cooperatives while BPED would deal primarily with credit unions. But a number of the rural advice centers sponsored by COLD have become increasingly interested in setting up credit unions.
4. Some COLD projects start looking like activities which are currently sponsored by BPED. COLD is funding an organization currently working with burial societies, Rev. Dandala at the Methodist Center (114 Rissik Street, Johannesburg). COLD gave him several planning grants to undertake a comprehensive review of burial societies and the possibilities these presented for mobilizing capital towards productive activities. Based on the research they may begin to undertake work to train members of these societies in finance and accounting. Apparently this is very similar to the work undertaken by Sam Muofhe of the Center for Black Economic Development.

- ◆ Apparently IBM South Africa (ISM) has a \$6mn project fund being run by Mr. Toitije Cillie (Community Development Relations for ISM). The project facility has been working with a number of burial societies to rationalize their internal accounting systems, but is looking for other community project ideas, particularly those which have the potential for income generation).
5. A number of grantees have expressed an interest in establishing revolving loan funds to support income generating activities. The nature of these activities is such that it is better to provide loans rather than to give the money away. But providing a revolving loan fund requires meeting a number of very stringent USAID reporting requirements, including undertaking financial sensitivity analyses, none of which these organizations can usually handle. COLD has often encouraged organizations interested in these sorts of activities to look at what the GAF organization has done.
 6. COLD would have been interested in supporting Dr. Wolmarans Foundation for Entrepreneurial Development. Cecily and her secretary were very favorably impressed by their activities. But the impression in the Mission regarding Wolmarans' reputation and his organization, and his political bona fides were such that they were vehemently discouraged from doing so.
 7. COLD funds mediation/arbitration seminars with the independent mediation service of South Africa. It funds trips out from US experts to give workshops on conflict resolution.
 8. COLD supports training in community development and organizing, in the techniques and skills for running NGOs, as well as skills at more basic levels such as sewing and gardening, in support of the income generation projects of the community organizations it supports.
 9. COLD supports a number of career counselling and placement centers, to help link the training provided with jobs and careers. A number of the grantees are career and advice centers. Apparently there is interest in creating a new association of career centers, which might be an attractive conduit, if it would agree, for USAID to channel assistance funds.
- ◆ Unfortunately most of the career centers focus on the 18-22 age group, taking kids off the street. But there is relatively little focus on the older adults, those who have been rendered unemployed by the shifting and contracting economy. The program also funds a career mentor program, and in this respect may be more

interested in expanding programs and contacts with the business community.

XIII.

Person/Organization: Denny Robertson -- Education Sector Assistance, USAID/SA

BPED Team: San Martin, Grossman

Date: August 3, 1990

1. In the past, because BPED had more money than there were ideas, it ended up funding a number of training and education initiatives which were clearly the responsibility of, and should have been funded by, the education projects. This was the case of the female accountants bursaries program (FABS). The USSALEP activity, encouraging exchanges between executives and seminars, is also one that clearly falls under the education/training program being contemplated under STEP.
2. The mix of private sector long and short-term training undertaken under STEP is still undecided. But the program will remain very flexible. There is a large amount of short-term training being envisioned, including exchanges, conferences, etc., which would be particularly relevant to the private sector.
3. STEP is far more concerned than the former two education programs about the placement of trainees after the coursework is over. Thus the project will seek to link directly training to the institutions and their skills need, in order to assure trainees a position after they return. With SAB. people got trained in a "shotgun" manner, with very little thinking about placement in the end.
4. STEP will work through NGOs and non-profits. In terms of the technical assistance aspect of STEP (TEPS), the objective is to work with existing organizations where possible, which will identify candidates, screen them, place them, provide assistance to local organizations channeling assistance.
5. Technikons will probably not be targeted because in the past they have not been able to provide the internships to Black candidates needed to enable them to complete their degree.
6. One of the largest contributions BPED may be able to make is to assist in the design of the short-term training plan (maybe a need for a focused training needs assessment).

XIV.

Person/Organization: Keith Foster, Urban Foundation and
Chairman of Sunnyside Group

BPED Team: Cobbe, Grossman

Date: July 27, 1990.

1. Foster expressed two prejudices that guides what he does:
 - 1.1 In general USAID and Signatory Association have hurt entrepreneur development in country. USAID's need to show "audited benevolence" has led them to give many grants. Bright entrepreneurs are now spending their time looking to AID and other groups for money rather than concentrating on business and skill development.
 - 1.2 UF is viewed by USAID as a non-player. Does this have something to do with the "wrong skin color" (Note: Foster is white). USAID uses inexperienced people and has a generally poor program. USAID more interested in currying political favor with the next government than in successful business development. USAID in his view has very short term outlook.
2. The problem facing African business is poor skills and undercapitalization. Efforts in UF project activity are to correct these in informal sector and formal economy. UF objectives are to address the structural change issues around disadvantaged groups and pitch for non-racial political system through housing, education, urbanization, PRISCO and CDA. Everything UF does must have macro scale potential; the program is not meant to benefit just 20-30 entrepreneurs, but have greater multiplier effects.
 - 2.1 Foster is involved in two major UF activities:
 - ◆ The Private Sector Counseling Organization (PRISCO): provides one-to-one counseling for entrepreneurs and training for lower-middle level black managers from private sector companies that second them as counselors. Donor companies pay the salaries of counselors for two years after which time they return to their companies better trained in business from working "on the line" with small businesses. Thus there is a training gain for both the counselors and the entrepreneurs. Currently 15 counselors have been seconded and these are counseling between 200-300 client entrepreneurs. UF also runs a "bureau service" in conjunction with PRISCO--keeps books for small businesses for R35/month...provides a method for evaluating efficiency of counselors via measuring productivity gains as well as a vehicle for data

collection on small business activity for Urban Foundation. Gives seconding companies a picture of the growth of their employees. Very strict method for evaluating which small businesses are eligible for PRISCO--will only work with the "entrepreneurs" not those only interested in subsistence business. In conjunction with Natal Institute for Personnel Research developed an "Entrepreneur Game" to evaluate the suitability of applicants to PRISCO. Analysis of PRISCO has shown it has cost R3000 for each job created.

- ◆ Construction Development Agency (?) (CDA): assists small building contractors with paid consultancies in job costing and planning and purchasing. Also assists them in getting loans from commercial banks with DBSA guarantee. Foster feels the programs for CDA is not sector specific and could be spread to black enterprise at large.
 - ◆ The Urban Foundation is also looking at setting up joint ventures between white corporations and black businesses--provides disadvantaged S.Africans with access to management, capital, markets, etc.
3. The Sunnyside Group is a policy dialogue and lobbying organization. The Sunnyside Group is also a national campaign. The Sunnyside Group is a coalition of 50 agencies (see attached list) in development activity including university, private sector, public sector and parastatal groups, both black and white run. This is the only coalition that the government recognizes as representative of the small business sector (approximately 200,000 small businesses are represented). The intent of the Sunnyside Group is to reduce the cost of entry and the cost of doing business through deregulation. Uses the U.S. model to get regulators to look at the cost of compliance of new and existing regulations. Foster believes the principal source of new regulations and lobbying against deregulation comes from large business that want to exclude new black competition.
4. There is a need to empower black community into owning the resources of their savings in commercial banks. The black community does not understand relationship between ownership and savings. Feeling they can destroy the economy with no harm to themselves. Foster estimates 20-25% of all investment savings capital is black originated and this percentage is growing. This money is still in the hands of the white corporate banking sector which invests it in a fashion consistent with white commercial interests. Need to develop competent and well managed black commercial bank and affiliated companies that then could direct the economy as owners through investment. Foster feels need to bring in

skilled international resources to provide investment analysis, etc. This is an area of relative US comparative advantage...

5. New donors (foreign and domestic) should try not to duplicate what is already going on. There is very little about small business and management training that is new here. Don't need new actors to look at this--poor utilization of donor funds. New actors should identify specific niche and focus concentrated resources on empowering that niche. SABTA example: overturned white monopoly in personal transportation. Someone should attempt the same thing in freight transportation. Would require sophisticated intervention in parcel distribution system. Again US may have a comparative advantage in this field.
6. There is still a tremendous need for deregulation and regulatory change. There is growing antipathy in trade unions toward regulatory change--stimulation of competition harms hard fought union "rights". Parastatal employees against deregulation due to job security reasons. Big business supports deregulation in rhetoric only. General public very apathetic: high inflation and no political power combine to make people apathetic. Need to make man on the street aware of competition's benefits. This kind of media campaign is also a US comparative advantage.
7. Estimates that +/- 3 million people for whom self-employment is the primary source of income. There remains social discrimination against self-employment--seen as the lowest point on social stratus--need to find ways to encourage self-employment as the option chosen not as last resort.

XV.

Person/Organization: Frank Taverner, Business/Entrepreneurial Development Officer, Development Bank of Southern Africa

BPED Team: Grossman, Cobbe

Date: July 24, 1990

1. DBSA is part of the South African system. It is committed to economic empowerment of the disadvantaged. Historically DBSA has focused on small business development, but the black community is not satisfied with this--their interest is getting in the mainstream. The problem then becomes: How to provide mechanisms for economic empowerment without destroying the current private sector?

2. SAG has limited funds. Through the DBSA they are looking for mechanisms to fund economic empowerment. Currently considering an Equity Investment Fund--unable to come up with satisfactory scheme. Also considering DBSA loan guarantees for black business with commercial banks.
3. All of the development and empowerment programs do not address the fundamental issue: The African community does not have the opportunity to accumulate capital.
4. DBSA is understaffed. With portfolio of R1 billion and staff of only 400 they need to look to institution building--find competent implementing agents to develop and administer programs.
5. DBSA information and data section: Center for Information Analysis (CIA)--available for use by BPED strategy team if needed.

XVI.

Person/Organization: Ted Scales, Black Enterprise Magazine

BPED Team: Cobbe, San Martin, Grossman

Date: July 31, 1990.

1. USAID money has by and large been wasted to date. He recognizes the goodwill of USAID and feels it is a shame that in light of the needs of the country the USAID program has been so ineffective. There is awareness of CAAA constraints placed on USAID. However, USAID should look more closely at those it uses as implementing agents especially in light of the restrictions placed by the CAAA. For example Ian Hetherington has a very effective program but he will not receive funding because he is white. It is essential that USAID finds those people who have been effective in working for economic justice no matter what color they are. The concept of a non-apartheid company--non-racial but working for disadvantaged South Africans is important for USAID to consider. Current USAID programs smack of political concerns--money given for political reasons is normally not effective in business development programs.
2. In his opinion what the black private sector needs to get going is essentially training and finance. He believes that there is an increasing number of companies, black and white-owned, committed to the concept of a "new economy." In his opinion, the defining characteristics of this new economic system are:

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- ◊ Economics of Inclusion--commitment to programs which encourage black participation in the mainstream economy as opposed to apartheid and monopoly capitalism. Training and Capital need to be made available in greater proportion to those that have been historically disadvantaged.
 - ◊ Partnership--develop the unity of interests between big business and small business. There is tremendous good will between large corporations and others. Anglo-American for example spends R20 million in subcontracting to small firms--all corporations should do this.
- 3. The magazine and he personally have been very involved defining exactly what is meant by "economic empowerment." In his opinion, it should mean giving blacks a fair opportunity in the economy--in housing, education, formal sector employment and black businesses of all sizes. Scales sees Black Enterprise's role as that of a catalyst--to create wealth for readers and owners at same time. Planning on offering shares to public and will enable all employees as well as others who share in his philosophy to buy in.
- 4. Training in itself is not the answer. Practical instruction and follow-up support is necessary. Also the services provided by venture capitalists in USA are needed. Not just credit but capital and guidance. Need profit oriented venture capital fund to support entrepreneurial development--most current programs are not business development but rather a safety net. The handout syndrome is very strong in the RSA. Too many people spending too much time looking for money--not working for it.
- 5. Black Enterprise Program is larger than just a magazine: it has five areas of operation.
 - ◊ Small Enterprise Marketing: The magazine receives a lot of inquiries from readers regarding business opportunities and possible linkages. As a result, they have formed this ad hoc operation that seeks to act as a marketing opportunities clearinghouse, aimed at assisting small manufacturers to get contracts. In addition they are trying to persuade all the Signatory Companies to promote more subcontracting activities. In his opinion it does not matter that for the moment much of the subcontracting work is small: "from acorns tress grow." He acknowledges that there is a great deal of tokenism, but there is also some serious work being done.
 - ◊ Black Enterprise Magazine: The role of the magazine itself as he sees it is to serve as a catalyst, providing new ideas and facilitating the interchange of ideas to

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create wealth.

- ◆ Black Enterprise Marketing Services: This again sprang from the great number of inquiries received (8-10 inquiries per day). This service helps manufacturers and retailers increase sales through advisory services and consulting. Scales and the magazine staff do not do most of the consulting themselves, but rather subcontract most of the consulting work to black consultants. Hopes that it will become major matchmaker service and a profit center for the magazine group.
- ◆ Black Enterprise Network: This aspect of the operation organizes functions and conferences with top speakers for businessmen to meet one another. Aim is to link black wholesalers with corporate brand managers. In addition it is a forum for encouraging dialogue between different groups. Recently they organized an affair at the request of the Reserve Bank to explain the budget to a number of notable black and white entrepreneurs. They see this as a necessary function, just getting people who do not normally talk to get together and share at least a cocktail. Plus it gives them a nice source of stories for the magazine.
- ◆ New Economic Trust: Not yet started. Need better understanding of venture capital game. Contacted David Silver--US author and venture capitalist. Currently 20 likeminded people willing to bring money to the table. One idea to mobilize the Trust is to use the concept of the stockvel, whereby each of the interested parties would put in R100 or more per month, for a predetermined period of time. The magazine has a mailing list of over 4,000, and this list may serve as a good foundation for building up the capital base of the trust. Scales is also intrigued by the idea of credit unions, and how they may serve again as a model for harnessing capital and placing it in productive activities.

XVII.

Person/Organization: Meeting with Zuko Rwaxa, Winston Amos and Donald Groxixa, The African Bank Business Development and Advisory Unit

BPED Team: Grossman, San Martin

Date: July 31, 1990

1. In the opinion of the Bank members interviewed, The African Bank (TAB) should be considered an appropriate agency through which USAID should channel funds. TAB activities comprise a lot of "man in the street" financing--mostly small entrepreneurs. Most clients are in general retail, although there are some in construction, manufacturing and transport.
2. TAB sees its role as an instrument in development but as it is still privately owned, management is responsible to shareholders. They acknowledged that they have had a difficult time reconciling development and commercial roles.
3. TAB is unique because officers come from the same environment as those coming in for loans. They can be more reasonable in business planning with entrepreneurs. There is no fixed criteria for evaluating attractiveness of businesses. Try to be flexible in their approach but are admittedly biased in favor of projects that have larger job-creation impact. In particular, the bank has tried to move away from collateral based lending. Each project is evaluated on its merit, and on the potential for job creation. They will accept purchase guarantees as "collateral" for the loan if it looks promising. They do prefer that the entrepreneur put up 20-30 percent of its own funds.
4. TAB's business unit has been averaging R2,000,000/mo on loans, with each loan averaging R150,000 (and ranging between R50,000 to R300,000). Their floor is about R20,000 and their lending ceiling is R750,000. These are medium term loans. They do not favor one sector more over another, though they have noted an increasing in manufacturing enterprises. An increasing number of housing developers, as well as professional groups have become borrowers, gradually displacing the dominant position of retailers (though this is still by far the largest group of borrowers). The Bank's unit will for a (subsidized) fee help an entrepreneur package a good idea, including the finance and business plan. They also provide after-care, on a monthly basis.
5. TAB depositors include burial societies, stokvels. TAB would like to enlarge their asset base, and see a real opportunity to harness the capital of the informal sector finance system.

Their main limitation has been the lack of outreach capability. They have 9 branches: 2 in Johannesburg, Umtata, Natal, Transkei, E.Rand and 3 in Pretoria; they are thinking of opening agencies (as opposed to branches) to take in deposits (though they would not do any lending).

6. Facing internal financing problems. Deposit base has not grown rapidly enough which limits their lending capability. There are a lot of opportunities they cannot respond to because of this lack of deposits. For example, there are no checking services available nor credit card accounts. These are products desired by their potential clients and TAB is constrained by their inability to deliver. Currently they are researching other products that may be attractive to the black community but have not yet identified any. They admit they need to determine what these products are to compete with the large banks.
7. TAB has been talking to IBM about establishing a bridging or revolving fund to finance subcontracting and building contracting operations.
8. TAB would like to be able to access training resources or send their staff to short training courses to learn about innovations in financial instruments, and innovative project packaging and financing. They feel this could be of real direct benefit to their operation. They are also interested in exploring the possibilities for trade financing. Again this is an area in which their staff have little training; they would be interested in sponsoring their staff for short or long-term training courses.

XVIII.

Person/Organization: Phil Khumalo, President of Business Challenge

BPED Team: Grossman, Ickis, San Martin, Himelfarb

Date: August 3, 1990.

1. Business Challenge has been operating since 1986. It has 5,000 members. BC links small businessmen with large businessmen; provides practical training workshops on business management and provides consultancies to new and existing businesses. There is also a loan program that takes donations of members (R50/month) and loans it out to other members for starting or expanding businesses.

◆ The loan program operates on the stokvel concept. It requires that members contribute for at least 6-12 months

before being able to qualify for a loan (but the amount lent does not depend on the total contributed to the fund, but on the merit and potential of the project idea to yield high returns to the investor.) The monthly contribution requirement gives BC an opportunity to evaluate the behavior of the potential borrower--does he pay regularly, etc. Members' contributions are placed with the Allied Building Society, which makes a matching contribution of R1 for every rand invested. BC members are given an identification card and a number tracing how much money they have contributed. Because it uses an existing bank infrastructure with a great number of branches throughout the country, it is able to keep its overhead low. The bank, according to Khumalo, participates in the evaluation of the feasibility of the projects, while BC provides business advice and helps applicants package the project for review and evaluation. BC has 30 branches throughout the country.

- ◆ Khumalo reports that he would be interested in using the African Bank, but it cannot provide the infrastructure of branches Allied can.
 - ◆ Its loans are short- and medium-term (2-5 years). Its loans range from R5,000-R10,000, though he now reports a number are in the R100,000 to R200,000 range. All loans are awarded at market rates. The default rates seem to be low.
 - ◆ The loans can be awarded to those who have existing businesses as well as for business start-ups. Khumalo reports that about 40 percent of the loans awarded are for start-ups and the remaining 60 percent are for those interested in business expansion capital.
 - ◆ Of the established businesses, he estimates that the majority are informal.
 - ◆ Program is similar to Get Ahead Foundation but BC is using a banking infrastructure that already exists--provides better efficiency and better economies.
 - ◆ Khumalo also belongs to the board of the Foundation for Entrepreneurial Development (headed by Dr. Wolmarans, see interview no. 20 below). They have been discussing the possibility of linking up the "graduates" of the FED program with BC.
2. In Khumalo's opinion, if international donors, or anyone, wants to help South Africa it is necessary to restore confidence, dignity and a sense of responsibility to black people. Currently there is a strong feeling of dependence,

not responsibility. Once confidence is restored, development can take place. Need education for adults--not theoretical education but practical education focusing on how to make a living, how to create wealth and produce things. Youth of the country must be given direction and convinced of the value of education.

3. The educational system must be improved: this can be done many ways: training Blacks as teachers so they can teach other Blacks, direct money from the international community, or by direct US technical assistance. Blacks won't accept better education from whites--too much distrust. Must not try to channel education assistance through existing educational organizations--too much suspicion of the motives of the white community. He suggested that it might be better to try to build up a campus of a Harvard or another prominent US institution in the RSA than to work with the existing white-controlled training and teaching institutions.
4. Blacks want to be part of the economy, Currently there is lack of understanding that political power without economic power is meaningless. Need to educate people that economic liberation will bring political power. It is essential that the current economic infrastructure not be destroyed--it is this infrastructure that will allow the black-led RSA to be independent of the outside world--not like other African countries.
5. Khumalo forecasts growth in black manufacturing, particularly in consumer goods. He is also quite interested in promoting the export of many of his clients manufactured goods (this is also an area which interests Dr. Wolmarans). Apparently he has already made a number of good contacts abroad, particularly in the USA. But in order for this idea to succeed, his clients are going to need some sort of export guarantee scheme or bridging finance scheme. It is here where technical assistance and intelligence would be most welcome. Also of interest is the possibility of accessing used machinery from the USA. (These are all areas in which there are buy-in mechanisms available through MDI to access both technical assistance and funds. For example Eileen Kishaba's shop IESC has a set of programs which provides for exchanges among executives, as well as linkages between firms in the US who want to sell or donate their used equipment. MDI also is providing support to the Africa Project Development Facility which assists entrepreneurs to get financing for selected projects, as well as with the Africa Growth Fund. All of these approaches however are probably constrained by real or perceive restrictions placed by CAAA and ESF).
6. Operational costs of the program are in part covered through the consulting fees Khumalo charges companies. He also offers

a series of seminars aimed at improving the understanding and contacts between the black and white business communities. Some seminars cover topics such as employee relations, marketing, equal employment opportunity strategies, etc. He is interested in getting corporations and donors to invest in BC as a business, not as a social responsibility project. He believes all sectors of the business community can benefit, in the form of improved sales and contacts.

XIX.

Person/Organization: 26th NAFCOC Conference in Durban
Exhibition Center

BPED Team: Ickis, Cobbe

1. The Team had an opportunity to hear and interact with the following speakers at the NAFCOC Conference:

- Dr. Org Marais, Deputy Minister of Finance
- Adv. Dikgang Moseneke, Member, Supreme Court
- Prof. Wiseman Nkuhlu, Rector, U. of Transkei
- Mr. Israel Skosana, Exec Dir, Get Ahead Foun
- Mr. Donald Mkwanazi, BMF (from the floor)
- Mr. Tito Mbowene, ANC Dept of Econ Planning
- Mr. M. Golding, Asst Gen Secretary, NUM
- Mr. Modley, Azanian Peoples Org (AZAPO)
- Dr. S M Motsuenyane, President, NAFCOC
- Mr. Sindani, African Bank
- Mr. Thabo Mbeki, Director Intl Affairs ANC

It is interesting to note the wide range of speakers from the government, political, labor, academic, financial, and PVO communities; and the absence of anyone from business per se.

2. Following is a brief summary of the points raised by each speaker:

2.1 Org Marais, Deputy Minister of Finance

2.1.1 As a professor at the School of Business Leadership of the University of South Africa (UNISA), Dr. Marais was noted for supporting the education of blacks and in 1978 was given the NAFCOC Award of Merit. He became a Member of Parliament in 1983 and Deputy Minister of Finance in 1986, and could be called one of the more "liberal" among government officials.

2.1.2 He emphasized the need to create new jobs for blacks (he calculated that to keep up with the growth in the

economically active population, some 700 per day will need to be created) and argued that this could best be done by "providing the economic system, removing bureaucratic obstacles" so that blacks could compete "on an equal footing." He compared blacks in South Africa to the Indians of Peru and the oppressed of Eastern Europe, and drew heavily upon Hernando DeSoto's thesis that the basic problem is not racism but rather the "mercantilization" of the economic system by big government. [This argument received a polite but not particularly enthusiastic response.]

2.1.3 He then turned to legislative restrictions and drew enthusiastic applause when he stated that "we are going to dismantle all apartheid legislation" including the Group Areas Act and the Lands Act which will be replaced early next year. He did say that in fact, the Group Areas Act was partially dismantled because of the opening of free trade zones in the central business districts. He also made the point that dismantling the Land Act, which prohibits blacks from holding land outside certain "scheduled" and "released" areas, would be of little consequence unless it were accompanied by the providing of agricultural support services.

2.1.4 Regarding future agricultural policy, he specifically noted the following:

- ◆ Any land reform would have to acknowledge the principles of free enterprise, security of tenure, and vested property rights.
- ◆ If better access to land for everyone were to be achieved, complete deregulation or free subdivision in certain areas would have to be considered.

2.1.5 This implies a small-scale farming approach, which recent studies have shown can be more efficient (and certainly more labor intensive) than large-scale farming.

- ◆ Financing would be made available by the DBSA and even at the present time there is no specific provision from making funds available from the Land Bank.
- ◆ Regarding the industrial sector, he stated that most industrial sectors are already open to all South Africans and that the subcontracting of black firms by the larger white companies or by government for such things as garbage collections or cleaning of offices is becoming more common. The Board of Trade is trying to further promote this.

- 2.1.6 On housing, he believes that it is also important for black firms to become more involved in the construction of low-cost housing. He noted that blacks live in substandard dwellings and spend an average of only 10% of their incomes on housing versus 20% spent by whites.
- 2.1.7 Regarding commerce, he argued for the removal of licensing requirements and the legalization, integration, and promotion of the informal sector a la DeSoto. He recognized that the informal sector is now dominated by "survival entrepreneurship" but that it can become a transitional bridge and training field for entry into the formal sector.
- ◆ In all areas, however, there is a "skills gap" that requires management education and training. "Big business needs to step up in-house training programs," he said. He further stated that the South African Government might do more to promote this and noted that the French Government gives a tax rebate equivalent to 2% of payroll on in-house training. This in-house training is the most important way to give skills to blacks, in his opinion. Finally, he called for a "Marshall Plan" for in-company training.
- 2.1.8 Finally, he emphasized that production, savings, and investment must not be discouraged by redistributive policies. Talk of such policies can also have an impact on skilled human resources, he said, noting that 25% of college graduates are leaving the country.
- 2.1.9 During the question-and -answer session, one black delegate said that his local chamber had been approached by a the local white chamber regarding the possibility of forming a joint chamber, and he wanted to know if that was permissible given that apartheid is still official policy. Dr. Marais encouraged him to continue this interchange, saying that it was not necessary to actually fuse the two in order to work together.
- ◆ Another delegate challenged Dr. Marais on several points, stating that "the time has gone past for cleaning your offices" and that "opening up of the CBD's to black commerce now doesn't help."
- ◆ Note: to the extent that Dr. Marais speaks for the current government, the above presentation contains useful insights into their thinking about policies in the industrial, agricultural, financial, and educational sectors. It is also revealing of a gap between how the government wants to treat black business (training of micro-entrepreneurs; "captive" subcontracting of black

firms to perform what are regarded as menial chores) and the aspirations of the black community. As one white South African later expressed, "he is offering yesterday's solutions to tomorrow's problems."

2.2 Dikgang Moseneke

- 2.2.1 Advocate Moseneke offered what he himself described as a radical view of the South Africa economy and warned the audience to "buckle up." He began with an "historic countdown" beginning with colonial land dispossession in 1652 and leading through the periods of oppression and uprisings.
- 2.2.2 He then characterized the present South African economy as being (1) capitalistic, or controlled by local, state, and foreign capital; (2) oligopolistic or in some cases monopolistic, with concentration of industrial power; (3) geared to serve a minority with low wages for a majority; (4) dependent upon gold; (5) lacking in competitiveness; (6) dependent upon the massive transport of minerals to foreign markets; (7) indebted, with continued capital outflows and inadequate foreign reserves to service the debt; (8) unable to meet the primary economic needs of a growing population; and (9) with a weak and over-subsidized white agricultural sector.
- 2.2.3 Regarding the situation of blacks in this economy, he noted that blacks have no access to capital; that black entrepreneurs contribute only 2% to the GNP; that only 5% of the companies on the JSE have black directors; etc. He also pointed to the housing crisis and to the absence of blacks in the agricultural sector since the passage of land laws that excluded them. Thus, blacks are no longer producers of food.
- 2.2.4 Adv. Moseneke concluded that the current South African environment demands creative schemes by blacks for economic survival; the ability to find niches and to eke out strategies that enable blacks to get around the tremendous odds facing them. In this respect, he said, NAFCOC has been very good and therefore has been "...as revolutionary as any of us can ever be." [This may have been tongue-in-cheek.]
- 2.2.5 He then went on to talk about a second scenario in which there is significant political change. He pointed out that the SAG needs a political accord with the ANC because the economy is sick and needs bailing out. As far as he is concerned, the present economy is neither a market nor a mixed economy; it is an economy that is "inimical to the interests of our people" that requires

"radical transformations" that address the economic interests of all people.

- ◆ In the transition, he argues, South Africa will need an even stronger government to redress imbalances in such areas as housing and education. The role of the government should be neither that of "non-partisan overseer" nor that of "instrument of the ruling class" but rather a force for positive change. "I agree with Gavin Reilly [Chairman of Anglo American] who has said that the total abolition of apartheid will not cure all the problems of redressing these ills... the resources required are tremendous. It's not who can vote, but how wealth is created and who gets it.
- ◆ "In conclusion, for now let's do the most that we can with the present economy. But get rid of the present State and you'll do better in a new State. But the new State needs to be born in the right way..."

[Note: Adv. Mosenke's views, particularly those regarding the need for a strong state in the transition to a majority black government, appear to be representative of the thinking of a large part of the black community. He received warm to enthusiastic applause by the NAFCOC delegates though his views are presumably somewhat to the left of the black business mainstream.]

2.3 Wiseman Nkuhlu

- 2.3.1 Prof. Nkuhlu has an MBA from New York University with a concentration in Finance. He is Rector of the University of Transkei in Umtata, Transkei.
- 2.3.2 Wiseman was not on the original list of speakers (speakers from Zimbabwe and the U.S. cancelled at the last minute) and the purpose of his talk was to give the delegates an update on NAFCOC's work in the economic area. He had been organizer of the Economic Conference held in May and was currently a member of the three-person "Economic Commission," established as a result of a task force formed in January 1990.
- 2.3.3 He began by reviewing the vision for a future South Africa, that had been broadly agreed upon at the Economic Conference: a non-racial, democratic society in which there is economic growth with greater economic equality and access by all South Africans to goods and services essential in meeting basic needs.
- 2.3.4 NAFCOC/ANC Economic Commission -- He then described the

Economic Commission. The data below are taken both from his presentation and from a one-on-one interview conducted later:

- ◆ The NAFCOC Economic Commission currently has three members: M. Lekota, NAFCOC Executive Director; GM Mokgoko, NAFCOC Public Relations Director; and Wiseman himself in a personal capacity rather than his official capacity as Transkei Rector (he has taken a six-month sabbatical to get things going). In addition, a full-time Secretariat has just been created with Vincent Pasha, an MBA from University of Pennsylvania at the head. [Initial feedback on Mr. Pasha has been reserved.]
- ◆ Recognizing that the current three-member structure is insufficient particularly since the NAFCOC officers are not trained economists and in any case will have little time to analyze position papers, Wiseman is seeking two additional members from the black academic community.
- ◆ The major task of the Economic Commission is to prepare economic policy proposals and analyses for a post-apartheid South Africa. This involves: (a) contracting research in knowledge gap areas; (b) preparing reports for the NAFCOC management committee; and (c) holding workshops. The Economic Conference was really the first such workshop. Those scheduled for the future are: Aug. 29: land reform; Aug. 30: Housing development; and Oct. 18/19: Industrial restructuring.
- ◆ Wiseman emphasized that the Economic Commission is not a decision-making body; that its role is that of "an independent think tank; not aligned, to present positions of NAFCOC which the Management Committee is free to accept or reject."
- ◆ It will also form a Joint Commission with the ANC which will have its own Economic Commission made up of Tito Mboweni, Maxwell Sisulu (son of Rivonia Trial defendant Walter Sisulu), and S. Mfenyane.
- ◆ Members of the Economic Commission recognize that in certain fields the most knowledgeable researchers are white and therefore there will be contracting of whites as well as blacks. Criteria for hiring researchers will be quality plus relevance. Wiseman has already visited several research units that might participate, including the unit at the University of Stellenbosch. Other institutions that might participate include U. Capetown, U. Western Cape, the DBSA, and overseas organizations. The role of the Economic Commission is to identify the most appropriate researcher or research center for a

particular project, set up the term, to monitor the work and to evaluate the final product.

- ◆ Office space for the NAFCOC Economic Commission has been provided by Standard Bank, which is also providing some funding for office expenses. Financial contributions will also be made from Anglo American (40,000 Rand), Barlow-Rand, and Shell. They are negotiating with Standard for computer facilities linked to the Standard mainframe.
- ◆ Wiseman describes the Commission's strategy as a "multi-pronged approach," to include research and workshops on key economic issues. "The workshops will enable us to discuss latest findings, identify gaps in existing knowledge, and to formulate positions for the Management Committee. We won't waste time on examining the weaknesses of the current economic structure because these have already received adequate attention. Now we say, given what we know, what do we do about such issues as industrial and financial restructuring and land reform?"

2.4 Israeli Skosana

- 2.4.1 Mr. Skosana is Executive Director of the Get Ahead Foundation (GAF). He is a Chartered Accountant and President of ABASA, and also serves on the boards of several black business organizations such as IDED and Matchmaker. He has recently decided to leave GAF to assume a management position in Ernst & Young, "to get back into the profession," as he puts it. His topic centers around the restructuring of the financial sector in a post-apartheid South Africa.
- 2.4.2 "Access to capital is a right. How can the financial system in SA be reoriented to aid the victims of apartheid?"
- ◆ "The black population which accounts for 80% in SA produces only 2% of the "formal" GNP which increases to 8% when the informal sector is counted. Why is this?"
 - ◆ "The structure of the financial system is a reflection of the political system. There are deliberate standards for collateral designed in a way that exclude blacks who are the majority. It was never intended that blacks should be creators of jobs. There is a dilemma: black businesses need to start small, but small businesses don't have access to credit."

2.4.3 To break this vicious circle, Israel proposes linking black community structures to financial structures, letting village committees do the work of reviewing loan applications and thus minimizing administrative costs. These structures should be combined with guarantee schemes and "specialist" banks for disadvantaged groups. Interest rate subsidies, criticized by the free marketers, are not necessarily bad if they promote competitiveness as they have in Japan and Korea. State intervention is justified to (a) make SA competitive in world markets and (b) help disadvantaged groups get credit to compete.

2.5 Donald Mkwazi

2.5.1 The day ended with a question-and-answer period in which the President of Black Management Forum, Donald Mkwazi, took the floor to pose several issues:

1. "The political kingdom is now assured, but there is no guarantee of economic power...that is, the ownership and control of the factors of production--of capital, of land...

. "There is a new-found enthusiasm among South Africa's white rulers for a free market economy. Why is this happening now, at this time, when SA has never seen a free market economy? Why now, when there is a lot of noise about nationalization? [The implication is that the current government anticipates black majority rule and therefore wants to privatize everything and make the government as small as possible so that blacks, even though in control of the government, remain left out of the mainstream economy.]

2. "There is also a lot of talk about small business and the informal sector. Will this solve our economic ills? The informal sector creates a lot of jobs; there is great inventiveness among our unemployed. But it is not only the informal sector that the blacks must dominate; we want our own Sanlams, we want to do away with the dependency syndrome. No one is going to help us do this, we cannot look for outside aid.

3. "We are going to interfere in the economy with a strong government; a partnership of government, business, and the people. Whoever takes over will need a strong government to address the problems in housing and education. The issue of privatization is untimely now, how are we going to pay? We don't agree with the term "nationalization;" we need a scheme that creates rather than redistributes wealth. A sensible approach is that the government maximize the creation of wealth... this may mean pushing around some assets, but not necessarily nationalization."

2.6 Tito Mboweni

- 2.6.1 Tito is from the Department of Economic Policy of the ANC. He serves on the Joint Economic Commission that has been formed between ANC and NAFCO.
- 2.6.2 He laid out some ANC policy guidelines on restructuring the industrial sector in a post-apartheid economy. These include moving from a mineral-based economy, dependent upon a wasting asset base with fluctuating international prices, to an economy that produces capital goods that are competitive in international markets. This economic transition will require a "dramatic reorganization" of education and R&D efforts.
- 2.6.3 Accompanying this restructuring of the industrial sector must be a "reorientation of the economy to meeting basic needs through increased employment and the growth of a national market."
- ♦ [The assumption is that it will be possible to invest a larger share of the economic wealth in capital goods production while simultaneously increasing consumer expenditures.]

2.7 M. Golding

2.7.1 Mr. Golding, Assistant General Secretary of the National Union of Mineworkers (NUM), addressed the Conference on the "restructuring of the mining industry." He made the following points:

1. De-regulation of the mining industry with intention to boost profits through less stringent health and safety regulations would have a disastrous effect upon the miners. (He cited statistics of one death and about 17 injuries per ton of gold mined.)
2. The industry is in decline and there are no incentives to mine marginal ore, resulting in massive layoffs. The ores are sold in their raw state at giveaway prices; there is no downstream manufacturing.
3. Economic concentration has had a negative impact on SA's competitiveness and on black participation in the economy.
4. Trade unions are severely restricted in negotiations, with "absurd" conditions imposed by management such as "no singing or dancing."
5. "Black economic empowerment" up to now has been a joke, meaning blacks can own a taxi or a sphaza shop.
6. The democratic state (black majority) must play a central role

in the post-apartheid economy. [This could presumably mean nationalization of the mines, though this was not specifically proposed.]

7. NAFCOC has an important role in the post-apartheid economy. [though he did not specify clearly what that role is]

2.8 Azanian Peoples' Organization (AZAPO)

2.8.1 Originally programmed to speak was Dr. I. Mosala but in his absence another member of AZAPO (Mr. Modley?) spoke on "land distribution as a strategy for economic development."

2.8.2 AZAPO's view is that land is a primary means of production that can have two types of uses: personal use for shelter, which should be free and could involve a form of personal ownership; and for the creation of wealth, in which case ownership should not be individual but placed in a trust, held by an agency elected by the people.

2.9 Dr. Sam Motsuenyane

2.9.1 Dr. Motsuenyane then gave the Presidential address in which he discussed the role of NAFCOC in the transition period, its accomplishments, and its programs.

2.9.2 NAFCOC seeks "peace and stability," affirms Dr. Motsuenyane, and at the same time seeks to "associate ourselves with the forces working for change." A goal of NAFCOC is "greater economic parity," including black representation on boards and in the top management echelons. He noted that the current economic recession has hit black enterprises the hardest and that it has been difficult for some to pay the GST (general sales tax). "A comprehensive study of the GST has been requested by NAFCOC, as it affects black business," he said.

2.9.3 Recently NAFCOC has organized itself into sectoral chambers and this has led to unprecedented growth in membership as well as to a greater representativeness of the different sectors (e.g., NAFTO being the national federation for transport operators). Also, the 17 regions have been consolidated in eight geographic formations: four in the Transvaal (North, East, South, West); two in the Cape (East, West); and two in the other states (Orange Free State; Natal).

2.9.4 On the negative side, members in Ciskei were severely affected when 90% of the businesses were destroyed in recent uprisings. Most were either underinsured or uninsured, and there were no funds for helping the victims. He lamented that blacks should destroy black businesses thus "taking a step backward." [It could possibly be explained by resentment against blacks who receive licenses to do business from local black authorities, who are widely presumed to be instruments of the white power structure.]

2.9.5 Dr. Motsuenyane then reported on the various NAFCOC projects:

Shopping center. This has been beset by enormous financial and management problems. The assumptions in the feasibility study proved to be invalid and the share purchase scheme didn't achieve targets. Furthermore, they are still searching for an "anchor tenant." It was built by a white construction company, Green Acres, at a cost of (?). NAFCOC owes Green Acres 132,000 Rand which will be paid once the project is revitalized.

Management and leadership development center. Construction has now begun and this will become operational in March 1991. Delays were caused by lack of funding for construction (funding for training has been obtained from international sources). Courses will be held at the shopping center until the new Center is completed.

Black insurance company. A national, black-controlled insurance company was to be formed through the buyout of Error Insurance Company. Negotiations with Error had reached an advanced stage when a better offer unexpectedly came forward. NAFCOC is now seeking alternative opportunities for buyouts.

Mavimbda Scholarship Fund. This fund raised 160 thousand rand in 1989 versus only 120 thousand in 1988, but is still far from its target of 100 students per year and the costs of tertiary education continue to rise.

Job Creation Pty., Ltd. This joint venture of NAFCOC and the Barlow group has achieved its annual target of promoting black entrepreneurship.

International outreach. There has been a high level of international visitors, receptions at embassies, etc. Our members have been doing a lot of travelling, and there have been visits to the Far East and Europe. There is also a program of cooperation with the Lesotho Chamber of Commerce.

2.10 The African Bank

2.10.1 Mr. Sindani acknowledged that the African Bank had experienced some problems but said that they had been "blown out of proportion by a hostile press" and that "Now we're back on track, stabilized, and undergoing fine-tuning." Performance ending March 1990 was solid, with a reduction of overhead costs, and better asset and liability management. "Now that we have achieved maximum efficiency, we need to grow. To do that we need share capital, and capital growth has been very slow." He ended with an appeal to invest.

2.11 Thabo Mbeki

2.11.1 As ANC's International Affairs Director, he is one of Mandela's closest collaborators and was proclaimed as a "son of the soil" who has long struggled against apartheid.

2.11.2 He began by delivering a message from Nelson Mandela to the effect that NAFCOC was considered the representative of the forces for liberation in the business sector. He went on to say that the ANC considers it to be the political responsibility of NAFCOC to work for the end of apartheid, always asking what it can contribute.

2.11.3 His message was simple and straightforward. While acknowledging that there are "millions of divisions, millions of points of conflict within South Africa," Thabo Mbeki told the delegates that "we need a national consensus on four basic issues:"

1. All of South Africa shall be one nation.
2. That nation shall be governed by constitutional rights that apply equally to all.
3. A fundamental economic objective should be to provide every South African with a decent and rising standard of living.
4. If to achieve that fundamental economic objective it is necessary to revoke certain economic privileges that have been enjoyed by a minority, then so be it. The maintenance of privilege cannot be guaranteed.

He ended on an optimistic note, saying that during the 16-nation tour with Nelson Mandela, the business communities in many countries expressed interest in participating in the post-apartheid economy. Businessmen in New York proposed a development bank for South Africa with an initial capital of \$5 billion.

XX.

Person/Organization: Dr. Dennis Wolmarans, Executive Director,
Foundation for Entrepreneurship
Development

BPED: Ickis, San Martin

Date: August 2, 1990

David Himelfarb invited San Martin and Ickis to join him at a meeting in his office with Dr. Wolmarans in which he presented his model for developing women entrepreneurs in the sewing industry. The model is based upon a four-stage process involving (1) skills development in basic sewing, patchwork, etc. with great emphasis on quality and esteem-building; (2) an apprenticeship period of 4 months in which the students are taught to run their own sewing businesses while they practice their skills; (3) the rental of equipment and workspace where necessary; and (4) extension services. [See attached literature on Foundation for description.]

The model rests upon the following principles/assumptions:

1. Entrepreneurship can be developed. "We believe it can though we are aware that you can't just throw Schumpeter out the window. But one must consider that there are different levels of entrepreneur, and we have created entrepreneurs at the more basic level." [FED uses a two-week McClelland course]
2. Quality is essential to the building of self-esteem as well as to success in business. Tremendous emphasis is placed upon quality so that women see that they can produce high quality items. All garments are quality tested.
3. Business training must be linked to productive activity. "We don't admit hawkers, survival entrepreneurs... only people who are willing to learn a skill and run with it."
4. Successful businesses have women at the fore. "We'd have had only a fourth of the success with men."
5. All who are willing to learn should be admitted. At first FED adopted a policy of screening women for basic sewing skills but Dr. Wolmarans did not agree; he argued that the doors should be closed to no one. As a result, women with no skill at the outset, properly motivated, became the best students. They have even given special courses to disabled women, sponsored by Crown Cork. Moreover, FED has no political or religious alliances and there can be no discrimination on these grounds (though without such

alliances "it's harder to get money," says Wolmarans).

6. The model is replicable. There are two programs, each with a capacity of about 120 women per year, in Jo'burg and Durban, plus rural programs offering intensive courses to community groups. Dr. Wolmarans believes that the ideal size for expansion is a CIDU (Cottage Industry Development Unit) with a capacity of 25 per course for a throughput of 75 women per year, supervised by a qualified trainer.

7. The model can also be duplicated "with any type of trade." However, the advantage of low cost clothing, curtains, and other household fabrics is that there is a large and growing market, particularly with the growth in low-income housing units. This might not be the case with some other products.

8. There is export potential. They are producing quilted jackets with African material (which we saw on our visit to the Center the following morning) that has a tremendous market in the U.S. The major obstacles to export are (a) lack of capacity to produce at the required volumes and (b) lack of working capital to finance 8-9 months inventories.

Results

So far approximately 240 women have graduated. A survey of 120 graduates revealed that the majority (get exact percentage) are successfully in business. They are secretive about their turnover but Wolmarans estimates that they are clearing between 400 and 1400 rand a month. "One saved enough to buy two sewing machines already," he told us.

In our tour of the CIDU in Jo'burg the following day, Grossman and Ickis were impressed by how well organized the courses appeared to be.

Costs

The direct cost of the course is 330 Rand but most contribute only 10% and the rest is obtained through contributions, 60% of which come from American, German, and Dutch companies. However, there are indirect costs that these contributions do not cover. [When we met with Wolmarans the next morning, he lamented the "political nature" of U.S.AID which in the past made it unthinkable to support a white-managed operation, even though his Board includes prominent people from the black community.)

Observation Visit to FED Operations in Johannesburg:

Grossman and Ickis went to visit FED's center in Jo'burg. Several relevant aspects of this visit have already been discussed above, in the interview with Dr. Wolmarans. However, we also discussed

a number of other issues with Wolmarans:

1. On NAFCOC strategy: "NAFCOC ought to consider merging with the SA Business Chamber; many blacks would prefer to become affiliated with the SA Chamber. Also, NAFCOC must consider what it can do for the small black industrialist. FABCOS has directed its efforts at recruiting industrialists as well as traders and consumers. In the long run this may be an untenable coalition since all have competing interests, but in the short run this presents a serious challenge to NAFCOC. There is a big fight looming between NAFCOC and FABCOS."

2. On black unity: "There are 13 black cultures in SA and it is best not to deny that they exist. When one black leader told Phil Khumalo that they were all of one culture, he asked how they buried their dead and told him that they buried their dead in a different way. It is not possible to gloss over cultural differences; these are the source of pride for a nation. However, this has caused a lot of problems... for example, lots of hawkers are leaving ACHIB because new leaders are arising to challenge Lawrence Mavundla. On the other hand, James Chapman (a white gas station owner) is able to hold SABTA together because he has no tribal ties. If he were to leave, there would be a big fight among his vice-presidents to see who would be president."

3. On ACHIB, SABTA: "What have you achieved? You haven't delivered the goods. There are 150 thousand hawkers and lots of taxi cab drivers who are in a highly capitalized business, and yet they have received no training program."

4. On management training: "The teknikons offer the greatest opportunity... they are tertiary educational centers offering diplomas on the practical side, each autonomous with its own trustees. These are open and admit blacks, but most blacks opt for the varsity which is more theoretical. What's a B.Com.? Someone who says, 'I want to be a manager immediately.' There are several SA companies that do not hire MBAs for this same reason; they have no practical experience."

5. On black career development: "Most highly qualified blacks become impatient with the promotion process within large SA firms and resign to start their own consulting firms. They see people like Reul Khoza (Director of Coordinated Marketing and Management), and see that they can earn more as consultants in the short term. One exception is Don Mcube who has remained on the fast track at Anglo and may soon become its first black director."

6. On the supply of managers: "The problem is that there are not enough managers in SA, black or white. The relation between workers to managers in SA is 45:1 whereas the ratio in the U.S. is about 8:1. SA is at the limit with white managers and any future growth must come from black managers."

XXI.

Person/Organization: Bernie de Jager, Assistant Head, Economics Department, South African Reserve Bank

BPED Team: Ickis, Cobbe

Date: August 2, 1990

Cobbe and Ickis interviewed Mr. de Jager in the Reserve Bank at the recommendation of John Creamer. While it was expected that discussion would center on economic issues, we dealt much more generally with problems and prospects of black business in South Africa. In addition to his position in the Reserve Bank, Mr. de Jager works through a church group with social projects in the Mamelodi township outside Pretoria.

To our question about priorities for black business development, Mr. de Jager responded as follows:

1. Education and training. The current generation is the "third wave" of apartheid; perhaps their grandfathers remember something about business prior to 1940 but their fathers represent a "lost generation." Therefore there is an urgent need for training not only in the managerial skills but also in the spirit of entrepreneurship. According to Mr. de Jager, blacks in South Africa lack this spirit (although this opinion contradicts other views and observations). As evidence he cites the fact that when his church group tried to compile a "yellow pages" of black products and services for Mamelodi, no one came forward to be listed for such basic services as plumbing or electricians. Regarding levels of training, he believes that the critical period is that right after high school (10th grade).

2. Retail development. Even a township as large as Mamelodi, with over 350 thousand residents, does not have what Mr. de Jager describes as "a decent shopping center." He believes that enterprising blacks could establish a modern retail chain that would "raise the self-esteem level" of blacks who shopped there.

3. Housing. This really has two aspects, construction and financing. Regarding construction, Mr. de Jager notes that blacks actually prefer white construction firms, even though all the construction workers may be black. (This is for historic reasons; the first black construction firms were fly-by-night.) With respect to financing, he said that they (the government) were currently considering a restructuring of the financial sector and that key ANC people such as Tito Mboweni were being consulted. Such a "restructuring" would presumably

take into account and legalize such indigenous savings mechanisms as the stokvel.

4. Industrial development. This, according to Mr. de Jager, should be "placed on the back burner." He told us that the black industrial sector is "virtually nonexistent."

Mr. de Jager struck us as a well-intentioned government official who has had the resolve to back his moral convictions with direct voluntary action in the black community. However, his perception of black skills (entrepreneurship) and attitudes does not square with information that we have received from other quarters. It could be that he has not come into contact with entrepreneurial blacks. Or it could be that the blacks, in their interactions with him, prefer to confirm his preconceptions rather than to challenge them.

XXII.

Person/Organization: Gareth Penny, Small Business Unit, Anglo-American

BPED Team: Ickis

Date: August 3, 1990

1. Gareth began with a general overview: "The idea for the SBU came out of research by Clem Sunter (Advisor to the Chairman of Anglo and Gareth's boss) on scenarios for SA (See Sunter, The World and South Africa in the 1990s). Sunter looked at the characteristics of "winning nations" and key among these he identified the 'dual-logic' economy which achieves a healthy synergy between big and small business. For example, in Taiwan 70% of the business is small whereas in the U.S. it is only 13%.

"Sunter identifies two alternatives for SA in the '90s: the high road, based on a dual-logic economy; and the low road, toward economic and political chaos. The basic question is what can we, at Anglo, do to ensure that SA takes the high road? And that's where the SBU comes in. This unit was created in response to the challenge presented by Sunter.

"Anglo developed almost overnight at a time when there was nothing in SA, so it had to create its own explosives company, its own transport, etc. There were no subcontracts with smaller businesses because these businesses didn't exist. Apartheid, of course, also hindered their development.

"For years Anglo has sponsored educational programs for

blacks; there is a joint program with DeBeers that contributes 50 million rand per year toward education. However, there was a feeling that we haven't contributed as much as we could. So this unit was set up at the end of '88 with a mandate not to write any reports, just to do business.

"The SBU was created in the central purchasing department and this was a great advantage because we were able to spot opportunities. In the past year this department has let 1,280 tenders for everything from bolts to mining equipment. Upon establishing the SBU, we did four things:

- ◆ We simplified the tendering process, from over one hundred pages of information required to only four pages.
- ◆ We decided not to take legal action in the case of noncompliance by a small company. This enabled us to drop forty pages of legalese.
- ◆ We organized some supporting services for subcontractors, such as storage facilities, transportation, finance, and technical assistance on a temporary basis.
- ◆ We started writing subcontracts. In the first year 5-6 million rands were subcontracted to small business and now the volume is around 25 million rand per year.

2. Important organizing principles and operating policies of SBU's in Pinney's opinion are as follows:
 - 2.1 A "lean" organization. SBU has only two professional and two support staff working out of this office, using the Purchasing Department infrastructure. There are another four professionals seconded to the SBDC.
 - 2.2 Opportunism. SBU takes any opportunity that arises, from vendors' carts to container shops. SBU is not looking at big items like railway cars right now, but it is not setting any limits for the future. SBU will look for any gap.
 - 2.3 Nondiscrimination. There are no given percentages subcontracted to small business or to black business; SBU rejects an "affirmative action" approach because it is like telling the black he cannot compete. The SBU serves all small business, not just black small business. According to Pinney over 50 percent of the subcontracts go to black firms. In many areas blacks do have an inherent advantage... Anglo is a firm that has 300 thousand black employees and only 50 thousand whites so blacks can often provide better services. For example, the black firm that has the contract to provide maintenance gets better cooperation from Anglo's black workers; they are able to communicate in South Sotho language.

- 2.4 Linkages. Where the expertise is not there, SBU will link them up with expertise in our company or in another company that then takes a minority position as shareholder.
- 2.5 Scaling up. Unlike SBU's name would suggest, it is not just interested in small black business; SBU wants black business to be large. So SBU takes a minority position in those firms with growth potential and assist them in realizing that potential.
- 2.6 Seconding. Based on the UK model of local agencies, Anglo seconds its managers to small business. There are some 57 managers seconded at the present time.
3. According to Pinney, the characteristics of the most successful among its "client" firms are:
 - ◆ They have managers who are totally dedicated.
 - ◆ They do not diversify into unrelated areas. While SBU encourages its subcontractors to sell to other customers, it does not encourage them to get involved in other businesses that will distract them.
 - ◆ Their owners put in their own capital and don't rely too heavily on outside funding.
4. According to Pinney, the basic needs/problems of Black entrepreneurs are:
 - 4.1 Education and training. "They have no understanding of the market, the financial discipline, accounting, costing, and legal aspects... We're involved in training, but it's more training by doing, on a one-to-one basis.

XXIII.

Person/Organization: Wolfgang Thomas, General Manager, Western Cape Region, Small Business Development Corporation;

 Dawie Thirion, Non-Loan Services Manager, Western Cape Region, SBDC;

 Mike Klopper, Assistant General Manager, Western Cape Region, SBDC;

 Omar Parker, Manufacturing Sector Mini-Loan Officer, Western Cape Region, SBDC

BPED Team: San Martin, Grossman

Date: August 6, 1990

1. SBDC is a para-public institution, receiving part of its funding from the State (not the SAG), in the form of ad hoc grants, subsidies, and part of the royalties from diamond exploration. The remainder is provided by the private sector in the form of grants and equity participation. The SBDC's total capital base is approximately R600mn. It has 4 main functions: financing; provision of premises (especially in what are considered "high risk" areas in the townships); information and advice; business operations support/advocacy (this would include things such as lobbying for deregulation, promoting subcontracting arrangements/matchmaker services, mentoring programs). Each of these will be described briefly below:

1.1 **Financing:** This includes the mini-loan program (loans in the range of R200 to R5,000, usually awarded for a 6 month period), and the comprehensive assistance program (CAP), where financing is provided for a total amount of up to R50,000 for a total of up to 5 years. According to the SBDCs Annual Report a total of 7,981 mini-loans have been awarded since the inception of the program in 1984. The Western cape region handles over 1,000 of these and has by far the most active mini-loan program. Finally SBDC also has the general finance program, providing finance of up to R500,000. The interest charges are 18 percent per annum, and the loans take a maximum of 4-6 weeks to process. According to the SBDC literature, they do not actually place heavy collateral requirements on any but the larger loans; they will accept letters of credit or purchase guarantees as collateral, the reality however is another matter (see point below).

Also the SBDC has the Small Builders Bridging Fund, providing bridging finance for builders and allied trades until they have been paid for their work in order to help foster the growth of the building sector. [Note: it is ironic however that SBDC does not use this to finance its own building program, preferring to award building contracts to large contractors for erecting their industrial hives and other premises.]

[Note: SBDC has been heavily criticized for directing most of its loans to the white-owned enterprises. While everyone agrees that in terms of actual award recipients, over 50 percent have been black-owned firms, less than 20 percent of the rand value of their loans has actually gone to the black entrepreneurs. Moreover, the SBDC has been criticized for being more interested in profits and protecting its capital

base than in acting as a true development agency. It has been pointed out that at this time approximately 30 percent of the SBDC capital base of R700 mn is invested in property, 30 percent in interest bearing money market accounts. Only R145mn percent is actually tied up in loans, and of this 10 percent are loans to the Bank staff or acquaintances. Despite the fact that SAG has told SBDC to extend the loan activity, and that it will be willing to underwrite all loans, SBDC has been perhaps too cautious in extending its loan base.]

1.2 **Non-Loan Assistance Program:** This is an area where the SBDC has been expanding over the last year. Initially they saw themselves as primarily a lending institution, but the number of inquiries has been such and the demand for more comprehensive technical assistance so great that they are expanding into the following areas:

--mentoring assistance programs (MAP). This concept is very similar to that of the IESC. The SBDC identifies and recruits retired business executives and uses them to provide consulting services to fledgling enterprises. Originally these services were only available for a fee to the SBDC's clients (either tenants in their industrial parks or their borrowers). They will be offered to everyone by the end of the year. They have recruited a total of 35 mentors. SBDC also has a number of independent consultants in its rebate consulting program which can provide specialized services in packaging loan applications, accounting and control systems, etc. Again these services are available for both the larger formal as well as the small informal entrepreneur.

--business brokering. The SBDC assists (or will assist) small entrepreneurs to raise capital by providing expert services in brokering buy/sell arrangements, issuing shares in the JSE.

--training programs. Most of the SBDC's training has been provided by Trident Training, though the bank provides some in-house.

--Entrepreneurs Training and Development Program. The SBDC makes available fully equipped small premises in refurbished factories for a nominal fee.

1.3 SBDC has been heavily involved in developing infrastructure support in "disadvantaged" high risk areas. This has included the erection of market stalls, supermarkets, business and shopping centers, industrial parks providing factory space, and "hives of industry", whereby a number of cubicle workstations of different sizes are provided under one roof inside old factories and warehouses which have been converted by SBDC. It provides the tenants in these hives with a number of support services including brokering subcontracts, on-going

mentoring and aftercare, training in management and marketing and legal assistance.

1.4 Advocacy/Information. The SBDC has been active lobbying for deregulation and successfully obtained exemption of all small business in its industrial parks and hives from all laws pertaining to minimum wage, employers insurance, etc.

2. W. Thomas pointed out that there has been an active debate this year regarding the appropriate role of the SBDC now that the Development Bank of Southern Africa (DBSA) is becoming more active in the non-homelands regions. This debate has yet to be resolved; he acknowledges that SBDC has been trying to do too much directly and that it should be increasingly be looking for ways to cooperate and link up with other institutions extending assistance to the small business sector. In the past SBDC was extremely disturbed with the growing number of small business assistance programs and regarded them as competitors. It has since realized that its program may be far more effective if it can learn from and link up with groups extending credit or training or other assistance. He notes that such cooperation, for using the SBDC loan extension infrastructure, would be of benefits of all parties and result in some real reductions in the overheads of a variety of small business assistance organizations such as Get Ahead or Get Up. His attitude towards other assistance groups and models is very much one of letting "100 Flowers Bloom,": there is need to further experiment with additional models of assistance; no one has the answer regarding the best way to proceed and assist this sector. In this process, SBDC sees itself as a catalyst, providing assistance and infrastructure support, helping to foster discussion and the exchange of ideas.

♦ He realizes that a major obstacle to further cooperation is the fact that SBDC receives assistance from the State. Moreover the mini-loan program as originally conceived and executed was a disaster, leading to a great number of bad loans. Over the years however, the SBDC has learned a great deal about extending loans to this sector, the percentage of loans in arrears or that it has had to write-off has decreased dramatically since it started using a system similar to that used by Get Ahead, using individuals living in the community to assess the credit-worthiness of the applicants.

♦ There is also an important role for foreign donors, particularly in disseminating information about alternative models for assisting the small business sector, and in providing outside contacts and markets. The role of foreign assistance should be to provide seed capital to a wide number of small business assistance

groups and models, to encourage competition in the field of small business and private sector assistance. But one must be careful that in so doing donors do not foster dependence on outside assistance. In the longer run these various organizations must learn about and learn how to cooperate and interact with SBDC and DBSA, because in the end these will be the organizations which will be able to provide them with continued support and assistance, not the foreign donors. Klopper noted that a problem for donors may be that the SBDC does not target clients by race but by size; he thinks that eventually the SBDC may have to make more distinctions by race in order to be able to work with donors in channeling assistance.

3. Thomas is intrigued by the mechanisms available to identify and reach the potentially successful black entrepreneur. SBDC has apparently started a project whereby they hope to identify the 200 largest black entrepreneurs in the country. It wants to learn from them what they need in order to continue prospering and growing, and what if anything an organization such as SBDC can provide.
4. Thomas is also interested in models such as those developed by Khumalo, whereby the stokvel concept is harnessed and used in conjunction with the formal banking infrastructure to overcome capital constraints. The SBDC in general must become more attuned to working through traditional concepts and structures. For example, why spend a substantial amount of capital building supermarkets in the townships; why not spend that money upgrading existing sphaza shops, building up a network of these throughout the townships and shopping center? Alternatively Klopper suggested promoting partnerships between white and black owned businesses, providing the capital for individuals or groups of sphaza shop owners to buy shares in a Pick n Pay and be able to access that chain's expertise in management and marketing.
5. Thomas believes that often the issue of the capital constraint is overplayed. Capital is often the symptom and not the cause of poor business operations. Training in basic business skills is the key constraint, lack of numeracy skills. [Note: it is interesting to note that Rudman, who runs a training center for small entrepreneurs in the region (see interview XXX below) noted that the vast majority of his trainees, when the first start believe their most serious problem is lack of capital and that they need the training to qualify for a Get Up loan; after they finish the training many feel they no longer want/need a loan, and another substantial number believe they now need much less than their original estimate].

6. The SBDC in the W Cape region has 1,000 mini loans active, for a total of approximately R2.5mn. They only have 8 persons on staff to handle these, and these officers are supposed to provide aftercare, collect loans, review books. They can also access MAP mentors and have started to work on a trial basis with local members of the community to help borrowers keep up to date with books and payments. But their mini-loan program is extremely expensive. This is the reason why they would be interested in linking up with other micro enterprise assistance programs. These programs could do the outreach and extension work, while SBDC would be managing their loans, recordkeeping and meeting reporting requirements.
7. Thirion, who is in charge of all non-loan assistance noted that in the past the SBDC provided much assistance and worked very closely with the small business assistance centers located in the universities. But they are looking at diversifying away from these operations. They cannot always provide the most appropriate consulting or assistance services, especially for reaching the small entrepreneur. He also believes the biggest contribution internal and external donors can make is in facilitating information exchanges concerning the various types of assistance programs being provided. In this regard, SBDC is very pleased with the work that the GAF and Kleinsmith did compiling a directory of all the various small business assistance programs.
8. Klopper noted that a major priority of SBDC is to identify those entrepreneurs who have a potential to grow and move from informal to formal. By this process the SBDC means graduating loan applicants from the mini-loan R5,000 ceiling to the CAP program. They wish to increase their ability to reach a greater number of the mini-loan clientele, and to do this are thinking of starting ambulatory business clinics which would move from township to township.
9. Klopper wishes there would be more research done on the advancement made by the black business sector: what sectors are growing and why, where are these entrepreneurs, what do they need (electricity, premises, capital)? There has been little research that he is aware of regarding the key business needs, including their training needs.
10. Klopper thinks the SBDC has improved its outreach capability. Its training program for loan extensions, especially in the mini-loan program has improved tremendously, as seen by the drop in arrears, in defaults and in new loans awarded.
11. Parker, an officer in charge of the manufacturing mini-loan portfolio noted that the SBDC has been very reactive in the informal sector. He acknowledges however that Thomas and Klopper have been extremely supportive of the program and that

there has been a notable increase in the willingness of the bank to take risks and finance promising small ventures. The range of mini-loans clients is impressive, from a small tailor operating one machine by hand in her house located in the squatter township of Kyelitsha 25 km away from the center of Capetown to a 8 person uniform manufacturing operation in one of the SBDC's hives close to Crossroads. The SBDC in the W Cape area has 1,000 active mini-loans, of which some 480 are in the light manufacturing sector; Parker himself currently handles 160 of these loans. SBDC is thinking of getting more proactive through sponsorship of job fairs and ambulatory business clinics.

12. Parker sees the main problems of these mini-loan clients as based on marketing. Getting the goods out to the clientele is difficult, and getting supplies expensive and irregular.
13. Out of the 1000 or so client base they have had at any one time, about 10 percent graduate out of the R5,000 loan ceiling. The problem is that at this point, they are often still too small and risky to be attractive to other lending institutions, including the SBDC. The next rung in the SBDC ladder is the CAP but lending there is managed much more conservatively. We suggested they begin actively searching for linkages with other lending programs for informal sector, such as GAF or BC, and referring clients who can graduate to these programs.
14. A basic problem with the SBDC is how it appraises the quality of the lending officers' work. They are judged by the number of loans made and the percentage in arrears or default, rather than by jobs created.

XXIV.

Person/Organization: Ian Hetherington, Managing Director, Job Creation SA (Pty) Ltd. (JCSA)

Martin Manala, Senior Consultant, JCSA

BPED Team: San Martin

Date: August 7, 1990

1. Background: Job Creation SA (JCSA) is a for profit management consulting group jointly owned by NAFCOG and Barlow Rand Foundation. It grew out of Small Business Advisory Services (Pty) Ltd., a non profit section 21 agency began by Barlow Rand supported by BR and Caltex on a 50-50 basis aimed at

supporting and assisting the small manufacturing entrepreneur since 1974 (started by Norton Abrasives). The idea for JCSA originated from a trip to Europe sponsored by NAFCOC's industrial committee. There Ian and some others had a chance to meet with and observe the operations of Job Creation Holland and Job Creation UK. These institutions were sponsored by large corporations in the process of retrenching and who needed assistance on retraining and placing their employees. The original intent was to establish a Job Creation SA as a joint venture between NAFCOC and the Holland outfit. Due to difficulties placed by sanctions the Holland and UK groups pulled out, but still allowed them to use the name, gave them access to their information and expertise but did not contribute any investment capital to the venture. JCSA has been operating since 1984. The 50 percent share of the profits generated for BR by JCSA are ploughed back into additional job creation projects by BR; the 50 percent of the profits made by NAFCOC are ploughed back into direct assistance for their members, primarily in the industrial committee.

2. JCSA's primary source of income is consulting fees paid by corporations interested in having them retrain their employees who are going through retrenchment, or have been retrenched, or improving the operations of their subcontractors. They work with a variety of organizations including parastatals, PVOs and corporations. Their rates are R75/hour, but these are covered through corporate sponsorship, so that in effect their entrepreneur clients pay nothing. They have undertaken an great number of consulting assignments for private and public institutions regarding mechanisms for promoting employment in economically depressed communities; but what differentiates them is that they are action oriented, they are very often called upon to implement their recommendations. One of their more visible recent projects was a contract with Barlow Rand to create 500 permanent jobs in the township of Alexandria by identifying and helping to foster growth in at least 100 entrepreneurs. Out of the 100 entrepreneurs identified almost 2 years ago all but 3 are still operating. The total number of permanent jobs created is expected to be over 700 (660 as of today). JCSA gets paid on an incentive bonus for every permanent job generated up to 500.
3. JCSA consultants, of which there are 10, some of them also working in the Small Business Advisory Services agency, see themselves as the advocates of their clients. They ascribe the success of their program and approach to the fact that they are providing a service which is seldom offered, information and advice without any strings attached. They act as a clearinghouse, assessing with their clients their basic area of need, and on the basis of the assessment working with them to get them access to whatever they happen to be

lacking; if its premises they will help them work with SBDC or another corporation in facilitating this, or if enough clients in one area require it, they will as they did in Alexandria also arrange for the conversion of old abandoned factory space into new business centers; if they require legal advice, they will refer them to the Sunnyside Group; if it is credit they will help access expert services to package their loan application and provide them a network of institutions they can access for this. In short they are facilitators and business service brokers.

4. They work with both start-ups and existing entrepreneurs. They find that on average in a high unemployment area about 15 percent of the retrenched and unemployed people in a community have the capability to be a successful and growing entrepreneur. They agree that typically what shakes up a person in terms of going into business for oneself is a crisis of some sort. But in their experience they have observed that once a person becomes an entrepreneur and works on his/her own business for 1-2 years, that person will hardly ever be willing to be an employee again.
5. They have observed high growth in the black manufacturing sector. They believe that at a minimum there are 50,000 black manufacturers, and probably as many as 150,000. This is a phenomenal increase considering there were truly none outside the homelands in 1979. On average these employ 4-5 people.
6. They see 5 basic constraints facing the small entrepreneur, particularly the manufacturer:
 - ◆ Finance, either working or start-up capital. Though in their experience they have observed an enormous ability to start and expand entirely from personal/family funds. But eventually this becomes a major constraint for expansion primarily.
 - ◆ Premises. Related to this is lack of support infrastructure, such as electricity, water, communications. But often the key capital need of the entrepreneur is premises and this may be the best form of assistance: capital in the form of premises.
 - ◆ Marketing. In their experience many of the entrepreneurs are well skilled, but they lack the marketing knowledge, they have not thought about their clientele, and what its needs and wants are. JCSA puts out a simple marketing research guidelines booklet for its clients.
 - ◆ Legal barriers/red tape. JCSA has been very involved with the Sunnyside Group, and in fact this group began through a lobbying action JCSA started to get SAG to

accept black entrepreneurs moving into a business center. Hetherington is in the deregulation working committee on a voluntary basis.

- ◆ General management. The education system, black and white in their opinion, does not adequately prepare people to be entrepreneurs. It is highly theoretical. Career counseling and placement to the extent that it exists does not emphasize making students aware of the entrepreneurial option. There is very little collaboration between the private sector and academia. There is a need to start programs such as Junior Achievement at the CDB that increases awareness of how to conduct business and how to develop entrepreneurial skills.
7. On deregulation, JCSA has several policy areas that need further investigation and work:
- ◆ Appropriate safety and health regulations and standards and business licensing. In the past SAG has been obsessed with applying first world standards to all premises. Is this really necessary? What can SA learn from such standards in other countries. Right now these standards are so high that they present formidable barriers to entry for small butchers, cafes.
 - ◆ VAT. The way the regulation is written know most of the compliance costs will fall on the small entrepreneurs and it will be their deathknell. There is a need to rethink exemption rules, investigate the structure of the various industries and estimate how compliance costs will be distributed.
 - ◆ Labor laws. The intent of these laws is good, but the compliance costs and their effect on small business are tremendous. Also act as great barriers to entry.
8. JCSA has a broad network of support links, including GAF, CDB at Wits, SBDC.
9. JCSA suggests that the best use of donor funds would be in sponsoring small business advice centers or clinics outside the PWV region. There is a lot being offered in the PWV area and very little elsewhere. Areas of priority would be PE, Ladysmith, Pietersburg. These centers would cost about R100,000 per year to run. They would not charge clients anything and serve as JCSA did in Alexandria to help entrepreneurs deal with the 5 barriers identified above. [Note: this may be JCSA's weak link. They are not concerned about the sustainability issue. They believe small business

assistance is the responsibility of the large businesses along with government. The potential multiplier effects and social benefits of such actions mean that government should be willing to match funds. I noted that governments are not very good at promoting business anywhere. They agreed but still believe that the centers should not expect to be self sufficient, that they will never be able to charge clients, and that they would not want a commission on their referrals because this may introduce conflicts of interests.]

10. Exchanges and observation tours of the US, its business incubators, the relationship between business and academia are also important for the consulting community here. Martin had a chance to participate in such an USIS sponsored tour and felt he picked up many important lessons and pointers from his experience that have been of direct aid in their work and organization.
11. There is a need to focus resources on producers in particular because this is where the real multiplier effects are. In particular target areas of high growth potential such as construction and ancillary industries such as window frame manufacturers, cabinet and furniture, carpeting, brick making. Brickmakers in particular may have a large advantage over large manufacturers because the inputs are closer by, and their transport costs lower than those of larger manufacturers supplying many of the townships. Same for coffin makers. There is a need to make in-death feasibility study of job creation potential in key areas outside PWV and then introduce a targeted job creation program. But always the bottom line in assistance is the total number of permanent job created at the end of the day.

XXV.

Person/Organization: Louise Tager, Law Review Project

BPED Team: Ickis

Date: August 6, 1990

The Project is located in modern offices on the second floor of the SBDC in Parktowne. Accompanying Ms. Tager was Everett Van Eeden, a government official who has been involved in antitrust legislation and is currently working in consumer protection.

(What would be a policy research and dialogue agenda for developing black business?)

"The agenda is economic development, and to relieve legislation

that impedes it. But most of this legislation is already off the books so the more important question is the process by which the changes are implemented.

"The policy toward deregulation and job creation is clear, but we recognize that the unions have hard-won rights and we are careful not to intrude. Where labor legislation has been suspended is only in the industrial parks or "hives" for kindergarten businesses. There are 50 of these throughout the country. We've never recommended that mine safety be lessened.

"One critical area is the 'industrial council' agreements by which union agreements are applied across the board in an industry, even to those companies that do not participate in negotiations. We believe that a contract should only bind the contracting parties.

"So there are two levels of labor legislation:

1. The basic labor code (minimum wages, etc.)
2. The Industrial Council Agreements for specific industries.

"Neither is binding in the industrial parks. However, in all parks it is prescribed that there be a safe workplace and a decent wage.

Mr. Van Eeden: But this isn't necessarily the same as the minimum wage. If small businesses were forced to pay the minimum wage, many of them would go down the drain. Unfortunately there are no statistics on how many businesses have gone down the drain due to excessive regulation.

(So there are no significant barriers in the policy area to black business development?)

"Up until 1985 there was a double layer of barriers... they were subjected to the general laws and to the laws that applied specifically to black business. But these have mostly been repealed. There are only two expressly racial laws that remain:

- The Group Areas Act, which limits where a business may locate; and
- The Land Act, which limits black farmers.

"There are other laws that are not specifically racial but which affect blacks more than others such as the laws that affect hawkers, such as regulations that they move on every twenty minutes. The licensing law for trading was eliminated so this is probably as deregulated as anywhere in the world, along with Hong Kong, and this has been a major step toward economic development.

"Other legislation that is not explicitly racial but affects blacks more than others are the laws governing land use. In all black areas this was very restrictive since they are basically dormitory communities and zoned only for residences... though this was widely ignored. But it was necessary to get approval from the township authorities for a trading site."

[Note: we need to have an understanding of the authority structure and decision processes in the townships. I am not clear on these points.]

"Probably the greatest need is make cities of the black areas. Businesses are run out of the home and there is no tax base. Also, most are employed in the central city rather than the townships, so they do their shopping in white areas rather than black areas. When they are returning to the township, the shops and shebeens are already closing. (There are restrictions on the hours that a liquor store may be open in SA, but these are not enforced in the townships so that the stores could remain open later if their owners so desired.)

The Business Bill

"The business bill is a law affecting trading licenses that will have exciting provisions for hawkers. At the present time hawkers don't need licenses unless they sell food. But local authorities have by-law powers that may require them to move along every twenty minutes or may prohibit them from selling within 200 meters of a store selling the same products. The business bill makes these requirements illegal, thus freeing things up so that hawkers may sell anywhere."

Financial Laws

On the legality of stokvels: "Stokvels do not violate the usury law because interest is not an issue. This law is directed against moshanisas (moneylenders) and limits interest charges to 33% per annum. But stokvels have been occasionally hit by the liquor law which prohibits the sale of alcohol outside licensed establishments. Stokvels commonly sell alcoholic beverages at their parties. These parties are big events and are often advertised in the paper [she checked the Sowetan classified section but could find no such ads in day's edition.] They are occasionally hit by liquor squads.

(How about laws against deposit taking?) "It is possible that the stokvels violate the new banking act that limits deposit taking to financial institutions, but this act is intended to protect the public [from unscrupulous institutions] and is not directed against stokvels so it will not be enforced.

"The talk of forming black insurance companies worry me... for

whose benefit are these? People need to put in their money each month and they may never collect..."

Priorities for BPED

"AID needs to get money to the grass roots and not to dissipate it on consultants nor to fund policy research. I am an academic and should be in favor of research but in this case I am not... AID should get the money out to these informal groups in the communities..." [a good quote in support of microenterprise programs and against a policy research focus]

XXVI.

Person/Organization: Christo Nel, Consultative Business Movement

BPED Team: Ickis

Date: August 6, 1990

Mr. Nel is general manager of P.G. Wood, a large manufacturer of building materials. He has worked with Roger Fisher in Cambridge. He founded the CBM as a "voluntary grouping of senior business leaders who acknowledge and support the need for constructive transformation of SA's political economy." Their mission is to "transfer the economic debate from an erstwhile ideological and positional debate to a factually-based problem solving and values driven approach" through policy research and dialogue workshops. We discussed the South Africa situation, CBM, and an idea for training middle-level people in political parties and labor unions in economic management.

"Polarization in SA is deeply entrenched and there is a lot of threadbare rhetoric, without content, about nationalization on the one hand and the nirvana of free enterprise on the other. It is clear that in a context like SA you can't go to a pure free market. The inequalities have led to 'warped investments' so that equitable economic growth and development cannot be expressed through market mechanisms.

CBM Approach

"Our approach is to (1) come to a common understanding of the nature and causes of SA's economic crisis; (2) engage in practical, problem solving; and (3) generate a vision for the country that takes into account the limits on the fulfilling of peoples' desires.

"Economic policy was to go for strategic industries such as

armaments and petrochemicals, at a debilitating cost for society. What is the best economic policy now? (monetary/fiscal) We must realize that we're in an early industrializing society.

"We set up informal structured relationships with other groups such as ANC and Inkatha to catalyze debate on appropriate development policy. What types of policies will be attractive for foreign investment? We believe that the policies should be outward as opposed to inward looking, that we should avoid a circle-the-wagons mentality.

"CBM has an absolute dedication to consultation, since our first meetings with the ANC in exile. [Christo later recounted one of the first workshops in which the extremely negative perceptions of one group toward another were changed in the course of interaction.] We believe that at this point it is not yet possible to form a multilateral steering committee nor to have a common coordinator, so we are using a "networking option" in which everyone is part of a common circle and we are all located on the circumference with no one at center, with lines of communication between everyone. The network includes ANC, NAFCOC, research groups at UWC and Stellenbosch, etc."

Black Business Participation in the SA Economy

"There are a few large black businesses such as car dealerships and retailers, but there are as yet no large building societies or insurance companies. How do you get that?

"There are large pools of trade union pension funds that could be used to (1) buy into second-tier, well-performing [white] companies and thus get a minority black say in those companies; or (2) set up black companies in the manufacturing sector."

On quantification of black business participation in the economy: "There has been no historic accumulation and SANLAM estimates that only 2% of the country's assets are in the hands of blacks. Oh, there have been some estimates of the informal sector being 30-40% of the GDP, but that is using total selling prices. On a value added basis it is closer to 8%. Most of this is providing services as opposed to wealth creation.

The EGIR Proposal

"We are proposing a program for National Consensus on Economic Growth, Inequality and Restructuring Ownership (EGIR) that includes economic research in other countries as well as SA. The black business organizations are lined up to participate in four regions of the country. We have powerful networks on the local level.

"We need to expose people at the middle management level of the political parties and labor organizations, some ten thousand of

them, to create a critical mass of a different kind of thought [rational, problem solving]. How to get to this critical mass, or at least to the 'creative minority' of 1,000 to 2,000 leaders? Through audio visual presentations? By setting up debating forums?"

Economic Management Program

As Christo and I discussed this need to expose the 'creative minority' to new concepts and ways of thinking, I suggested that this could not be done through presentations or even workshops, but would require a longer academic exposure and intensive group interaction and problem solving.

I outlined for him an "Economic Management Program" aimed at knowledge- and skills-building in economic analysis among middle managers in political parties and labor organizations. The program would last four to six weeks and include analysis of country strategies and their impact on such things as human welfare, productivity, economic growth, distribution, etc. Country case studies would be complemented by some cases at the firm level and some applied microeconomics. Other areas would include political analysis, interpersonal and organizational behavior, negotiations, etc. The methodology would be totally participative, including case discussions, group presentations, exercises, etc.

Christo was sufficiently excited by this prospect to want to work it into the EGIR proposal. I promised to get back to him with some feedback on the proposal and some more concrete ideas on the course.

XVII.

Person/Organization: Israel Skosana, Executive Director, Get Ahead Foundation; Joan Parker, GEMINI research project in microenterprise, University of Michigan.

BPED Team: Ickis

Date: August 7, 1990

The Township Census Proposal

Parker had presented a proposal to conduct a census of economic activities in two black townships. The census would serve at least two purposes: first, just to find out what's going on out there (and perhaps the results could be extrapolated to get a rough quantitative notion of the economic role of townships on a national level) and second, to develop a sampling frame that could then be used for survey research in the townships. The census itself would not be useful for policy formulation.

The census would be conducted by GAF field workers under the supervision of the University of Michigan. This is a part of the GEMINI Project which will cover all costs except for the local survey, which would be a local mission buy-in.

GAF Loan Programs

There are two loan programs: the stokvel program and the small business loan program, as described in the Intermediate Assessment by Mike Farbman and Fred O'Regan. Not much appears to have changed since that assessment (10/25/89). Israel still expects that the stokvel program will eventually generate a positive financial contribution but he is concerned about the small business loan program, which is not financially self-sustaining.

The reason is that while the stokvel program generates interest and has very low direct costs, the small business loan program relies upon interest from a guarantee fund and management fees only, and has much higher direct costs because of the field worker infrastructure. The loans are actually made by the Standard Bank and Standard earns the interest.

Projections show that the small business loan program is not viable even at a 95% recovery rate. There are few economies of scale because a field worker can only manage so many clients--although Israel hopes to increase the number from 40 up to 60 and possibly even 80, and to increase the number of field workers per supervisor from three to five. If these changes are accomplished, the program

may become self-sustaining.

Another option is to negotiate with Standard, although Standard has not indicated a great willingness to negotiate. GAF is definitely attracting business for them, at no risk to the Bank since the loans are guaranteed and GAF provides the TA. In November a consultant is coming to help GAF work through the strategic options.

Support Services

There is a marketing department, which has been able to bring small businesses into contact with big businesses that can provide subcontracts. There is also a training department that provides short courses and also contracts for some training, apparently with UWC, Stellenbosch, and Triple Trust Township M.B.A. Israel was not aware of the programs offered by Workwise.

Competition

I mentioned Business Challenge and Israel's reaction is that it is a "very small operation serving only its members," in contrast to GAF which works on a national level. He spoke very highly of the work that Dr. Wolmarans is doing in FED and didn't have much to say one way or the other about Business Achievers.

Leadership Succession

We spoke about his plans to leave for Ernst & Young at the end of the month. The idea is to bring in someone from the outside rather than to promote from within, and there are already several candidates although he did not discuss the individuals with me. The heads of both loan programs impressed me favorably but not as being people who could easily step into Israel's shoes.

The Board will of course have an important role to play in this. To the extent that the loan programs continue to generate deficits, the Board must also play a critical fund-raising role. I spoke briefly with their fund raiser on the staff (a white), who had a picture in his office of himself, some members of the GAF Board (D. Tutu was absent), and Edward Kennedy. They must think about how an end to apartheid, or the election of a black majority government, might affect their prospects for overseas fund-raising. [Note: we should try to meet with Senator Kennedy on this while back in Boston.]

During our next visit, when the succession issue is clear, it will be important to meet with the new executive director and members of the Board to discuss these issues.

XXVIII.

Person/Organization: Clive Richardson, Executive Director,
USSALEP

BPED Team: Ickis

Date: August 7, 1990

The purpose of this visit, at which Chris Mbleni was also present, was to get their thoughts on a policy dialogue process. Clive strongly urged me to get in touch with IDASA, the Institute for Democratic Alternatives in South Africa. "They arranged for the very first meeting between the Government and the ANC in Senegal, and have been very successful in bringing together the major actors."

I discussed the idea of a training program in economic management (see Christo Nel interview XXVI above) and he agreed that there was a "huge gap" in economic knowledge and skills among people not only in political parties and labor organizations, but in all positions of leadership. He suggested that a module on this might be added to the Community Leader Program, of 9 months' duration, run by USSALEP. (See USSALEP materials)

Finally, we discussed other bases that might be touched. He said that the builders play a very important role in the economy, and that a company that devotes time and resources to the development of black builders is "The Perm." He arranged for a meeting with the head of that program, Peter Craighton, on Thursday morning.

XXIX.

Person/Organization: Sam Muohfe, President, Center for Black
Economic Development

BPED Team: Ickis, San Martin

Date: August 8, 1990

The CBED was formed by eight black professionals (including M. Ramano) to "promote and facilitate the economic development of blacks in SA." Its creation was motivated by a feeling that the black economic empowerment approach was incorrect because it implies that someone empowers you from above. "It is a paternalistic concept; we prefer a focus in which people decide their own direction."

The segment targeted by the CBED is the cooperative and credit union sector of the economy, such as the burial societies and the

building societies. Their major function at the present time is to raise the consciousness of society members, through seminars, on the importance of keeping their wealth within the black community. "We can't create wealth unless we use our own services," he says. "We are teaching people how to draw up constitutions without spending money on white legal services."

In the future, CBED plans to help set up small businesses such as funeral parlors, supermarkets, and medical aids. They do not plan to run these pilot business projects, just to set them up.

CBED has no permanent staff at the present time but relies upon the staff of the National Association of Cooperative Societies of South Africa, which has 17 regional offices throughout the country. In the future they plan to draw in more institutions such as ABASA and some universities.

CBED is largely self-financed though the Canadian Embassy is providing a small amount of funding. The eight Board members make their offices and secretarial services available. Also, the building societies have the economic power to buy CBED services and recently paid for a trip by Mr. Muohfe to Durban.

Sam pointed to two overriding needs facing the black community:

1. The need to solve the housing problem. This could be solved through greater efforts on the part of black institutions like the African Bank to "make our savings work for us."
2. The need for skills transfer. For example a scheme for an insurance company was shelved because there are no black actuaries (among other things).

"USAID spent ten million rand on a feasibility study for an insurance company. That money should have been put into skills transfer."

One thing that annoys Mr. Muohfe is what he calls "window dressing." He cited the example of a large white company that offered to set up a black catering firm, bought 40% of the shares, and split up the remaining 60% among six individuals, leaving white company with effective control.

Another of his pet peeves is the fact that all dealings with black business get shunted off to social responsibility departments within the large companies, rather than to the operating departments such as retailing where the relevant skills are. As a consequence, there is no skills transfer. "Don't just give us money, give us skills," he said, citing the fish parable.

I asked about the Anglo SBU Program, which purports to provide

temporary TA to its subcontractees. He was acquainted with the Program and gave it high marks.

The last issue we discussed was the dilemma of the sphaza shop that is low volume, low margin and must therefore charge high prices which are seen as exploitative by neighbors. As a consequence, there is some resentment toward black business rather than support for it. Deregulation has created more competition and lower prices, but a lot of businesses collapsed, including half the shebeens. One idea I suggested was the formation of larger-scale consumer cooperatives that could buy in bulk and, since they belonged to the community rather than to an individual, would presumably not be the target of violence. This idea needs further exploration.

XXX.

Person/Organization: Theo Rudman, Director
Self Employment Institute

BPED Team: San Martin, Grossman

Date: August 6, 1990

1. Rudman is a strong believer in the Japanese model of development that relies heavily on subcontracting for developing small businesses and encouraging technology transfer, particularly in manufacturing. The components of Japanese products are produced by a large number of manufacturers who specialize in the production of a single component, which are then assembled and marketed by different organizations. In South Africa subcontracting is often approached entirely wrong: large firms seek to subcontract the production of a finished product--i.e. a telephone, rather than establishing subcontracts for manufacturing each of a number of different simple to produce components of the telephone. There is not yet the skill level in the Republic for this kind of subcontracting.
2. He thinks the Japanese model of component specialization is applicable to South Africa. When he expresses this view he normally gets two responses: South African blacks do not have the educational level of the Japanese; and, the work ethic that is the hallmark of the Far East is missing here.

Rudman disagrees with this conventional wisdom: when the Japanese (Koreans, Taiwanese, Malaysians) started their development cycles the education level was not very high. Practical and focused skills training can alleviate the educational shortfall. The other argument, that is the one referring to the work ethic of Africans is simply not true.

One has to look at the "squatter townships" to see evidence of the work ethic.

3. Rudman believes the differences between the formal townships (i.e. Soweto) and squatter townships (i.e. Khayelitza) are tremendous. The work ethic in the squatter townships is very high. Most residents of squatter townships are rural immigrants who are characterized by typical immigrant attributes: willingness to work hard and save. Formal townships are by and large populated by second generation urban blacks who have distanced themselves from their rural homelands and the rural work ethic. They do not need to support rural relatives. The reality of having to support relatives in rural areas forces "immigrants" to work hard, be frugal and save their earnings.
4. Big business has yet to identify the differences between formal and squatter townships. Rudman works to inform corporate South Africa of the potential subcontracting opportunities with small firms, and particularly those in the squatter townships.
5. The most often cited biggest problems facing black business development are lack of capital and lack of skills. Rudman feels that many development support groups mistakenly think that capital is the more important of the two. They provide capital without providing training first. "Buying someone a car without teaching them how to drive first" is how Rudman sees this phenomenon. He has found that at the start of training programs he asks the trainee what he needs to be a success. The answer invariably is money--"I need R1000" for example. At the end of the programs, the entrepreneur realizes he does not need the money, or needs a much smaller amount. It was the skills he was missing.
6. The Self-Employment Institute (SEI) works to provide training in practical skills to small businessmen. SEI's overall goal is to provide more jobs through self-employment. They prefer not to train start-ups choosing rather to work with existing and viable businesses where the skills taught can be put into practice. Training centers on practical skills, i.e. how to pass wholesaler discounts to customers, how to manage your stock, how to keep books, how to research your market, how to market your product and customer service, as well as more esoteric matters such as understanding business culture and the importance of integrity and interpersonal relationships. Black businesses do not understand, due to lack of exposure, the rules of business. This frightens and angers white business that has been taught (at least in theory) to play by the rules. Hence, white businessmen do not trust black businessmen. Communication is the answer to this problem and by his efforts in both lobbying and training the white

business sector and training the informal business sector Rudman feels he is working to solve this problem.

7. Historically, white business has targeted the black consumer out of their own rational self-interest. Businesses are starting to look at the informal sector and small black manufacturers and retailers as both sources and outlets of products. This has to be encouraged. SEI has formed a consulting group to work with big businesses to form strategies for reaching the informal supply sources and outlets. SEI is also training corporate staff on how to find retail outlets for their products directly (i.e. shopkeepers) and how to train the shopkeepers in product display, marketing, market research and customer service. Corporate South Africa needs to look directly to these outlets to preserve their profitability. Currently, manufacturer sells his products at substantial discounts to supermarket chains and to wholesalers who then resell it to shopkeepers. Manufacturers are starting to see the value of selling directly to shopkeepers at lower discounts.
8. Training for the informal sector is extremely important. Most training in South Africa is subsidized by the government in the form of tax rebates and/or cash grants to the organization providing training to its employees if the training is approved by the responsible industrial council. The informal sector does not, by nature, have an industrial council. Therefore, there is not government subsidy for training provided by informal employers. There is a need to set up an informal sector industrial council and lobbying group--ISIDATO--The Informal Sector Industrial Development and Training Organization. Such an organization would coordinate the activities of training in the informal sector and lobby the government for policies beneficial (or at least neutral) to the informal sector. In addition, it could approve training programs for the informal sector which then would qualify for government subsidization. It is important for the SAG to look at informal sector training as an investment--increasing the number of tax payers to the fiscus.
9. The Small Business Development Corporation does a reasonably good job, according to Rudman, in small business development but it does not have the culture or the tools to be effective in the informal sector. The result of SBDC efforts in the informal sector is to block or discourage the efforts of other organizations that are more appropriate for informal sector promotion. SBDC has also done a good job in developing business hives. They have made mistakes in this area but are well-intentioned and have managed to relatively successful in the development of these hives (note: Rudman rents his office and training space in one of the SBDC hives).

10. Where the SBDC can be faulted is the attitude of Ben Vosloo. According to Rudman, Vosloo is more interested in developing the SBDC along private sector lines than in developing businesses. According to Rudman, Vosloo has placed one third of his disposable loan funds into short-term money market funds so he does not "dilute his asset base." This is not the job of the SBDC--it is true that it should be run along the lines of a private company in terms of accountability and efficiency. However, it should not be concerned with its "book value." The SBDC is constantly complaining about the lack of loanable funds at its disposal. This is simply not the case--they have the money--Vosloo's conservatism is what is hurting the organization.
11. Rudman, predictably, would like to see research conducting concerning the feasibility and the potential role of an organization like ISIDATO. Rudman would also like to secure funding to go to Korea and Taiwan to observe the subcontracting practices of industry there.

XXXI.

Person/Organization: Willie Ramoshaba, Chief Executive, W.R. Consultants

BPED Team: San Martin

Date: August 9, 1990

1. The unique contribution of his firm, W.R. Consulting, is to encourage dialogue between various sectors of the business community; particularly between the developed and underdeveloped sectors. The firm support black firms, assisting them in packaging loan requests, arranging for joint ventures with outside partners, supporting management and accounting control system development, and training programs. He sees increased interest in black business among the large white owned corporations: "It has become economically attractive for the big fellows to do business with the black firms. I am sure the white/developed sector would like to increase their business dealings and contacts with these types of firms. We can provide unique access to the black market, and to small black firms with the knowldge and skill to supply manufactured components at a cheaper price. But the black entrepreneur, even the successful one still needs support packaging himself in the white formal sector. The members of the American Chamber of Commerce and other large firms spend too much time spinning their wheels, figuring who they will assist in order to appear socially responsible. We can tell them exactly how to do this, and do it in a fashion which will

be economically viable and beneficial for both the donor and the recipient.

2. Mr. Ramoshaba was critical of many donor efforts directed to support the black private sector. In his opinion donor assistance resources are frequently diluted and ineffective. Most donor assistance is absorbed in organizational infrastructure support; these resources rarely ever trickle down to the intended beneficiary, the black entrepreneur. Too much donor money goes into financing stationery, office space, personnel salaries, with little consideration to the effectiveness with which those inputs get translated into outputs of consequence and interest to the entrepreneur him/herself.

Donor assistance could have greater impact and be more effective if it were focused on outputs rather than inputs. Donors should clarify their objectives, and redirect resources into viable projects carried out by existing black organizations. Donors should seek to match black support outputs programs with their own objectives. Moreover assistance should be directed only at projects which seem viable and have the potential or proven ability to be self-sustainable.

3. Donor assistance funds should be directed at supporting initiatives that promote (or have the potential to promote) movement of the successful black entrepreneur from a small into a medium and large operator. There are a plethora of small business support institutions and programs. But the small entrepreneur who is successful and grows or "graduates" out of the small business arena finds him/herself working without any financial or technical support. As a result, those who do grow and start becoming viable major players in the market often crumble. He points out that the none of the black millionaires, the successful black entrepreneurs of 1980 are around today: "they reached their ceiling in terms of what was possible within the system. Facing absolutely no support past a certain point, they crumbled."
4. Ramoshaba dismisses allegations that a program that focused on the top end of the black business, such as a loan guarantee scheme or a venture capital support program would be condemned as elitist: "[Black] politicians have accepted the fact that it is as important to provide for the top end as it is to provide for the small entrepreneur, if you are really serious about business development. Focusing exclusively on hawkers or retailers will never accomplish much in the long run. These are not your future captains of industry. We need a number of visible business successes badly. This will go farther in dispelling negative images about the capabilities of the black entrepreneurs than assistance to 1,000 hawkers.

Hawkers are not by and large business people; they will for the most part never grow out of their limitations." For the same reason USAID and other donor assistance should be directed away from retailers: "Certain areas are overdone. Most blacks are currently in retailing. Any further assistance there will not produce growth, just better retailers. The possibility for making an impact and fostering growth through a strategy which focuses on retailers is truly limited. Assistance should be redirected to farming, agroprocessing, manufacturing, and to specialized services, such as computer/technology support."

5. Black political support for the larger black entrepreneurs can be seen in the ANC's endorsement of the business tour he has organized to the USA. Part of the purpose of the trip was precisely to show to the US and the world that there was such a thing as the successful black entrepreneur, and he operates in all sectors of the economy. It was also important to show the USA that these black entrepreneurs are often thwarted by the same policies (sanctions) which were meant to assist them. In light of the ANC's endorsement of this trip, USAID should reconsider its decision not to push forward with the venture capital fund project.
6. Ramoshaba is not very keen on the idea of redirecting USAID support into policy research: "What for? Spend less time researching and more time doing."
7. Ramoshaba feels that skills transfer between US and black South African firms can be encouraged and accomplished through joint ventures. He is looking forward to the day when some highly skilled and well positioned international consulting firm will link with a local, equally well positioned black consulting firm. This is what should have happened in the original BPED program. But instead of encouraging real linkages between South African black firm and a US firm, the project simply imposed an artificial monitoring and project support structure, where foreign personnel took over the name of a small local firm. There were no linkages established with a viable US or international firm, and no further development of the black consulting profession through secondment and personnel exchanges: "There has been no skills transfer in COMAD, no growth. In fact what is COMAD today save a shell?"

Thus he believes, to the extent restructuring of the BPED project is possible, the monitoring and support aspects of the project should be run using a local, professional black consulting outfit in collaboration of joint venture with a US firm. This arrangement can impose tighter controls and encourage better skills transfer. It can also provide better monitoring capability and technical assistance support for the

various grantees under the project. The main role of such an outfit would be packaging loan and grant requests for the various intermediary organizations, assessing the feasibility, replicability of the proposed projects, and technical assistance in managing the assistance projects proposed by the various grantees with a business criterion.

XXXII.

Person/Organization: Perfect Malimela, Chief Executive,
Malimela & Associates

BPED Team: San Martin, Grossman, Ickis

Date: August 9, 1990

1. According to Mr. Malimela, his is the only consulting firm specializing in human resources development in the Durban area. His firm specializes in attitudinal/motivational training for black entrepreneurs in the area. His firm also sees itself as a bridge, translating black perceptions about their environment for white-owned firms and introducing blacks to white corporate attitudes, and helping blacks adjust and succeed in a variety of environments. The strength of his firm is that it is black and his staff understands black aspirations and needs and how to translate this into effective personnel development and placement policies. According to Mr. Malimela 60-75 percent of his revenues come from the training courses that he has designed; 45 percent of this come from community organizations which have paid for the courses and the rest from corporate clients. He ploughs the profits of corporate training into community organization training.
2. He feels that the Natal region has lagged far behind in human resources development. The training needs assessment he helped design for the kwaZulu area undertaken by Consumer Behaviour (financed by USAID/SA) confirms this need.
3. One area which is badly underserved and has become critical, specially in light of increased level of violence plaguing Natal, is conflict management. He has had a series of requests from teachers in a great number of schools in the area for courses in conflict management. Teachers are increasingly called forth to manage and resolve all kinds of crises, but they feel woefully inadequate.

But the community organizations cannot pay for his courses and his time. Hence he needs to get sponsorship. To do this, at the suggestion of USAID, he created an interim foundation. USAID granted the foundation over R100,000 to finance a training needs assessment in the Natal area. Since the

completion of the report, he has created a permanent foundation. As a non-profit institution, this permanent foundation will be able to receive USAID and other donor funds and channel this for creating effective training and conflict resolution workshops for the teachers in the region. His problem is that now that he has formed the foundation, the research has been done and the research established the need to provide more and better training programs in a variety of areas in the region, USAID tells him that there is no money. He feels that it is imperative that USAID or another donor provide his foundation with financial support for the organizational infrastructure; otherwise the foundation will not be able to operate effectively. He feels the foundation will need at least R3,000/month to be able to operate (hire a secretary, pay the office rental, pay for stationery and fax). Apparently Hoecht's has shown some interest in supporting the organization as well. But the problem in Natal is that most assistance is provided solely through the Kagiso Trust. There are few other donors interested in the region.

4. The BPED Team felt somewhat confused by Mr. Malimela's request for assistance. We told him we had no power or influence over how USAID spends its funds, and that in any case the BPED project had no funds this year. We also felt that he may have been putting the cart before the horse. Rather than spending so much energy into obtaining funds for covering the foundation's operating costs and purchasing a fax and stationery, he might want to think about selling specific training courses to community organizations, obtaining corporate or public or foreign assistance/sponsorship for these courses and funding the organizational infrastructure out of his overhead charges for the courses. We pointed out that sponsors may be more forthcoming when there is a specific product or output that can be sold rather than requesting general assistance for financing an office space. [This episode was a good example of the distortions caused by donor assistance strategies. Donor emphasis on the mechanisms for channeling aid rather than the outputs of assistance may be distorting the incentives and focus of intermediary organizations such as Mr. Malimela's foundation].

We also told Mr. Malimela that other USAID projects may be more appropriate funding vehicles for the types of programs he described to us. In particular, COLD may benefit from his expertise in leadership and teacher training and conflict resolution. We suggested he contact the COLD evaluation team staying in the hotel and discuss these issues with them directly.

XXXIII.

Person/Organization: Chief Executive/BMI

BPED: San Martin, Ickis, Grossman

Date: August 9, 1990

1. BMI is one of the largest market research firms in the country. It has become large by merging with and acquiring a large number of smaller market research and consulting groups in the country.
2. BMI has undertaken a number of marketing research studies of informal sector establishments, including the informal transport and retail sectors. These have been done for a variety of private sector clients who wish to quantify and improve their knowledge of this important sector in order to improve their relations and sales to these types of firms.
3. It has undertaken a major assessment and review of the research and the literature available on the informal sector for Anglo American. This phase of their work was meant to simply establish how much was known about the informal sector in the country, and establish whether or not and how it would be feasible to begin quantifying more systematically this entrepreneurial sector. Anglo would be willing to fund part of their comprehensive study, but at the moment BMI is looking for co-sponsors. We informed him of the census of the informal sector which will probably be taking place with USAID/Washington funding under the GEMINI project.

XXXIV.

Person/Organization: Stephen Gelb, Institute for Social and Economic Research, University of Durban-Westville

BPED Team: Cobbe

Date: July 30, 1990

1. Steve Gelb emphasized during the interview that he could only speak for himself and not for COSATU, or any other organization. However he had worked with COSATU and the ANC and is believed to understand their views quite well.
2. Gelb pointed out that help to Black business by outside donors was a very sensitive issue politically for labor unions, and organized labor is at present the biggest ANC constituent. There was also a history of particular hostility toward the US and its labor organizations on the part of the political opposition in the RSA, although to some extent this was lessening recently, apparently partly as the ANC and COSATU have come to realize that at the moment Mrs. Thatcher is a bigger "evil" than the present US administration.
3. Mr. Gelb saw a number of critical needs in black business development:
 - 3.1 Skill development. Management skills in the broad sense are greatly lacking among the black population. In his view all other issues apart, nationalization on a large scale is simply not feasible because of the acute shortage in management skills among blacks. There is a real need for the development of finance, administration, organization and general management skills. USAID, as other donors, could help fill this gap. If presented properly, support in this area could met less hostility than other US initiatives in private sector assistance. The skills courses should be open not only to individuals from/in the business sector, but also personnel within the opposition movement (such as unions, ANC itself, etc.), all of which suffer from lack of such basic management skills and would be interested in such courses. When it was pointed out that in the RSA there are already a large number of such courses operating, he suggested that USAID could help evaluate how good a job these courses were doing, and give support to those that are rated the most effective.
 - 3.2 Credit. Credit guarantee, credit union support, and other mechanisms to ease the credit constraint would be useful.
 - 3.3 Cooperatives. Support and training should be provided for cooperatives, especially housing coops (both construction and

ownership/management) but also producer coops. He also thought the idea of converting the stokvels into credit unions merited attention; some training and a little start-up capital would go a long way into supporting the black private sector and would be less politically contentious than other types of initiatives.

4. Politically, from the point of view of the opposition, Gelb believes it would be desirable to build linkages of interest between the black unions and black business, to produce a broader policy alliance between them extending beyond politics to economic strategies that would support development needs. For example, anti-trust policy to meet interests of both organized workers and the black middle class, credit to buy shares in companies, support for leveraged buy-outs, other support to broaden black business away from commerce and transport and into manufacturing, are all possible initiatives in this regard. However, it would be difficult to structure this in a way that would be acceptable as an initiative from a foreign donor.
5. If the US were to try to get involved in policy dialogue, its motives are bound to be suspect and almost certainly be seen in a negative light, regardless of how/what it actually did. In any case, in Gelb's view, policy dialogue does not require the support of outside actors unless they are in a position to provide outside expertise that the well established local sponsors (such as IDASA) cannot. Gelb did not think USAID likely to be able to make a convincing case on that front.
6. Gelb felt there was far too little contact between NAFCOC and the unions and between NAFCOC and white small business. But he felt strongly that USAID was singularly inappropriate to do anything about this.

XXXV.

Person/Organization: Meeting with Cyprian Lebese, FABCOS

BPED Team: San Martin, Grossman

Date: August 9, 1990

1. FABCOS was founded in 1988 and currently has 14 affiliate members (see attached FABCOS literature). Affiliates must be national, that is have offices in all four provinces, must have a constitution and a verifiable membership base (current minimum 10,000). FABCOS aim is to be a catalyst, "a unifying force in South African business." By bringing these associations together, FABCOS hopes to emulate the success of

its most widely known affiliate: SABTA. SABTA's success was built by fostering linkages between small business (taxis) and large businesses (i.e. Shell, General Tyre). FABCOS' aim is to do this for its affiliates and assists them in several ways.

2. In Lebesse's opinion, the African Builders Association is among the most viable and dynamic associations in FABCOS. ABA has attracted a great deal of international sponsorship, including a USAID grant for the creation of a computer assisted job costing program for ABA.
3. FABCOS provides offices to its affiliates nationally so they can better serve their individual members. In addition, the services of its two wings of are available to all its members:
 - 3.1 **The Policy wing** provides lobbying services in areas of interest to the affiliate members. This wing also conducts in-depth research on areas of concern to its affiliates. FABCOS does not at this time conduct research directly. In Lebesse's opinion the research staff is too thin to undertake such work directly. But FABCOS staff do work closely with a series of research organizations to formulate and support their research agenda, and to obtain and channel funds in support of this agenda. For example, FABCOS is supporting sectoral research for each one of the affiliates so these organizations can get a better understanding of the dynamics shaping their sector. They have completed the study of the taxi and passenger transport sector with funding from Shell and the SAG. They envision the costs of in-depth research for all 17 sectoral assessments will be R17 million. Needless to say they are looking for sponsors. In addition, FABCOS Research has just funded a Price Waterhouse study that examined the actual costs of undertaking a radical redistribution of wealth under a "post-apartheid scenario", as well as a study with the DBSA on venture capital needs study (this sprung out of FABCOS' experience with the USAID venture capital study).

[Please note: FABCOS is, officially, lukewarm on venture capital programs as they are aimed at the winners, not the hawker who needs to leverage R150.]

- 3.2 **The Professional wing**, FABCOS Marketing, provides a range of services including loan guarantees and technical assistance. FABCOS Marketing has divided the economy into working segments so they can understand the realities of each segment. Once they understand the realities of each segment they work to bring their affiliates up to the professional level, thus strengthening the individual member.

In technical assistance, FABCOS provides assistance in the packaging in loan requests and conducting feasibility studies. FABCOS also provides "plug-in" services via its sponsors. For example, if a member needs consultation on engineering, FABCOS will contact a sponsor who can provide specialized technical assistance on that subject. Some of FABCOS sponsors include: Anglo-American, The Perm, Caltex, Shell, SA Eagle, Toyota, BMW.

4. The FABCOS loan program is based on the stokvel concept. Blacks, historically, have been unable to obtain financing individually. However, when a group is willing to be jointly responsible, they have been more successful. The Perm (building society) has made capital available to blacks. The Perm has the highest loan rates to blacks and also one of the lowest repossession rates (he estimates that for every house that the PERM repossesses, other lending institutions repossess 3 to 4). The reason is that Perm understands the nuances of lending to the black community and is willing to make innovative arrangements, thus only foreclosing on the last resort. The Perm has been rewarded by their efforts. FABCOS estimates that within the Perm 60-65% of funds is from stokvel capital. (FABCOS also estimates that within the stokvel system nationwide +/- R200 million changes hands each month).
- 4.1 An example of a successful stokvel concept is SABTA. Each week in SABTA 35-40 individuals contribute R1,500 for the purchase of a new taxi. At the end of the month, a member buys a new taxi in cash. At the end of three years each member can buy another taxi. FABCOS is encouraging this idea for capital formation.
5. FABCOS charges no fees to affiliates for the first two years. As FABCOS has only been in existence for two years, no fees have been charged to any affiliate yet. Fees are charged indirectly through membership cards that cost R25 per affiliate member with R10 staying with the affiliate, R10 to finance the policy and research arm and R5 to the marketing arm. Members get discounts from each affiliate by showing the membership card. FABCOS takes a small percentage as administration fee.
6. On the often referred to stormy relationship with NAFSOC:

According to Lebesse, FABCOS and NAFSOC are complementary organizations, not rivals. NAFSOC is a business chamber, which concentrates on the upper end of the business sector, and also focuses mostly on traders and the commerce sector. FABCOS sees itself as a developmental business organization - targeting the informal entrepreneur and facilitating his growth. FABCOS is willing to develop individuals who will

then grow into NAFCOC members. The goal of FABCOS is just that--to develop black businesses so that they are successful. NAFCOC for some reason sees FABCOS as a challenge.

7. On the potential conflict inherent in being a business and consumer organization:

The consumer has a very important role in economic empowerment. There is need to develop the consumer as well as the business and one should not let either develop at the expense of the other. By keeping the two together, consumers and businesses are checked and balanced by each other. "This creates a healthy dynamic of development within FABCOS."

8. It is important to note that FABCOS is politically unaligned, as an organization it will never take a political stance, although affiliates are perfectly welcome to do so.

XXXVI.

Person/Organization: Jay Pema, Administrator of Canadian Association for Black Business in South Africa (CABBSA)

BPED Team: Grossman

Date: August 7, 1990

Pema was wearing several different hats in this meeting and it was difficult for him to focus solely on his role as CABBSA administrator, therefore his comments are not always germane to CABBSA but are relevant to the BPED project. Pema's various "hats" are: a) Principal of a local accounting firm; b) Vice-President of ABASA; c) Pema's firm is the administrator of CABBSA (apparently undertaking similar monitoring and evaluation functions as those COMAD has within BPED); d) auditor for several BPED grantees.

1. CABBSA

The Canadian Association for Black Business in South Africa was formed as a result of the Canadian Government's decision that all Canadian companies would disinvest. The Canadian Exporter's Association (CAE) felt at this time that they were making a valuable contribution to black businesses via their purchase of black manufactured products and that it would be counterproductive to stop due to political considerations. Thus, they formed CABBSA. In the past eighteen months since its inception the CAE has donated C\$500,000 to CABBSA. The goal of CABBSA has been to develop and support black manufacturing activities.

CABBSA does not give grants, but provides only Technical Assistance

that is focused on production issues and is locally sourced "to the greatest extent possible." At the present time, CABBSA is supporting 19 projects primarily in Johannesburg and Durban. These are mostly small scale manufacturers involved in textiles and furniture making. CABBSA works with only existing manufacturers that have proven somewhat successful. Pema is the administrator of the project. He advertises for clients and then evaluates the financial feasibility of the venture. He makes his recommendation to the project committee for final disposition. The project committee is made up of: Barney Tsitsa of the Wits Business School (Chairman), a Canadian businessman, Israel Skosana, a representative from the Canadian Embassy, a representative from the Get Ahead Foundation, and a representative from NAFCOC.

Renewal of funding for CABBSA is currently being reviewed. Proposed funding is C\$1,000,000 for the next three years.

2. AID and BPED

AID should continue to operate as it is doing now, according to Pema. AID does not have the resources to solve South Africa's problems and it should not try to do so. AID's role should be to create opportunities and although it has made mistakes, it has been relatively successful in this role to date.

To be more successful, AID needs to do several things: the first is to train grantees in the administration of funds. When AID gives US\$100,000 to a grantee it is usually more than the grantee has ever seen before. AID needs to counsel grantees in how to handle the money. He feels ABASA would be a good organization through which to do this. AID should also take a more active role. If we are assuming AID's correct role is to create opportunities, AID should be taking an active role in the NGO-PVO community, finding those groups worthy of AID's support and that could benefit largely from a small infusion of capital.

3. South Africa

Pema is cautiously optimistic about the future of the "new" South Africa. He feels that South Africans must realize the level of wealth in their country is not as great as they think. According to Pema, South Africa is characterized by a high level of low-skilled labor and a low level of capital. Thus in many ways, Pema feels South Africa is "the classic third world country." Until South Africans realize this, they will not be able to adopt measures appropriate for their level of development.

XXXVII.

Person/Organization: Peter R. Creighton, Manager, Hodeco (Pty) Ltd., Perm Park

BPED Team: Ickis

Date: August 9, 1990

1. HODECO is a subsidiary of "the Perm," founded in 1883 as the Permanent Building Society. It was a mutual association until its recent acquisition by MidBank for R180 million. There were traditionally five major players in mortgage financing; most were mutuals which like the Perm and were bought up by commercial banks.
2. HODECO was established specifically to support the small housing construction industry, including black-owned construction businesses. Mr. Creighton identified three critical needs of black firms in the sector:
 - 2.1 Access to land. Land acquisition in the townships has been monopolized by the larger companies and by the town councils, in which there is a high degree of corruption. The larger construction firms are able to pay for land and "cream off" the upper segments of the black housing market. This problem has gotten worse because of rapidly rising land values: a "stand" (urbanized lot) that would have cost R4,000-6,000 a few years ago has a commercial value today of R10,000-18,000. Regarding land ownership in townships, Mr. Creighton had the following to say:

"...these are on a 99-year leasehold basis, but its the same as ownership and much cheaper to do it this way. This used to apply to whites as well; all land was given in 50-year leases because it was located near the mines and they didn't think mining would be permanent..."
 - 2.2 Lack of Technical and/or Business Expertise. There are two kinds of black building firms: (a) those run by builders who graduated from being carpenters or bricklayers to supervisors and finally to setting up their own firm; and (b) those run by entrepreneurs who have diversified from being traders or taxi drivers into the construction business. The problem with the first type is that they have no business sophistication or skills, and the problem with the second type is that they do not understand the complexities of the building industry, which requires very sophisticated planning, programming, and coordination plus a wide variety of specific skills (electricians, carpenters, bricklayers, plumbers, etc.).

- 2.3 Finance. Most institutions have shied away from the black housing market because of the risk involved. The Perm is an exception; they see themselves as a major player in this market.
3. The function of HODECO is to acquire land, finance construction of low- to middle-income housing by small builders (according to Mr. Creighton, primarily black firms), and then find a buyer. This provides financing for the small builder with HODECO assuming the risk. HODECO is now in its third year; the first year it sold 79 homes and during the current 12-month period it will have completed 155, but not all can be sold because they are unaffordable for the market due to high interest rates and inflation. According to Mr. Creighton, HODECO is "terribly unique" in providing financial and technical assistance to small builders.
4. In the face of this adverse change in the market, HODECO is planning to change its form of operation from a speculative basis to one in which the builder takes responsibility for identifying potential buyers. This will have the advantage of reducing their dependence; of getting them "closer to the market." According to Mr. Creighton, "Now we are not financing housing starts until a firm buyer has been identified."
5. HODECO is a member of the "Small Builder Action Forum" which also includes the following organizations:
- Building Industries Federation of SA (BIFSA)
 - Foundation for Entrepreneurial Skills Training (FEST)
 - Association of Building Societies
 - SBDC
 - The Urban Foundation
 - South Africa Housing Trust
 - I.S.M.
 - Palabora Foundation (Rio Tinto funded)
 - First National Bank
 - Organization of Builders of SA (OBSA)
 - African Bank
 - Building Materials Suppliers' Association
 - (various local builders' associations)
- 5.1 The Action Forum has two subcommittees dealing with (1) financing capacity for the housing industry and (2) contracting regulations. I was invited to a meeting of all Forum members at 2 pm at the Halfway House to discuss such topics as "deregulation of building regulations" (by Mike Ambler of DBSA) and "estate agents' training." As Mr. Creighton, explained, there is a lack of trained black real estate agents and this has made land acquisition and the housing market even more complicated in the townships. (It

was not possible for me to attend this meeting.)

- 5.2 The Foundation for Entrepreneurial Skills Training, FEST, was established in 1989 by BIFSA (a white organization) to "provide entrepreneurial training to existing and aspirant entrepreneurs operating in the informal sector of the building industry." The Palabora Foundation, established in 1989 by the RTZ Group, is also a nonprofit working in a range of development areas which provides training for small builders. (Mr. Creighton provided me with written descriptions of the courses offered by these organizations.)
6. For more information on the activities of FEST and Palabora, Mr. Creighton suggested that I speak with John Addis, a Board member who also has his own firm of manpower development consultants (John Addis & Associates, tel. 011-804-3068/9). He also suggested contacting Colin Griffin of FEST (tel. 011-805-1985).

XXXVIII.

Person/Organization: John Charlesworth, Divisional Manager -
Training, P-E Corporate Services SA (Pty)
Ltd.

BPED Team: Ickis

Date: August 9, 1990

1. There was a meeting at P-E to discuss the proposed training program for BMF with Robert Armstrong of SADCC. Also present at the meeting were Stephen Wade and the new Executive Director of BMF, Gabriel ---, seconded by Standard Bank for a one-year period, which might be extended.
2. John explained that P-E had been acquired by Price Waterhouse which had considerably strengthened its training and consulting capacity. It has traditionally focussed on training in the organizational behavior and operations/production areas, with many courses open to the public. They have an impressive set of offices and 4 classrooms in Johannesburg and a smaller training center in Durban. Approximately 3500 people pass through its courses every year.
3. To Robert Armstrong's question regarding their experience in entrepreneurship training, John responded that they have done some entrepreneurship training in Zululand, and that Price Waterhouse has had experience in other African countries. It is clear, however, that this is not their focus. Nor do they have programs specifically aimed at business associations.

4. The focus of their proposed course for BMF is in management decision making and in the basic functional areas of finance, marketing, control, etc. The objective is to upgrade the basic skills of black managers who work within corporate structures. However, John emphasized that P-E trainers are flexible and will adapt the program focus to the needs of the participants. He said that the BMF course had not been designed based upon any sophisticated needs assessment. "We wanted to do this course on a pilot basis with the BMF, and to build in an ad hoc assessment so that future courses can be adapted accordingly," he stated.
5. To my question as to whether any broader environmental analysis type modules were included, John said that they were not but that P-E was considering including these based on recommendations that they had received. He said they might also include some sessions on African philosophies in relation to management. However, the central thrust is on management skills. Gabriel supported this, saying that this would avoid a situation in which BMF members, because of tokenism, would follow the Peter Principle and be promoted to positions beyond their capabilities.
6. Apparently there have been some problems in marketing the course, which has been offered to BMF's 1400 members at a cost (for most of the fourteen modules) of R.550 for two days, excluding accommodations and transportation. Gabriel is hopeful that companies will recognize the value of this program and begin to provide financial support for their black employees in the future. John believes that if they conduct examinations and award certificates, companies will see the value and provide this support.
7. One important element of the program, according to John, is a self-assessment module in which each participant must ask him or herself some basic questions about their career path, such as "where am I? Where am I going?"
8. One question that I did not have an opportunity to discuss with John and Gabriel (I had leave for a meeting with Mashudu Ramano) but that I later mentioned to Steve-- if the focus is on generic managerial skills in the functional areas, and if an important issue for black managers in the corporate world is self-esteem, self-confidence in dealing with their white counterparts, does it really make sense to offer a course for black managers only as opposed to providing scholarships for non-racial courses such as the Joint Management Development Program or perhaps P-E's training programs that are open to the public.
9. John provided me with catalogues for P-E's general programs and for the BMF training program, which includes a brief

description of each of the fourteen modules. Functional areas covered are production, human resource management, and finance; other modules include decision-making, project management, computer skills, and strategic management.

SOWETAN - Business Development Programme - January 1990 to December 1990.

		Jan	Feb	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
Finance/Merchandising	A	4 days	15/18	5/8	5/8	9/12	8/11	4/7	2/5	6/9	3/6	1/4	5/8	3/6
Managing People/Marketing	B	4 days	22/25	19/22	19/22	23/26	14/17	18/21	16/19	20/23	10/13	15/18	19/22	10/13
ADVANCED PROGRAMMES														
Finance	C1	2 days			26/27			25/26			19/20		14/15	
Merchandising	C2	2 days			28/29			13/14		15/16		24/25		
Stock Management	C3	2 days		12/13			21/22		23/24			22/23		
Managing People	C4	2 days			12/13			11/12		27/28			12/13	
Assertiveness	C5	2 days				2/3			9/10		17/18		26/27	
Marketing	C6	2 days				18/19			11/12		26/27			
Bus. Communications	C7	2 days		14/15			28/29			13/14		8/9		

**SOWETAN
BUSINESS
DEVELOPMENT
PROGRAMMES**

IN
MANAGEMENT
MERCHANDISING
MARKETING
FINANCE



USSALEP and South Africa: A Thirty-Year Retrospective

The year 1988 marked the thirtieth anniversary of USSALEP's founding and provides an instructive reference point from which to consider the changes which have occurred in South Africa over the past three decades.

Throughout the 1960s the South African government was firmly committed to its intricate concept of grand apartheid, a policy which enjoyed the unquestioning support of most white voters. Political debates in Parliament and among the white electorate focused more on the means of its application than on the legitimacy of its central thesis -- the denial of a common destiny for all South Africans. Compounding the despair and frustration experienced by the victims of separate development, the government allowed little room for dialogue and no hope of negotiations as it relentlessly pursued its homelands policy. Government restrictions also severely handicapped USSALEP's basic mission of facilitating authentic communications among all those individuals and groups who were attempting to shape South Africa's future. As a result, it was only in 1971 that the first multiracial, joint meeting of American and South African USSALEP members could be convened at the Holiday Inn at Johannesburg's Jan Smuts Airport.

The student uprisings in Soweto in 1976 dramatized the deep resentment of the black youth and served notice on the government that the days of quiet acquiescence in the school system and the townships were past. With the rapid economic growth of the 1970s came the recognition that black and white prosperity were inextricably linked, that black skills and purchasing power were essential to industrial development and could not be dislocated from the urban work place. The resultant phenomenon of growing black consumer and labor leverage that attended this period of rapid industrial growth began to sow the seeds for the later concept of black empowerment. Frustrated by the inability of the liberal opposition to bring about fundamental change in government policies, black consciousness took root, manifesting itself in various forms of non-violent resistance to government restrictions. The civil disorders in the townships and the attendant security clamp-downs became recurrent events leading to the imposition of the state of emergency in 1985 and again in 1986. Detention of community leaders and the dismantling of community organizations during this period created a debilitating vacuum in the provision of essential services to the township populations.

In response to the black communities' appeal for resources, USSALEP's focus was broadened to include professional and grassroots education and development. Practical training in the basic skills needed to design, implement, and manage community projects and organizations has increasingly constituted an integral part of USSALEP's efforts to help build the black human infrastructure in South Africa. A pioneering initiative in this area was the establishment in 1977 of the Careers Development Project (CDP) and the launching in the mid-1980s of the Community Leader Training Program (CLTP), Black Journalists Training Program, and Trial Advocacy Skills Training workshops. The following program review illustrates the breadth of USSALEP's work and concerns.



Robert M. Hoen
USSALEP/U.S. Executive Director and
Chairman of the Executive Committee



Garth le Pere
USSALEP/S.A. Executive Director

INTERVIEW SCHEDULE

(Survey of Interventions in Small Business in South Africa, and the assumptions and models upon which they are premised)

- {Where is small business now?}
- {Where could it be?}
- {Where should it be?}

UNINTENDED CONSEQUENCE

- Unintended?
- Critical?
- Existing businesses?

→ Later Discussion

Problem → Seems hostile

- (is your organisation) List from SBD
1. What are you doing?
 2. What have you achieved?
 3. What do you hope to achieve?
 4. Why? (short-term/long-term; long-term/broad)
 5. How? (short-term/long-term; narrow/broad)
 6. With whom do you work? (client/customer/beneficiary)
 7. Why?
 8. What are the goals of the people with whom you work?
 9. Who are your colleagues?
 10. Where do your funds come from?
 11. What is the main source of your ideas? Who has influenced you the most?
 12. What makes a small business succeed?
 13. What influences this?
 14. Why do small businesses fail?
 15. What influences this?
 16. What is the most useful intervention?
 17. What is the greatest need in promoting small business in South Africa?
 18. What is the greatest threat to South African small business?
 19. How do you see the future of small business in South Africa?
 20. How would a new political dispensation affect your work?

[outcomes]

[outcomes]

[effects]

If what you are doing will help you to achieve what you hope to achieve.

→ Clarify who they are talking about?

What are helpful interventi.

Enter / Growth / Survival / Failure

are Philosophers

What factors influence the creation of Small Businesses in SA

1. Role Play
2. 2 interview with GG
3. Review
4. The rest



E (Greater wealth, Prosperity)

Redress part of wrong political

SUNNYSIDE GROUP

Organisations represented at the Sunnyside Group 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 (FABOOS)
Free Market Foundation
Get Ahead Foundation
Get Up Fund
Gonski Textiles
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 Dept.
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 (NAFOOC)
National Stockvel 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
Transport Foundation of S.A.
University of Natal, Durban : Department of Accounting and Finance
University of Natal, PMBurg : Dept. of Business Administration
University of Pretoria : Graduate School of Management
University of the Western Cape : Institute for Small Business
Urban Foundation
Wheel-A-Meal
Wilgespruit Fellowship Centre
Women's Bureau of South Africa

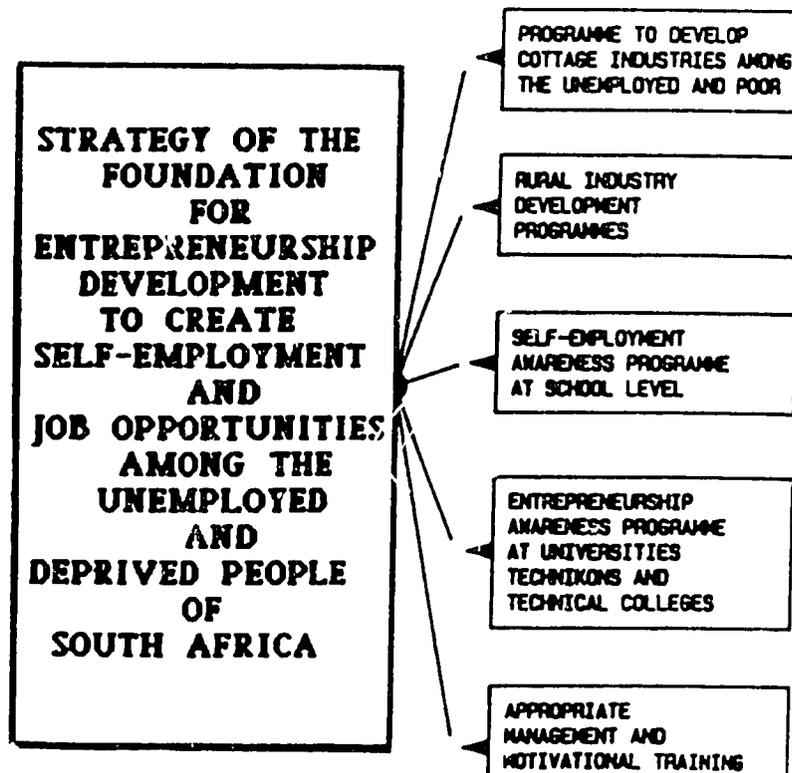
Observers at Meetings of the Sunnyside Group

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

SYNOPSIS
OF
PROGRAMS DEVELOPED BY THE
FOUNDATION FOR ENTREPRENEURSHIP DEVELOPMENT
AND
FUNDING REQUIRED TO PRESENT THESE PROGRAMS.

THE MAIN OBJECTIVE OF THE FOUNDATION FOR ENTREPRENEURSHIP DEVELOPMENT IS THE CREATION OF SELF-EMPLOYMENT AND JOB-OPPORTUNITIES AMONG THE UNEMPLOYED AND POOR, AS WELL AS THE PROMOTION AND DEVELOPMENT OF ENTREPRENEURSHIP AS AN INSTRUMENT TO ACHIEVE BLACK ECONOMIC EMPOWERMENT IN SOUTH AFRICA.

THE FOUNDATION HAS DEVELOPED A COMPREHENSIVE STRATEGY THAT WILL ACHIEVE ALL THESE OBJECTIVES. THIS STRATEGY CONSISTS OF THE PROGRAMS SET OUT IN THIS BROCHURE.



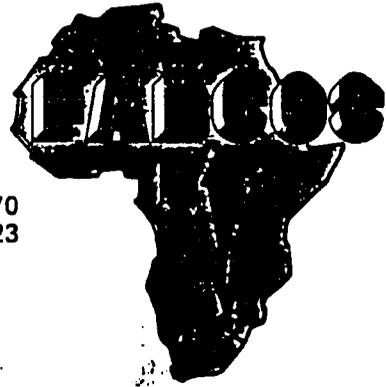
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Your Reference:

FABCOS

Corporate Investment & Sponsorship Opportunities

July 1990

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INTRODUCTION

FABCOS, The Foundation for African Business and Consumer Services, functions as an effective umbrella organisation providing infrastructural support and services and, where necessary, seed funding to Black business and consumer organisations.

It is FABCOS' **mission** to identify, mobilise and expand all black business, with the shorter term emphasis on the informal sector. In brief: FABCOS is achieving its primary objective of stimulating Black economic empowerment; generating new job opportunities and new wealth.

FABCOS has been built according to the proven model of SABTA, the Southern African Black Taxi Association. Much of SABTA's success stems from high level co-operation and support of the informal Black taxi industry by established corporate business. The benefits to both sectors is self-evident.

FABCOS TODAY

Today, fourteen Black business and consumer organisations are affiliated to FABCOS. Combined membership exceed one million.

With the FABCOS Head Office situated in Pretoria, the organisation has established a network of full-service branch offices in Durban, Cape Town, Bloemfontein, Welkom, Johannesburg, Pietersburg, Nelspruit and Port Elizabeth.

All FABCOS affiliates are provided with infrastructural support and office facilities at each of these sites.

At the Pretoria Head Office, Marketing, Administration, Financial Services, Legal Services and database membership management are handled centrally.

THE STRUCTURE OF FABCOS

The FABCOS GROUP is made up of two primary aspects: The **POLICY BODY**, comprising the affiliated member associations together with advisory and liaison bodies and, secondly, The **MARKETING COMPANY** together with its satellites and associated companies.

FABCOS POLICY BODY

The overall direction and policy-making functions of FABCOS - a Section 21 Company - are directed on an on-going basis by four primary elements of the FABCOS Policy Body. These elements are as follows:

1: CORPORATE ADVISORY COUNCIL

Comprising of the chief executive officers of FABCOS' major sponsors, this body provides powerful "checks and balances" and high-level business-orientated direction to the organisation. The Corporate Advisory Council also provides the forum for sponsors to interface directly with the burgeoning growth of the Black informal sector.

Although the Corporate Advisory Council only meets bi-annually, senior management staff nominated by sponsors (several on 2-year secondment to FABCOS) interface with the operational aspect of FABCOS on a day-to-day basis.

The Corporate Secondment Programme provides for the training and development of FABCOS personnel as well as the ability of sponsors to optimise marketing and business development opportunities within the organisation.

(Further details concerning the sponsorship options are provided elsewhere in this document.)

2: COMMUNITY ADVISORY FORUM

The Community Advisory Forum has been created to provide a two-way communication conduit between the policy-making and marketing wings of FABCOS and the community that the group serves.

Comprising respected community leaders such as Dr Ellen Khuzwayo, Life President of The National Black Consumers Union and Mr Aggrey Klaaste, editor of The Sowetan, The Community Advisory Forum functions as an effective liaison body, guiding both FABCOS' policy-making body and the marketing wing.

3: FABCOS POLICY BODY

Comprising senior office-bearers of each of the FABCOS affiliates, this body represents the interests of 16 identified economic segments.

THE FABCOS "IDENTIFIED MARKET SEGMENTS"

- TRANSPORT
- CONSUMER SERVICES
- FINANCIAL SERVICES
- BUILDING & CONSTRUCTION
- FINANCIAL
- INSURANCE
- HAWKERS / VENDORS
- WHOLESALE
- RETAIL
- MANUFACTURING
- IMPORT / EXPORT
- TAVERNS / HOTELS
- FARMING
- MINING
- HERBALIST / TRADITIONAL MEDICINE

Affiliated member associations of FABCOS are as follows:

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 SA

ACHIB
African Council of Hawkers and Informal Business

SABIBA
South African Black Insurance Brokers Association

AHBASA
Afro Hairdressing and Beauty Association of Southern Africa

NTSA
National Tuck-Shops Association of South Africa

NCIA
National Cottage Industry Association

SRASA
Small Retail Association of SA

AFASA
African Farmers Association of SA

4: THE FABCOS EXECUTIVE COMMITTEE

Made up of elected office-bearers, the FABCOS EXCO translates the needs and aspirations of the Affiliate member organisations into positive action plans either through the policy body itself or by way of instructions to FABCOS MARKETING, the implementational arm of the organisation.

The most senior, full-time executive appointment of the FABCOS POLICY BODY is the General Secretary.

The Executive Committee of the FABCOS policy body comprises the following elected officers:

President: James Ngcoya. Secretary: Joas Mogale. 1st Vice President: Dr. Ellen Kuzwayo. 2nd Vice President: Sam Tuntubele. Treasurer: Pat Mbata. PRO: James Lenyelo. Executive Committee Members: Mrs Nonia Ramphomane, Andrew Lukhele and Abner

FUNDING

The funding requirements of the FABCOS policy body and the member affiliates it serves, is provided by means of individual membership subscriptions and by sponsorship donations from development-orientated major businesses and corporations. (See section detailing the Sponsorship Investment Programme.)

FABCOS MARKETING

FABCOS MARKETING is a public, Limited Liability Company in which FABCOS Policy Body holds 50% of the equity. The balance is held by the directorate.

FABCOS Marketing operates strictly in terms of a long-term contract mandate given by the FABCOS Policy Body. The company provides the overall infrastructural support and service requirements for the organisation.

This highly effective structure - copied from the successful relationship between SABTA and its marketing wing, TAXI SA MARKETING, enables the marketing and commercial activities of all member affiliate organisations to proceed along strictly disciplined and business-orientated lines, to a large extent, outside of the orbit of the sometimes fluid situation inherent in young, growing associations.

To provide specialised marketing support to the more active and marketing-orientated FABCOS member affiliates, a number of specialist marketing satellites have been established under the auspices of Fabcos Marketing. In all cases, however, 50% or more of the equity in the FABCOS Marketing Satellites is held by the affiliate associations which they serve.

At present, the marketing satellites comprise the following:

SATA MARKETING

The Southern African Taverners Association

ABA MARKETING

The African Builders Association

NBCU MARKETING

The National Black Consumers Union

NASASA MARKETING

The National Stokvels Association of SA

BATASA MARKETING

The Black Travel Agents Association

AFSURE A fully-fledged insurance brokerage

SERVICE CENTRE MANAGEMENT

Providing management services to a network of 23

SABTA joint venture service stations.

Continued/....

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The Board of Directors of FABCOS Marketing comprises the following:

Chairman: Gaby Magamola. Joint Managing Directors: Jabu Mabuza and James Chapman. Marketing Director: Ashley Mabogoane. Public Affairs Director: Mike Ntlatleng. Sales Director: Leon Steenkamp. Financial Director: Pine Pienaar. Administrative Director: Chris van den Heever.

FABCOS MARKETING: FUNDING

Fabcos Marketing and its satellites function according to strictly disciplined, business and profit-orientated objectives. Profits are derived from all manner of "Trade Deals", promotions, trading, royalties and joint ventures.

THE FABCOS INVESTMENT SPONSORSHIP PROGRAMME

FABCOS recognises the fact that sponsorship or investment funding alone will not guarantee success.

FABCOS believes that the effective management of capital, the sharing and development of professional skills and the building of a sound, financially viable operational infrastructure will provide the basis for long-term stability and growth. This will best serve the needs of the member affiliate organisations and in turn, their members.

Likewise, sound, businesslike and professional relationships between FABCOS and the organisation's sponsors, will further guarantee mutual success.

To cite an example: The fact that in the past decade, a major oil company has grown its market share from roughly 26% to 42% is partly attributed to the intimate investment sponsorship relationship that has existed between that company and SABTA.

Not only has the oil company wisely contributed significant amounts in terms of financial support to both SABTA and, more recently, to FABCOS, the secondment of a high-ranking company executive manifests itself in the sound structure and administrative strengths that FABCOS has created.

In the rapidly changing socio-economic environment of the New South Africa, numerous far-sighted and responsible companies have already recognised the fact that FABCOS is a powerful influence in the mainstream economy.

Further, it is recognised that FABCOS is in the process of mobilising hundreds of thousands of responsible blacks; creating many thousands of new job opportunities and as a consequence, playing a

major role in the development and building of stable black entrepreneurs.

By participating in this process of black business development, corporate sponsors are assured of securing and developing their chosen share of what will be - in only a few short years from now - a vast and extremely valuable commercial and consumer market.

THE MECHANICS OF SPONSORSHIP

PREAMBLE

At the outset it must be noted that ALL funds received by FABCOS from participating Corporate Sponsors are managed, controlled and audited on an on-going basis by FABCOS' Financial and Administrative division. Accurate financial records are presented to members of the Corporate Advisory Council on a regular basis.

Further, ALL sponsorship funds designated for utilisation within the framework of the FABCOS POLICY BODY (or a specified Affiliate member) are used exclusively for that purpose. FABCOS Marketing ensures that every Rand of investment sponsorship funds is utilised exclusively (without any form of deduction) for the purpose of developing and building the specified affiliate or market segment for which such sponsorship funds is intended.

A: ANCHOR SPONSORSHIP

The highest level of the FABCOS Corporate Sponsorship Programme is ANCHOR SPONSORSHIP. This level firmly establishes an extremely close, day-to-day working relationship between the Anchor Sponsor and the entire FABCOS organisation. (Policy and Marketing)

The FABCOS Corporate Advisory Council comprises the Chief Executive Officer (or a senior executive personally nominated by the CEO) of all Anchor Sponsors. On a day-to-day basis, other senior corporate executives interface with the FABCOS organisation.

Anchor Sponsorship commitment involves a monthly contribution of R25,000 over a 24 month period as well as the secondment of senior personnel who are utilised by FABCOS (in consultation with the Corporate Advisory Council) to establish and maintain internal and external management and management training projects.

Anchor Sponsors may elect to channel their entire or part of their sponsorship into identified market segments or into one or more specified member affiliate organisations. In this way, day-to-day business development projects can be best optimised to mutual advantage.

B: OFFICE SPONSORSHIP

It has long been recognised that in order to be effective and to serve the basic needs and requirements of its members at grass- roots level, the establishment and operation of a network of local service offices is a pre-requisite for the assured success of FABCOS.

As has already been indicated, the primary network of FABCOS offices in major centres has already been established. There is, however, an urgent need for at least a further 20 to 30 regional and local satellite offices.

The FABCOS OFFICE SPONSORSHIP programme invites corporate sponsors to fund the establishment and on-going operation of satellite offices. The sponsorship commitment in this sector is the sum of R15,000 per month over a period of 24 months.

C: GENERAL SPONSORSHIP

The "entry level" for the FABCOS Sponsorship Programme is a commitment to contribute the sum of R10,000 per month for a period of 24 months (R240,000).

In close consultation with the FABCOS Corporate Advisory Council, the FABCOS Policy Body Executive Committee utilises General Sponsorship funds in various areas within the organisation where such funding can best be utilised to serve the needs of the organisation and its members.

D: AD-HOC SPONSORSHIP

It will be appreciated that in order to achieve its goals of attaining large-scale Black economic empowerment and the establishment of a significant Black middle class of entrepreneurs, FABCOS's needs range from paper clips to computers, from desks to calculators, office equipment and training facilities.

Ad-Hoc Sponsors provide FABCOS and its affiliates with many of the day-to-day requirements of running and growing the organisation. Many corporations will have redundant, outmoded or obsolete equipment and materials. These can be effectively utilised by FABCOS.

For further information concerning FABCOS or the Corporate Investment Sponsorship Programme, telephone The Marketing Director, Mr. Ashley Mabogoane. (011) 325-1570.

Or write to: FABCOS P.O.Box 269 Pretoria 0001

July 1990

FABCOS THE QUEEN ON THE CHESSBOARD OF ECONOMIC CHANGE.

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ANNEX C
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