A POLICY STUDY BY THE

NATIONAL AFRICAN FEDERATED CHAMBER
OF COMMERCE AND INDUSTRY

DEMOCRATISATION AND GROWTH OF THE SOUTH AFRICAN ECONOMY: BARRIERS TO ENTRY

DECEMBER 1995

A

TABLE OF CONTENTS

B

c

E

BACKGROUND

This study "Democratisation and Growth of the South African Economy: Barriers to Entry," was produced under the auspices of the IPC project for the National African Federated Chamber of Commerce and Industry (NAFCOC). In addition to promoting the removal of barriers to entry, the study also aimed at fostering a relationship regarding policy issues between NAFCOC, the South African Chamber of Business (SACOB) and the American Chamber of Commerce in Southern Africa (AMCHAM). This study was reviewed and input was provided by representatives of these three chambers with NAFCOC serving as the lead chamber. This study reflects the views of NAFCOC and does not necessarily reflect the opinions of Management Systems International, the Implementing Policy Change Project, Deloitte & Touche, the United States Agency for International Development, SACOB, or AMCHAM.

The Implementing Policy Change (IPC) project [USAID Project #936-5451] is a programme funded by the United States Agency for International Development (USAID) which provides expert services and applied research to help decision makers and advocacy groups to improve their abilities to design and implement policies. The IPC team is a consortium of contractors led by Management Systems International and including Deloitte & Touche. IPC's overarching goal is to foster positive long-term impacts on socio-economic development through better policy implementation. The Private Sector Division of USAID/South Africa initiated and supervised the execution of this project in South Africa; and the Global Bureau, Center for Democracy and Governance of USAID/Washington reviewed the management of the project.

ACKNOWLEDGEMENTS

We would like to thank the following people who have been involved in the drafting and review of this document:

Chamber Representatives:

- Benjamin Wauchope, Executive Director, NAFCOC
- Abram Napo, Council Member, NAFCOC
- Dr. Bax Nomvete, Economic Consultant, NAFCOC
- Bill Lacey, Senior Economist, SACOB
- Dr. Ronnie Bethlehem; Economic Consultant, SACOB
- Luanne Grant, Executive Director, AMCHAM

Project Team:

- Jayne Booker, Project Director, Deloitte & Touche
- Dr. Patrick Ncube, Team Leader, Deloitte & Touche
- Charles A. McKudu, Team Member; Deloitte & Touche
- Miriam Altman, Team Member, Deloitte & Touche
- Lumkile Mondi, Team Member, Deloitte & Touche
- Greg Howell, Project Co-ordinator, Management Systems International

F

CONTACT INFORMATION

National African Federated Chamber of Commerce and Industry
P.O. Box 61213
Marshalltown 2107
Republic of South Africa
Telephone: 27-11-336-0321
Fax: 27-11-336-0420

South African Chamber of Business
P.O. Box 91267
Auckland Park 2006
Republic of South Africa
Telephone: 27-11-482-2524
Fax: 27-11-482-1281

American Chamber of Commerce in Southern Africa
P.O. Box 1132
Houghton 2041
Republic of South Africa
Telephone: 27-11-788-0265
Fax: 27-11-880-1632

United States Agency for International Development/South Africa
P.O. Box 55380
Arcadia 0007
Republic of South Africa
Telephone: 27-12-323-8869
Fax: 27-12-323-6443

Management Systems International
600 Water Street, SW, NBU 7-7
Washington, D.C. 20024
United States of America
Telephone: 1-202-484-7170
Fax: 1-488-488-0754

Deliotte & Touche/South Africa
Private Bag X6
Gallo Manor 2052
Republic of South Africa
Telephone: 27-11-806-5000
Fax: 27-11-806-5444

G

ABBREVIATIONS

AAC	-	Anglo American Corporation
AASA	-	Airline Association of South Africa
ACP	-	African, Caribbean and Pacific
AFDB	-	African Development Bank
AIPA	-	African Institute for Policy Analysis
AMCHAM	-	American Chamber of Commerce
AMSCO	-	African Management Services Company
ANC	-	African National Congress
APDF	-	Africa Project Development Facility
ASATA	-	Association of South African Travel Agents
BTT	-	Board of Tariffs and Trade
BUDS	-	Business Development Services
CDC	-	Commonwealth Development Corporation
CDI	-	Centre for Development of Industry
CFD	-	Caisse Francaise de Development
CGIC	-	Credit Guarantee Insurance Corporation
CGS	-	Credit Guarantee Scheme
COSATU	-	Congress of South African Trade Unions
DBSA	-	Development Bank of Southern Africa
DCC	-	Duty Credit Certificate
DEG	-	German Finance Company for Investment in Developing Countries
DFI	-	Development Finance Institutions
DRC	-	Development Resources Centre
DTI	-	Department of Trade and Industry
DPW	-	Department of Public Works
ECIP	-	European Community Investment Partners
EDP	-	Entrepreneurship Development Programme
EMA	-	Export Marketing Assistance
ESKOM	-	Electricity Supply Commission
EU	-	European Union
FABCOS	-	Foundation for African Business and Consumer Services
FCS	-	Foreign Commercial Services
FEDHASA	-	Federal, Hotel, Liquor and Catering Association of South Africa
FMO	-	Netherlands Development Finance Company
GATT	-	General Agreement on Tariffs and Trade
GDP	-	Gross Domestic Product
GEIS	-	General Export Incentive Scheme
GNP	-	Gross National Product
GNU	-	Government of National Unity
IBFC	-	Independent Business Finance Centre
IDC	-	Industrial Development Corporation
IDT	-	Independent Development Trust
IFU	-	Industrial Fund for Developing Countries
IPC	-	Implementing Policy Change
JCI	-	Johannesburg Consolidated Investment

14

MFA	-	Multi Fibre Agreement
NAFCOC	-	National African Federated Chamber of Commerce and Industry
NEDLAC	-	National Development and Labour Council
NEPA	-	Ntsika Enterprise Promotion Agency
NGO	-	Non Government Organisation
NPWP	-	National Public Works Programme
NSA	-	New South Africa Management
OECD	-	Organisation for Economic Cooperation and Development
PEP	-	Professional Economic Panel
PROPARCO	-	Societe de Promotion et de Participation pour la Cooperation Economique
PSBC	-	Provincial Small Business Council
RDP	-	Reconstruction and Development Programme
RIDP	-	Regional Investment Development Programme
SAB	-	South African Breweries
SACOB	-	South African Chamber of Business
SACU	-	Southern Africa Customer Union
SADC	-	Southern Africa Development Community
SAEDF	-	Southern Africa Enterprise Development Fund
SAFTO	-	South African Foreign Trade Organisation
SALDRU	-	South African Labour and Development Research Unit
SAP	-	Structural Adjustment Programme
SAPS	-	South African Police Services
SAR	-	South African Rand
SATOUR	-	South African Tourism Board
SATSA	-	South African Tourism and Safari Association
SBDA	-	Small Business Development Agency
SBDC	-	Small Business Development Corporation
SBDU	-	Small Business Development Unit
SBI	-	Small Business Initiative
SME	-	Small and Medium Enterprise
SMME	-	Small, Micro and Medium Enterprise
TBVC	-	Transkei, Bophuthatswana, Venda and Ciskei
TRIM	-	Trade Related Investment Measure
UNDP	-	United Nations Development Programme
UNIDO	-	United Nations Industrial Development Organisation
USAID	-	United States Agency for International Development
WFF	-	Wholesale Finance Facility
WTO	-	World Trade Organisation

I

EXECUTIVE SUMMARY

The purpose of the study was to provide background information regarding barriers to entry in South Africa and to propose policy recommendations to remove or reduce their negative effects.

South Africa is struggling with constraints of transition to democracy and barriers to entry is an important subject for the expansion of stakeholding in the new democratised economy. Considerable legacies left by apartheid, particularly a number of laws which need to be reformed or abolished, will continue to dog South Africa for many decades to come. Some of them are pointed out in this study.

Structural barriers to entry have arisen because of industrial concentration and conglomeration. Much needs to be done to reduce these barriers to entry. One such measure is to open the economy through liberalisation, i.e. reduction of tariff levels to allow greater import penetration, abolishing foreign exchange controls, etc. This will result in competition between conglomerates and foreign companies, hence breaking the monopoly power of conglomerates. This strategy will open South Africa to international competition and improve total factor productivity.

Inter-locking directorships between conglomerates and state owned enterprises has created difficult situations in South Africa, especially for small, medium and micro enterprises (SMMEs), with regard to entry in a number of markets by both local and international firms. The concentration of resources in the hands of both private and state monopolies has created considerable barriers to entry for SMMEs.

The study has also examined other barriers to entry such as capital requirements and availability of finance for SMMEs, market information, regulation and skills training in the broad sense. It has also examined existing institutions including business associations in order to assign a role for them to assist in dismantling barriers to entry. The policy conclusions of each section as summarised below.

1. Policy recommendations on the macro-economy

- The dismantling of the import substitution strategy, through a speedy implementation of the GATT agreement. This will open South Africa to foreign competition, resulting in increased foreign investment. Liberalisation policies should include a specified period of protection of black infant industry so that they have an opportunity to compete on a level paying field;

- Study ways and means of restructuring and privatising some of the state-owned enterprises with a view to opening opportunities for black empowerment. State assets designed for privatisation should be clearly identified; percentage of privatisation set aside for black empowerment should be clearly specified along the lines of NAFCOC's 3-4-5-6 program for black economic empowerment;

- Pro-active policies be designed aimed at addressing the imbalances resulting from apartheid policies;

5

- Study ways and means to abolish foreign exchange controls in order to facilitate investment outside the country by South Africa business;

- Strengthen the competition board by giving it powers to prevent monopolies and the establishment of cartels in the economy;

- Develop active policy intervention at provincial level to address issues such as access to capital, markets, skills training opportunities, business infrastructure development in the townships and make meaningful institutional reforms.

2. Policy recommendations on access to finance

- Begin the process of instituting regulations to foster a more effective competition policy including the establishment of a strong judiciary to implement the legislation so that all players including foreign institutions have equal access to the South African financial services industry;

- Rely primarily on the private sector to lead the expansion of credit with input and assistance from the national and provincial government. Many of the DFIs in the former homelands were badly managed and have not yet been privatised. Some of these institutions could be made more efficient and effective and turned into an instrument to benefit black businesses;

- Institute sound macro economic policies aimed at reducing the high interest rates and level of inflation;

- Create the economic and regulatory environment needed to encourage and nurture the establishment of private credit unions, co-operatives, and new financial institutions;

- Foster a positive investment environment by having a minimum of regulations and make available two critical inputs: adequate infrastructure, and support services to entrepreneurs;

- Address the issue of judgements in a progressive way. Some accommodation in respect of such judgements should be sought on a case by case basis;

- For people living in townships who have paid up to date rent for 20 years, transfer title deeds of their houses to occupiers to they can collaterise them. This is already being done in many parts of the county, except in the former homelands;

- Convert all commercial titles to ownership by land occupiers in order to provide collateral for long-term loans.

3. Policy recommendations on access to markets

- The Export Marketing Assistance programme should be extended. The current assistance barely touches the financial requirements of establishing export markets. Firms seem to spend about ten to fifteen percent of export sales on marketing activity. The large investment in marketing is required over a period of at least two to three years. Export marketing requires numerous overseas trips, expensive communications, the determination and payment of overseas agents and the establishment of offices and

K

warehouses. Finally, there is a learning curve where a firm increases its sophistication in terms of sizing, labelling, and quality expectations. The larger exporters simply absorb the cost. The lack of export marketing assistance discriminates against smaller companies. Assistance with the substantial costs inherent to developing export markets is required for businesses with low margins and weak cash flow;

- Incentives need to cover the cost disadvantage of the anti-export bias, and should therefore be tied to productivity improvements. Incentives should be monitored and linked to desired behaviour to ensure that resources are not lost in subsidising uncompetitive industry. Ongoing incentives may be tied to investment, organisational change, productivity improvements or employment generation. As it is mainly larger companies that export, incentives should encourage developmental relationships with suppliers, particularly SMMEs;

- Local and foreign joint ventures, franchise opportunities, tendering and procurement opportunities should be promoted with active black business participation. For emerging business, joint ventures and franchising particularly offer important economic opportunities. Government tendering and procurement practices must encourage developmental relations with suppliers;

- Government and big business procurement policies must encourage sourcing of inputs from the SMME sector;

- Technical assistance in terms of market research should be undertaken by government and NGOs for the SMME sector. Market news and information should be made available to SMMEs by the marketing support facility;

- Tender boards should be restructured and made transparent to include representatives for the SMME sector. The administration of tender boards should be revised and tender documents simplified so that SMMEs can take advantage of procurement opportunities from the public and private sector;

- Incentives should be devised to encourage big business to source inputs from SMMEs, sub-contract to SMMEs and enter into joint ventures with them;

- Black entrepreneurs and businesses should have access to information on joint ventures and partnerships with local and international investors. NAFCOC should be notified and made aware of such opportunities so that members can be readily informed.

4. Policy recommendations on legislation to be reformed

All the laws presented here affect the performance of markets, their structures and conduct. They need to be revisited with a view to making reforms aimed at removing barriers to entry, promoting growth, democratising the economy and championing equity.

Agricultural Land Use

This law should be amended such that farmers can have freedom to benefit from opportunities requiring alternative use of land. Such an amendment of the laws would empower agricultural communities, and enhance their views regarding the use of land from a

L

demand driven point of view. This would increase the value of land and access to finance can be facilitated.

Agricultural Marketing Boards

Emphasis on control boards should be relaxed and these institutions should focus on providing marketing services to farmers. They should sell their services to farmers and farmers should be free to buy these services, and if the services are not up to standard, farmers should be free to use other channels. It is clear that emphasis on controls prevents boards from working out comprehensive services to farmers.

The boards should be commercialised and change ownership structure from government to farmers themselves or employees and other investors. Consideration should even be given as to whether these institutions should be floated on the stock exchange.

This recommendation would allow newcomers, especially black farmers, to compete. Further, this recommendation would result in a restructuring and re-orientation of agricultural marketing to a flexible and dynamic marketing system.

Animal Slaughter

The monopoly powers of abattoirs should be abolished and farmers, butchers and large consumers such as mines should be allowed to slaughter as long as normal hygiene standards are maintained. However, this should be done with great caution because it can lead to price wars by the more well established white farmers who have the ability of locking small black farmers and businesses out of the market. Much of this is already happening in the Northern Cape province where small black farmers and businesses have been the hardest hit.

Land

This is an important issue related closely to questions raised regarding access to finance. As such, it is recommended as follows:

- that after meeting certain agreed criteria (example, length of occupation, time, etc.) title to land should be converted to ownership. Emphasis should be put on title to land in communal areas and the townships;

- township properties and business centres should be sold to occupants at historical (book) value and not at market related prices. In addition, the price and size of farms have not yet been fully dealt with in the former homelands and needs urgent attention. A method should be devised to clearly spell out the pricing policy of these properties with participation from NAFCOC;

- township homes which have been occupied for more than 20 years should be considered as having fully paid and title deeds for the properties handed to occupants. This program is already underway in the urban black townships, but not in the former homelands or bantustans. Properties in the former homelands should be converted into title deeds and handed over to occupants;

- that more state land be sold to communities, individuals and particularly black entrepreneurs so as to reduce financial barriers to entry.

M

Dairy Laws

Liberalisation of dairy laws and removal of restrictions regarding pasteurisation of milk should be considered. The presently strict conditions regarding storage, processing and distribution of dairy products should be critically examined with a view to removing barriers to entry.

Environment

A careful cost-benefit analysis should be made before specific environmental requirements are imposed by law. Without such an evaluation, which should allocate who will pay the costs and who will benefit, environmental protection laws may raise considerable barriers to entry for SMMEs.

Labour

There is need to discuss and re-examine some of the labour laws and see how possible removal of barriers to entry can be achieved, especially for a country with a high unemployment rate.

Game Parks

The situation which prevents SMMEs from operating in the national game parks needs to be examined as it limits certain entrepreneurial opportunities. A study of the potential needs to be conducted and a limited range of trading activities should be allowed before full scale liberalisation.

Gambling

It is desirable to have the consistent regulations concerning gambling across the whole country. However, the preferred option is that any meaningless government intervention raises barriers to entry. As such it is not desirable for regulations of this nature to raise barriers to entry for SMMEs.

Apprenticeship Laws

Entry barriers into trades, occupations and professions should be systematically and critically re-examined. Individuals who possess the knowledge and skills but do not hold certificates in a specific trade, should be tested and allowed to practice their skills. The artificial shortage of skilled people, created by protecting certain trades, only helps those who are already insiders and is a barrier to entry for those who are outside.

Minerals

Many have argued that trade in precious metals and stones, as well as stone-cutting and polishing, provide important SMME opportunities.

Tendering System

Up to now the tendering system has not benefited black business. Representation on tender boards should include black business representatives nominated by NAFCOC.

Legislation surrounding tenders in the provinces should be revisited and reviewed to avoid misinterpretation and ensure transparency.

Tax Laws

The tax law should be revised to include tax shelters and incentives for black businesses and to companies setting up businesses in black townships or rural areas.

5. Policy recommendations on institutions

- That a multiplicity of support institutions can be detrimental for SMMEs as this will further fragment assistance to the sector.

- The implementation of DTI's SMME policy should be closely monitored and evaluated to ensure successful delivery of assistance to intended recipients.

- The relationships between all the new mushrooming institutions of the new government (e.g. Apex facility, local business service centres, etc., and the old support structures such as SBDC, DBSA, IDC, DTI, etc.) must be co-ordinated.

- Business associations should develop member support services, among others through organisation of market news for producers, market research, courses on exporting or importing, assistance with business plans and management development training.

- The relationship between international donor support for SMMEs, joint venture proposals by foreign investors and information on SMMEs, big business and international donors must be co-ordinated.

6. Policy recommendations on human resources development

- A national qualification structure must be created which takes into account both the formal and informal ways of training is recognised. This task is currently being examined by the Qualification Accreditation Board;

- The registration of businesses and the application of business licenses should be streamlined and the process simplified so that black businesses can be more easily registered;

- An information base on current provision of sectoral capacities and constraints to provision of skills in the South African economy must be developed;

- A core curriculum recognised by all economic sectors. Linkages between curriculum development and adult literacy is currently being investigated by a National Task Force who has been appointed to examine this issue.

0

1. INTRODUCTION

1.0 Introduction

The South African economy has been studied extensively. A number of seminar papers and other research documents have touched on the subject of barriers to entry. However, there has been no study which has looked systematically and comprehensively at the barriers impeding new business development, particularly black business development.

This study takes as its point of departure the assumption that barriers to entry will always exist in competitive markets. There is always a positioning by firms to sustain their competitive advantage through product development, lobbying government, creating cartels, monopolies, fixing prices, and other measures. This also includes erecting barriers such as product differentiation, brand names, distribution networks and market diversification. This study assumes that in competitive markets, there is a continuous erection and dismantling of barriers to entry. This movement of erecting and dismantling barriers to entry leads to improved resource allocation and enhanced consumer welfare. For South Africa, such improved resource allocation must lead to the democratisation of the economy, sustained growth, improved factor productivity and increased equity.

Barriers to entry can also be created by inappropriate government intervention or through rent seeking by certain segments of society. For this reason, the study has examined a few policies of the democratic government with a view to understanding whether or not barriers to entry are being addressed.

The purpose of this study is to:

- provide information about the policy induced and structural barriers to entry;
- suggest areas of policy reform.

1.1 Specific Terms of Reference

Barriers to entry have been segmented into two broad categories -- policy induced barriers and structural barriers. By policy induced barriers to entry, one refers to those barriers introduced in the market through legislation/regulations which can be eliminated through the removal of such legislation/regulations. Structural barriers to entry are introduced mainly through product differentiation, brand names and the macro-structure of the economy.

1.1.1 <u>Policy Induced Barriers To Entry</u>

The assessment includes:

i) Survey of literature and existing legislation, rules and regulations affecting entry into the South African market;

ii) Impact assessment and analysis of the appropriateness of existing laws and regulations with respect to the overall business climate, including regulations on small businesses and especially those regarding entry of the majority population;

iii) Assessment of the reform agendas and identification of further areas for reform and specifically in relation to the RDP objectives and the promotion of a more competitive business environment;

iv) Identification of specific sectors or industries requiring relief from policy induced barriers;

v) Suggest South African responses to international trade barriers and the effects of GATT, WTO, EU, COMESA, SADC and other trade agreements, on South Africa's ability to trade competitively regionally and internationally;

vi) Summary of policy impediments and suggested solutions prioritised;

vii) Analysis of current and pre-election business lobbying and advocacy efforts to influence national and provincial legislation, whether for and against entry barriers;

viii) Assessment of business led reform agendas, e.g. published and promoted by NAFCOC in its "Black Business Manifesto". Identification of further areas for reform in concert with RDP objectives.

1.1.2 <u>Structural Barriers To Entry</u>

The assessment includes:

i) Survey of literature and determination of possible sources of barriers to entry not induced by policy. These include scale economies, capital requirements, product differentiation, advantages of established sellers, practices, market position due to control of sales outlets, control of supply and/or resources, technological patents, special access to financing, import licences and franchises, unfair practices, interlocking directorates and collusion;

ii) Analysis of South Africa's market and industrial structures, where appropriate, for barriers to entry and identification of key industries that require industrial structure reforms.

1.2 Context of The Study

This study's main contribution will be its articulation of policy reforms aimed at removal of barriers to entry. This is mainly for the purpose of improving the competitiveness of the economy through improving factor productivity, expanding the stakeholding in the economy and increasing participation of the earlier disadvantaged communities, stimulating sustainable growth of the economy, employment and addressing issues related to income distribution as envisaged in the Reconstruction and Development Programme (RDP).

This study is being conducted within the context of certain macro-performances of the South African economy. Each of these areas is discussed in more detail below. Information on barriers to entry is provided within an economic framework with the following characteristics:

- Declining Gross Domestic Product (GDP) performance,
- Declining factor productivity,
- Rising unemployment,
- Highly skewed income disparities,
- Disparity in provision of public services.

1.2.1 GDP Performance

Table 1.1 shows that the last 20 years have been a period when the South African economy has experienced great difficulties. GDP growth rates have consistently declined from the high levels of the 1960's when average annual growth rates were up to six percent (1961 - 1965) down to only one percent (1986 -1992). Adjusted for movements in the external terms of trade, the gross domestic income (GDI) growth rates declined from 5.8 percent (1966 - 1970) to 0.27 percent (1986 - 1992). Other economic indicators mirrored the same trend with private consumption growth rates declining from six percent (1966 - 1970) to 1.97 percent (1986 - 1992) and growth rates of employment similarly declining from 3.18 percent (1961 - 1965) to -0.23 percent (1986 - 1992).

Table 1.1
Average Annual Growth Rates in Real GDP and Other Real Indicators

	1961 - 65	1966 - 70	1971 - 75	1976 - 80	1981 - 85	1986 - 92
GDP	5.94	5.15	3.49	3.13	1.36	1.03
GDI	4.62	5.81	6.39	4.02	0.03	0.27
Private Consumption	4.62	6.00	5.08	2.64	2.65	1.97
Employment	3.18	2.53	2.41	1.42	0.07	- 0.23

Note : Gross Domestic Income (GDI) -- real GDP adjusted for movements in the external terms of trade. Employment -- wage and salaried employment including domestic servants.

Source : World Bank; South Africa Economic Performance and Policies, Peter Fallon et al, 1994

It seems the economy has recently turned around, particularly during the third quarter of 1994, when the rate of growth of GDP rose to 4 percent and 6.5 percent in the last quarter of 1994. These increases must be seen from a background of GDP growth rates of 1.5 percent in the first quarter of 1994. An average growth rate of GDP of three percent was achieved in 1994. The performance of the economy was less impressive but still positive during the first quarter of 1995, and it is estimated that during 1995 an average growth rate of three to four percent will be achieved. Annex VIII gives a medium term forecast of the economy to 1999. This forecast is worrisome and indicates that real per capita income will rise until 1996 and begin to fall again.

A clear message, therefore, is that for the economy to have sustained growth, liberalisation of trade, exchange and interest rates are a precondition. It has been pointed out that South Africa's tariff and non-tariff barriers are among the most complicated in the world, distorting both international and domestic trade flows. According to a recent article in Business Day, South Africa's economy is considered "one of the most uncompetitive, restrictive and protected in the world." Other interesting indicators with regard to the performance of the economy are given in Annex IX.

1.2.2 Declining Factor Productivity

According to Table 1.2 growth in total factor productivity has consistently declined in South Africa since the 1960's. During the period 1961 - 1970, the annual average percentage rates of growth of productivity in relation to GDP were 1.6 percent (1965 - 1971). This rate declined consistently to -0.4 percent (1971 - 1980), -0.5 percent (1981 - 1985), rose slightly to 0.7 percent (1986 - 1991) and averaged at 0.4 percent during the period 1961 - 1991.

Table 1.2
Growth in Total Factor Productivity
(Annual Percentage Rates)

	1961 - 70	1971 - 80	1981 - 85	1986 - 91	1961 - 91
GDP	1.6	-0.4	-0.5	0.7	0.4
GDP (Non-Government)	1.8	-0.4	-1.3	0.7	0.3
Agriculture	-0.4	2.4	-0.3	5.3	1.6
Mining	2.5	-5.8	-3.7	-3.2	-2.3
Manufacturing	2.3	0.5	-2.9	0.6	0.5

Source: World Bank Staff Estimates quoted in *South Africa: Economic Performance and Policies*, Peter Fallon et al. April 1994.

Reduced investment is, therefore, not the only explanation for the decline of GDP growth rates of the South African economy. The decline of factor productivity meant that lower returns were obtained for the same amount of investment. A closer examination of this decline reveals that the manufacturing sector was one of the worst performers with regard to growth rates of factor productivity. From a high level of 2,3 percent rate of growth recorded during 1961 - 1970, factor productivity growth in manufacturing dropped to -2,9 percent in 1981 - 1985, and only slightly improved during 1986 - 1991. Barriers to entry do contribute to the performance of factors of production with respect to their productivity. The imperfect markets characterised by monopoly and cartels, do not permit competition, innovation, research and development. These improve technology and lead to efficient investment.

1.2.3 Rising Unemployment

Besides the GDP growth rates, Table 1.1 shows that growth in employment has also been declining since the 1960s. The decline has been from 3.18 percent in 1961-65 to 0.23

percent in 1986-1992. Though the economy has turned around and started growing again, growth in employment has not been pronounced. It is in this sense that many have observed this decline in the absorptive capacity of the economy.

During the 1960's, about 70 percent of new entrants to the labour market were absorbed into wage employment and during the 1980's and early 1990's, this percentage has fallen to below 10 percent. Given a growing labour force and a declining absorptive capacity of the labour market, an ever increasing army of the unemployed is growing. For an empirical appreciation of the development of the South African labour market, Annex I provides summary information. Many have argued that SMMEs can play a crucial role with regard to employment generation. If SMMEs are to play this role, a systematic and comprehensive examination of barriers impeding their growth should be conducted.

1.2.4 Income Disparities

Many have acknowledged that income disparities in South Africa are wider than in most countries of its level of development. Though a middle level income country, most of South Africa's national income accrues to whites. The per capita income for whites was calculated to be approximately 9.5 times that of Africans, 4.5 times that of coloured and three times that of Asians by a World Bank report.

Combined with other social indicators such as infant mortality and life expectancy, the levels for whites are similar to those of developed countries, while those of the Africans are similar to those of a typical developing country. Indeed the dualism existing in the South African economy cannot be sustained for the long run.

1.2.5 Provision of Public Services

Fiscal apartheid resulted in a distribution of all services in favour of whites. It is possible to identify the following issues related to barriers to entry.

- During the period of apartheid, business infrastructure was developed in white areas and none in black areas outside the Bantustans. In the townships, blacks were so-journers, therefore, not allowed to own immovable property. When business was carried out in the townships, it was restricted to 25 items, later expanded in 1976 to 52 items, such as dried beans, milk, sugar, etc. Black business was thus denied business infrastructure as well as hands-on experience in the running of other businesses such as pharmacies, wholesale, hardware, etc.;

- With less money provided for black education, particularly African education, the development of business skills was retarded.

1.3 Scope of the Study

There are many inter-related issues that the study examines, specifically reforms and their effects on market structures, legal and institutional frameworks, intervention policies by government, administrative arrangements and other political economy issues. On the basis of such examination, recommendations are made as to how these barriers to entry can either be reduced or dismantled.

In the search for barriers to entry both positivist and normative approaches are used. Empirical information is provided concerning the South African economy, market and industrial structures in order to determine the barriers to entry, whether policy induced or structural in nature. However, the assessment of the effects of the barriers on users, dominant firms, competition, efficiency, and government development objectives, etc can only be normative at this stage, as only a year of a democratic government is too short to assess policy impact.

This study considers both macro and micro views as well as the linkage environment of these perspectives. For this reason the bulk of the study is based on secondary information collected via a number of existing documents. A number of micro environments were obtained through interviews with participants in the South African market and business.

1.4 Methodology

In the literature on South Africa, it has not been possible to locate documents discussing the issue of barriers to entry in a systematic and sustained manner. For this reason, the study seeks to initiate such a debate and contributes a point of view to this vast topic of barriers to entry. This study is based on two main sources of information :

Secondary data obtained from research reports, seminar proceedings, government and parastatal documents, including annual reports. In this regard the following institutions were visited:

i) University libraries, and research and training institutions in areas of business, economic development, and industrial policies;

ii) Ministries such as the Department of Trade and Industry (DTI), Finance, Transport and Communications, Public Enterprises;

iii) Parastatals such as the Industrial Development Corporation (IDC), the Development Bank of Southern Africa (DBSA), Eskom;

v) Private sector institutions including NGOs, and business associations such as the National African Federated Chamber of Commerce and Industry (NAFCOC) and South African Chamber of Business (SACOB).

A number of documents on the theory of barriers to entry have been consulted and revisited. The most important of these are: Bain J.S, "Barriers to New Competition (1956)", a classic work in the field. This work complemented by numerous studies by Baumol, W and his associates, especially the work which appeared in the quarterly Journal of Economics, number 95 with the title "Fixed Cost, Sunk Cost, Entry Barriers and Sustainability of Monopoly." The work of Baumol, Lee, Kyu Sik (1991) in the World Bank Observer, Vol. 1 No. 1 called "Contestable Markets, Trade and Development" was also found useful. Other works have been used to get more understanding of the theory of entry barriers such as J. Stiglitz and F Mathewson (eds.) "New Developments in the Analysis of Market Structure", Massachusetts Institute of Technology, 1986.

A number of studies by the World Bank and other researchers on the South African economy were used, particularly works by Peter Fallon and Associates, and Pedro Belle and Associates. Also consulted were the White Paper on SMMEs by the Department of Trade and Industry, the RDP White Paper, NAFCOC's Black Business Manifesto, documents of the professional economic panel set up by NEDCOR, and South African Reserve Bank (SARB) publications. Primary data was obtained as a probing exercise on issues not clarified in the literature.

2. CONCEPTUAL ISSUES

2.0 Introduction

Analysing barriers to entry in the South African context requires a special approach, given its history of policies intended to exclude the black population from independent economic opportunities and entrepreneurial-artisanal skills development. Strategies to support the vision of apartheid required the implementation of internationally isolationist policies. The South African economy is characterised by economic concentration across sectors. Substantial barriers to entry are erected towards emerging business. The structure of the economy is partly the result of historical policy which emphasised:

- Import substitution policy: The structure of the South African economy became highly capital intensive as mining capital was forced to re-invest locally, often investing in downstream activities. Later, Afrikaner capital was encouraged by the state to invest in competition with English business. International sanctions encouraged the continuation of an inwardly oriented economy, particularly in industries that provided higher value-added products. These conditions resulted in a highly concentrated economy, with high barriers to entry and growth for emerging businesses;

- The policy of establishing state enterprises: The apartheid state promoted highly capital intensive investments through the IDC such as Iscor, SASOL and MOSSGAS;

- The policy of apartheid: Apartheid severely limited equal access to economic opportunity by race. Hence, potential competition from black business was virtually eliminated.

Hence, a range of policies implemented in the apartheid era have resulted in structures which continue to pose barriers for emerging business and international investors. In some cases, these structures appear to be firmly embedded in the organisation of South African industry, virtually intractable. Examples include the dominance of conglomerates. In other cases, policies are more fluid, particularly in new avenues related to non-traditional industries or the opening of venture capital funds.

It is common for studies that consider the barriers to entry for marginalised communities to emphasise the barriers to 'formalisation'. A focus on the informal-formal divide is understandable since entrepreneurs from marginalised communities tend to operate in the 'informal sector'. Yet, this study departs from a duellist approach. To make sense of the limits on business entry and growth, it is necessary to consider the economy as a unified interacting entity. The study considers the factors that impose discriminatory barriers to the entry and expansion of previously marginalised business in South Africa. The problem of barriers to entry affects mainly black and female entrepreneurs. Yet, barriers are confronted even by existing business as evidenced by the high degree of concentration in the South African economy. It is necessary to generate an economy which is more competitive and with greater access to opportunity, an economy which facilitates and is attractive to foreign investors.

Economic discrimination can form an important, albeit intangible, barrier to entry. While the literature on industrial economics ignores this issue, informal barriers may be erected against entry of entrepreneurs from marginalised sectors. Discrimination may take different forms, such as disproportionate reluctance by banks to lend capital on the basis of race or gender. Alternatively, marginalised communities that have been relegated to poor geographical locations may have more difficulty starting-up if they live far from centres of economic activity or because the cost of establishing a business in a poor location is higher due to such costs as insurance and the transport of goods.

This study borrows concepts from industrial organisation theory, focusing attention on the causes of concentration related to both business behaviour and policy induced barriers. Yet, standard industrial organisation theory is not sufficient. In addition, it is necessary to consider the dynamics between informal and formal sectors. Furthermore, an understanding of the policy-induced spatial dynamics is essential. Hence, the study also considers the significance of regional economic development policies. The barriers considered in this report include: international trade policy, business regulation (e.g. competition policy, parastatals and privatisation, and SMME policy), regional policy, finance and macro-economic policy.

The primary interest in this study is to determine the manner in which policy has influenced an industrial structure that imposes barriers to entry. In turn, this study concentrates on recommendations for public policy to enhance equality in access to independent economic opportunities and shows the relationship between policy and structural barriers to entry.

2.1 Trade Policy and the History of Import Substitution

Development strategies may emphasise the encouragement of foreign direct investment, and/or the expansion of local business in domestic markets or in foreign markets through export expansion. Growth in local demand may be gained either through an actual expansion of domestic markets and/or import substitution. Historically, South African economic development depended on growth in the domestic market, relying partly on import substitution policies.

Annex II shows that between 1972 and 1983 total manufacturing sector output grew by 50.1 percent. This growth may be primarily attributed to expansion in the domestic market: import substitution and export growth contributed only six percent and five percent respectively. Manufacturing growth stagnated over the period 1983 to 1990, with growth of only 3.5 percent. Although exports grew, the domestic market was stagnant, with growing import penetration. The anti-export bias created by the inward-focused and protective South African trade policy in conjunction with international sanctions limited potential growth in export markets for South African products at a time when local markets were stagnating.

Historically, tariff protection limited the need to improve factor productivity to international levels. Innovation, research and development, skills levels, all suffered as a result of almost 70 years of protectionist policies. Innovation, research and development skills are the bricks for building entrepreneurship, working ethics and management styles geared to expanding the economy. As protective barriers are reduced, poor productivity and innovation may initially hinder the ability of South African business to compete against foreign imports and in export markets. However, poor innovation by established business may also offer greater opportunities for emerging business.

An outward oriented industrialisation strategy requires that tariff barriers be reduced and that foreign exchange controls be minimised or completely eliminated. Such a move will reduce barriers to entry for foreign companies which wish to establish in South Africa. It also encourages South African companies to invest in other countries where opportunities exist.

Policies for export promotion are still in development. As discussed in section 4.4, the DTI is considering the provision of supply-side assistance to exporters. Policy stability, coherence and clarity will be amongst the most important characteristics allowing for success. For emerging business, policy will need to address the financial and information gaps.

2.2 Parastatals and Privatisation

Together with the policy of import substitution, the 1924 PACT government initiated a policy of promoting state enterprises.

During the last 70 years, a plethora of statutory monopolies covering a wide range of economic activities developed, including the agricultural marketing boards, the railways, postal and communications systems, electricity, airways, ports and various industries such as iron, steel, gas and armaments. The state further developed interests in non-strategic industries such as hotels and tourism.

The process of privatisation offers the Government of National Unity (GNU) a special chance to widen economic opportunities to previously marginalised emerging business. Indeed, the GNU recognises that the process of privatisation will facilitate genuine black economic empowerment through the promotion of SMMEs, affirmative action and wealth redistribution.

The capacity of the disadvantaged communities, including entrepreneurs, to participate and benefit fully in the restructuring programmes should be ascertained and enhanced. While there has been some debate concerning share ownership, insufficient discussion has ensued regarding regulations over sale or leasing. Should the Department of Public Enterprises not address this omission, privatisation may singularly strengthen the dominant conglomerates or a small number of black entrepreneurs.

Industries have not yet been targeted for privatisation. State-owned companies that have a strategic public interest may allow for joint ownership and should be highly regulated. Only enterprises which lack an identifiable public interest must be fully privatised and remain relatively unregulated. However, even in cases of state owned companies with public interest, privatisation of some operations of such enterprises is encouraged.

It is probable that emerging business will have greater access to the non-strategic public enterprises such as tourism. These enterprises tend to have lower scale economies. Stipulations on sales may be required to ensure that emerging firms have special access to purchases, possibly in joint ventures with established business. Moreover, regulations requiring that privatised firms are supplied a certain percentage of services or inputs by emerging businesses and that they form developmental relations with these suppliers.

Concern for wide share ownership and stringent restrictions on investment by foreigners or non-resident nationals appears to have slowed the process of privatisation in Africa, particularly in Cameroon, Nigeria and Kenya. Yet, the ability of emerging, particularly black, business to invest substantially in privatised concerns is limited by access to finance. One possible option, pursued in Malaysia, entails the encouragement of joint holding companies which combine established, financially rich and experienced concerns with previously disadvantaged interests. There is increasing evidence that black firms in South Africa are pursuing this strategy, as identified above in the tenders in telecommunications and tourism.

There is some concern that shares in privatised firms will mainly be bought by the financially strong conglomerates and pension funds: this situation could exacerbate economic concentration. Mamadou Dia of the World Bank points to the Nigerian policy of forming shareholder associations, allowing for collective purchases and regulation.

2.3 Industrial Structure and Business Regulation

There are a range of ways to consider the phenomena of concentration. Within industries, high concentration may be measured by a dominance of firms providing a particular good or service, such as monopolies, oligopolies or cartels. Across sectors, there is an increasing awareness that conglomeration, which allows for economic power across sectors requires attention.

Standard industrial theory tends to neglect a number of issues, relevant to debates on economic development. The first issue concerns the spatial distribution of the population and of economic opportunities. The second issue is related to the interaction between the so-called 'informal' and 'formal' sectors.

2.3.1 Concentration within Industries

Concentration may refer to one or few firms operating in a market. Alternatively, groups of firms within the same industry may form a cartel, which determines pricing policy jointly. The strength that large established firms can wield is associated with greater resources and better access to information.

South African manufacturing industries are highly concentrated by international standards. The high level of concentration may partly be explained by the structure of capital markets. Furthermore, concentration may be attributed to relatively closed markets, whether through export or import competition, for South African manufactured goods. Finally, South African investment primarily depends on equity financing, through a stock exchange with limited turnover.

Annex III shows measures of industrial concentration for 18 major industrial sectors and three select industries. These measures show the percentage market share of the largest 10 firms (Concentration Ratio 10) and the extent of inequality (Herfindahl-Hirschman Index). Figures for 1982 and 1988 are offered, for lack of more recent data. It appears that the 10 largest firms in 11 out of 18 major sectors increased their market share between 1982 and 1988. In half of these sectors, the largest 10 firms accounted for more than 60 percent of industrial output. The Herfindahl-Hirschman index presents a slightly different picture, where the inequality between firms increased in only half of these industrial sectors. An influential policy document recently produced notes that:

> "At the industry sub-group level, the combined market share of the 3 largest firms *averages* around 56 percent and the 4-firm concentration ratio around 63 percent...
>
> "In approximately a third of the 178 industries at this level of desegregation, *four or less than four firms* accounted for at least 80 percent of sales in the industry(countrywide) in 1982-88. These industries can be classified as *very tight oligopolies* or situations where a small number of firms dominate the national market"(Fourie).

Discrimination in the distribution of property rights has contributed to the high concentration in ownership patterns and limited access to independent economic opportunities. This discrimination is described in detail in section 4.6 with specific reference to:

- Mineral rights,
- Laws on land tenure: uncertainty and insecurity for small businesses in rural areas,
- Agriculture where blacks could only farm in 'reserves',
- the historical exclusion from urban property ownership and lack of collateral.

Industrial concentration can have a negative impact on emerging business in terms of both obtaining inputs and selling products. Where there are few large firms selling inputs, emerging businesses will have weak bargaining power relative to larger, established firms in negotiating input prices and payment terms. Concentration in product markets can limit market access for new entrants. It is possible for strong and established business to limit entry since it has the capital to advertise, establish brand loyalty, collude on pricing, establish tied relationships with wholesalers and retailers and become involved in other forms of incumbent reactions. Firms may not successfully enter an industry for a range of reasons including:

2.3.1.a Economies of Scale

Natural monopolies constitute the extreme form of economies of scale. In such cases, the costs of providing a service are very high and so provision by more than one entity would lead to prohibitive costs. These services usually refer to utilities such as telephone, water and electricity. In recent years, the notion of natural monopoly is being challenged as technology has improved. There are arguments that technology has made it possible to privatise considerable activities of traditional natural monopolies.

In less extreme examples, economies of scale refers to a situation where average production costs fall as output expands. Clothing production is efficient at lower scales of production, while steel manufacture only becomes efficient at high levels of production. Economies of scale pose barriers to entry since they effectively assume the presence of sunk costs. Sunk costs form a barrier for two reasons: first, substantial capital may be required which may be more expensive for the new business to acquire, given the risk of entering a new industry. Second, potential incumbent reactions may cause concern where an investment is not recoverable.

2.3.1.b Absolute Cost Advantages

Absolute cost advantages refer to benefits gained from entering an industry first. Examples of absolute cost advantages may include: patents or restrictions on access to information on efficient production methods or product ingredients; controls on equal access to sources of inputs; access by incumbents to cheaper sources of finance, particularly where industries are subject to large economies of scale or require capital intensive production techniques. Absolute cost advantages may exist 'innocently' or may be part of a strategy to bar entry.

Certain barriers are erected as a means of maximising profits, which were not pursued to bar entry as such. However, these barriers offer the incumbent advantages in efforts to deter entry. On the one hand, post-entry absolute advantages can include advanced product design or lower cost/high efficiency. The established business may have set a precedent for sophisticated advertising, thereby raising the cost of entry. On the other hand, pre-entry asymmetry advantages occur where the incumbent has the advantage of already having invested in capital resources.

2.3.1.c Incumbent reactions: predatory price-cutting

Merely the threat of a price-war by a large established firm may be enough to deter entry, depending on the entrants potential profits. In the presence of sunk costs, the threat of a price war becomes more effective.

2.3.1.d Product differentiation/Brand loyalty

Thus far we have assumed that consumer loyalty is purely related to prices charged. The advent of mass production and mass media has resulted in strong brand loyalty for many products.

The increasing diversity in consumer markets allows emerging firms to explore opportunities in niche markets and new industries. Products may vary in quality and in product range. Demand for products varying in quality partly depends on price and on advertising. For example, low income consumers may be willing to purchase cheaper goods at a lower price. Niche marketing, on the other hand, depends on consumers who are interested in product variation. Barriers can be posed by incumbents where they supply different niche markets: this results in 'economies of scope'.

2.3.2 Concentration Across Sectors: Conglomeration

Conglomeration poses different kinds of problems for emerging business. Since South Africa is an equity-based economy, companies associated with conglomerates have a competitive advantage to firms needing to acquire debt finance. Conglomeration does not necessarily imply that subsidiaries display monopolistic behaviour in its respective markets. However, the relationship to the conglomerate may confer the financial space to embark on activities that could deter entry, such as predatory pricing and aggressive marketing.

The debt-equity ratio points to the combination of risk in the financial structure of an economy. In a context of high inflation and strict monetary policy, debt financing is an expensive form of business finance. SACOB offers international data on debt-equity ratios which appears to show a smaller presence of small firms in equity-based economies: The USA has a low debt-equity ratio of 25:75 in an economy with high pressure on short term profits. Japan and Germany have high debt-equity ratios of 71:28 and 61:39 respectively and display a longer term approach to investment decisions. South Africa's debt-equity ratio is low at 33:66.

Conglomeration and concentration have been encouraged by tight exchange controls. South African companies may not easily invest in other countries without the express permission of the Reserve Bank, forming a barrier to entering foreign markets. The Reserve Bank was given the powers to determine whether the opportunities for business in a foreign market benefited South Africa. As companies became reluctant to be subjected to this scrutiny, the result was mining houses could not expand into foreign mines related to their area of specialisation. Instead, the mining houses re-invested profits into sectors which were not their speciality. These controls contributed to the pyramid formations currently dominating the South African economy. These formations have raised the capital requirements in a number of markets. Moreover, absolute cost advantages for first entrants are great, particularly where the cost of finance and establishment of markets for conglomerates is inexpensive relative to that for emerging business and SMMEs.

The racial profile of big business is slowly changing, blacks having achieved a market capitalisation of R1.8 billion, controlling companies with a market capitalisation of R3.3 billion and controlling assets worth R9 billion. However, the structure of 'big black business' is very similar to established business, with a pyramid formation. The Standard Corporate Merchant Bank finds that these large corporations have been made possible through financial partnerships, creative financing and an emphasis on growing sectors. Most of these groupings provide, not goods, but services such as insurance, finance, property and leisure. Printing & publishing tends to be the main industrial product.

Business Day recently reported a number of large ventures that emerging black conglomerates are entering. These groups are becoming involved in substantial investments in and tendering for emerging and expanding industries, particularly in conjunction with established local and international business.

2.3.3 Competition Policy

Competition policy regulates anti-competitive behaviour in a particular industry. It is not intended to regulate the behaviour of conglomerates *per se*, although intervention is possible where economic power allows for the imposition of barriers in a particular activity.

Although Competition Policy was initially instituted in 1955, it was more actively promoted from 1980 with the promulgation of the Maintenance and Promotion of Competition Act. The Competition Board is able to advise the relevant Minister and cannot take policy decisions itself.

Competition policy in South Africa has historically been extremely weak. Very few determinations have ever been made against a merger or firm practices, thereby enabling significant concentration. Fourie offers some examples where either the Competition Board or the relevant Minister failed to act, such as in the fertiliser, explosives, alcohol and coal industries.

The RDP White Paper commits the GNU to a more active competition policy, with the objective of reducing "the distorting effects of excessive economic concentration and corporate conglomeration, collusive practices, and the abuse of economic power by enterprises in a dominant position...the policy will ensure that participation of efficient small and medium-sized enterprises in the economy is not jeopardised by anti-competitive structures and conduct".

Competition policy is currently being seen as one which is complementary with other economic and redistributive policies, thereby replacing the previous ANC thrust which focused on breaking up centres of economic power. Competition policy is intended to protect the "*potential abuse that (a dominant) position may create, or actual abuse that may occur in such a situation.*"(Fourie).

Current proposals for improving Competition Policy include:

- Improving organisational structure, with more frequent Board meetings and improvements in support staff;
- Enhancing the discretionary powers of the Competition Board, by decreasing political discretion and potential for business lobbying. More specifically, the establishment of an independent Competition Tribunal and a Competition Appeal Court is being advocated;
- Increasing potential penalties;
- Increasing the transparency of investigations, processes and outcomes.

The review of Competition Policy is highly significant for emerging business, in ensuring fair market competition.

2.3.4 SMME Policy

Emerging business fits a definition ranging from micro informal activities to medium sized registered companies. In South Africa, most emerging activities, particularly amongst those previously marginalised, are micro and small businesses.

Box 1

Defining Emerging Business

1. Black Business previously marginalised by legislation. Due to their recent emergence, these businesses tend to be small and micro-enterprises.
2. Barriers to competition for businesses caused by weak competition policy and concentrated industrial structure. These are businesses that were not necessarily excluded by legislation per se.
3. Foreign direct investment restricted during sanction period.

The relationship between formal and informal sectors of the economy is highly contentious. Some view these sectors as completely separate, operating on their own logic.

An alternative view sees these sectors as intertwined in a number of ways. First, in some economies, the goods and services provided by the informal sector enhance the profitability of the established producers by reducing their input costs. Second, when the formal economy is floundering, informal work can offer survival strategies to both the employed and unemployed. Particularly where 'formal' wages are very low, moonlighting allows workers to support their families.

Historically, small business, particularly for the black population, has been hindered by legislative controls and educational policies. As discussed in Chapter 4, most entrepreneurial activities were illegal for the black population until recently. Moreover, poor levels of education and entrepreneurial education have severely limited the ability of large proportions of the population to participate in independent economic opportunities. Those that have been subject to poorly-resourced schooling are particularly vulnerable. In South Africa, apartheid policies hindered the development amongst the black population of both entrepreneurial skills and of artisanal skills. Weak attention to continuing adult education further exacerbates this problem.

The SMME Directorate in the DTI is presently formulating policy to develop an enabling environment for small business. The emergence of this policy recognises the historical legacy which has barred the black population from access to independent economic opportunities. The DTI will form NEPA (Ntsika Enterprise Promotion Agency), originally named Small Business Development Agency (SBDA), a fully public agency to promote small business. Its functions will include training, market and public procurement, business development services (BUDS) and centralised policy information. Other services will include a Credit Guarantee Scheme for SMMEs and a facility providing wholesale finance.

BUDS will be responsible for co-ordinating local business service centres and technology centres. There is some possibility that an Internet communications link will be developed for these centres to provide efficient and comprehensive information to surrounding small businesses such as on policies and tenders. The benefit of an Internet service is substantial. Access to centralised information is greatly facilitated, for a very small cost.

Some NGOs have expressed concern regarding the lack of co-ordination between departments within the DTI. One example is the lack of clarity in relationship between the Regional Industrial Development Programme's assistance for small initiatives (S-RIDP) and the SMME Directorate. This lack of communication is starting to improve with the beginning of inter-departmental meetings.

2.4 Spatial Dimensions of Economic Opportunity and Regional Policy

Economic policy that emphasises the development of a few urban locations can exacerbate poverty in other neglected regions. Without agglomerations of economic activity, the population in these neglected areas have little hope of substantially emerging as entrepreneurs. This statement does not suggest that a government can completely disperse its economic development programme: instead, an active labour market policy may be required to facilitate movement to centres of agglomeration.

Economic opportunity depends substantially on agglomerations of economic activity. First, in a middle-income economy, emerging business will primarily operate as service providers and subcontractors. This activity inherently depends on growing economic activity and the demand for these services. Second, access to learning effects with respect to new technology and methods of marketing and production are greater where there are agglomerations of business activity.

There is great spatial disparity of economic opportunities, where large parts of the population live far from centres of economic activity. Moreover, there are great differences in skill levels by regions, thereby exacerbating this problem. These disparities mainly affect the African population and women. In South Africa, the policy induced racial distribution of the population means that many people, particularly black women, live far from centres of economic activity.

Two examples exemplify this problem: the contribution of manufacturing to each province's overall economic activity and the literacy rate per province. In Gauteng, manufacturing contributes 30 percent to the Gross Geographic Product. This may be compared to the Northern Province, with only seven percent manufacturing activity. Again, Gauteng demonstrates the highest rates of literacy, at over 75 percent. By contrast, all other provinces have literacy rates below 59 percent. The ratio of female to male illiteracy is far higher in the Northern Province (65:35) than in Gauteng (45:55).

Annex VI shows that seven percent of the economically active population were self-employed in 1991, up from 3.9 percent in 1980. A large racial disparity in the extent of self-employment is found. For example, 16.4 percent of Whites are self-employed, as compared to 4.4 percent of Africans. A large difference in the extent of self-employment by gender is also found where 4.9 percent and 8.4 percent of women and men respectively are self-employed in 1991. A recent survey found that only a minute proportion of self-employed are involved in manufacturing activity. As Table 2.2 below shows, the highest rates of self-employment were found in the Western Cape, the Free State and Gauteng. Of the male sample, 2.3 percent were self-employed, as compared to only 0.9 percent of the women interviewed.

Table 2.2
Self-employment by Province
Percent of regular employment

Province	**W. Cape**	**E. Cape**	**Kwa Zulu**	**Free St.**	**Mpuma langa**	**N.Pro**	**NW**	**Gauteng**	**All**
	2.3	0.5	1.7	2.7	0.5	0.2	0.7	2.8	1.8

South Africans Rich and Poor: Baseline Household Statistics, Project for Statistics on Living Standards and Development, SALDRU, Aug 1994, pg. 157.
Figures for the Northern Cape were not available.

Fifty percent of the non-agricultural self-employed provide services including some form of retailing, house building or repair, clerical or sales and transport. The only exception was in the area of 'sewing and selling clothes'. Many of these services depend on agglomerations of economic activity where a potential clientele is earning income to buy goods and where manufacturing and services industries contract out to these emerging businesses.

This sample of data exemplifies the subtle discrimination in access to equal opportunities, particularly for black women often living in rural areas with poor educational levels and far from regions of agglomeration.

2.4.1 The State and the Provinces

Some conflict exists between the central government and the provinces concerning the centralisation of powers. The constitution lays out the provincial competencies which include: tourism, gaming, trade and industrial promotion, consumer affairs, as well as small, medium and micro enterprises.

Provinces are not able to offer financial subsidies and may not outbid other provinces with such incentives. On the one hand, provinces do not yet have powers to raise revenue. This situation may change to some degree if the proposals put forward by the Financial and Fiscal Commission are adopted. These suggestions would see provinces gaining the right of two-tier taxation, probably added onto sales taxes, although potentially also added to income taxes. On the other hand, the central government seeks to avoid provincial competition which simply results in the shifting of resources from one region to another, without generating new wealth or employment. Provinces are left with a narrow domain for promoting their regions to business.

The ability of the provinces to promote economic activity and local investment may be crucial to improved opportunities for emerging business. It is not yet clear that the central state will have the capacity and energy for the effective implementation of broad-based development.

2.5 Macro-economic Policies and the Structure of Finance

An economy that relies on equity-based financing may increase the costs of finance for emerging firms. Moreover, an equity-based economy tends to encourage short-term returns on capital, whereas new entrants require a number of years to demonstrate returns. This problem may be further exacerbated where smaller firms rely on debt finance in a context of tight monetary policies.

Monetary and fiscal policy have played a part in encouraging the low employment generating capability in the economy, weak competition from emerging business and high capital intensity of production. Monetary policy in South Africa has been strict, with the intention of controlling inflationary pressures. High interest rates are intended to control consumer expenditure. Yet, the high cost of debt finance also prejudices emerging businesses that would need to rely on credit.

Macro-economic policy has partly contributed to the capital intensity of production. The highly capital intensive weighting of investment in South Africa is unsupportive of emerging business and of employment generation. On the one hand, monetary policy supported negative real interest rates, that is, interest rates below the rate of inflation, for many years up to 1984. On the other hand, while fiscal policy determined high rates of corporate taxes, substantial tax breaks dramatically reduced the actual amount collected for capital intensive activities.

A World Bank study found that between 1984 and 1990, the effective cost of capital, after taking into account tax breaks and interest subsidies, was about three times higher for labour intensive industries than for capital intensive industries. This finding contradicts previous work done by SACOB which explained weak materials benefaction as the result of the high cost of capital. A SACOB study analysed relative costs in terms of official tax rates and a higher rate of inflation: Their estimates did not account for the effective tax rate (that actually paid after tax breaks) and the fall in inflation by about four percent. However, SACOB centrally pointed to the need to reduce corporate tax rates and the real interest rate in a context of relatively high inflation and risk. Since 1984, real interest rates have been positive. In the 1990s, the corporate tax system has been reconsidered to reduce tax breaks and loopholes.

Attributing the capital intensive structure of South African industry to monetary and fiscal policy may be misleading. Much of the direction of South African investment was the result of political motives to establish domestic capacity in a context of international isolation. Special tax breaks and equity finance have been offered by governmental bodies and parastatals to develop highly capital intensive resource based industries ranging from MOSSGAS and SASOL to recent support for Iscor's Aluminium smelting and stainless steel.

Restrictive monetary policy and conservative lending practices may have contributed to the Southern African Labour and Research Unit's (SALDRU) finding that few black households obtain debt from banks and building societies. Credit is primarily obtained by hire purchase, shopkeeper credit and through friends or relatives. In particular, only 1.6 percent of debt incurred by African households came from banks or building societies, comparing poorly to 30 percent of total debt by white households. While data was not given on business credit, the SALDRU figures may offer an indicator of the difficulty associated with obtaining bank credit for the black population. This has serious implications for emerging black business.

2.5.1 Exchange Rate Policy

Exchange rate policy has typically been highly restrictive in order to control capital outflows and maintain a balance of payments. Restrictive policies have encouraged conglomeration and concentration in the South African economy as mining houses were forced to re-invest locally. The Reserve Bank has begun a process of liberalisation, although the final direction is still unclear. While the concern for the balance of payments still exists, liberalisation of foreign exchange controls is essential to engender confidence in the South African economy and to facilitate foreign trade and investment.

It is still not possible for citizens or residents to hold foreign currency accounts either locally or abroad. Instead, an active forward market exists. In this way, foreign exchange may be swapped with a bank at the current spot rate. The seller may then buy the equal face value of foreign exchange back at a future date, taking into account the interest rate differential locally and in the respective country.

Controls still exist over the ability of South Africans to invest overseas. A move to liberalisation was instituted in June 1995: companies may now invest overseas on the basis of asset swaps where foreign companies invest an equal amount in South Africa.

2.6 Policy Dilemmas

2.6.1 Market and State: A generalised or targeted approach to analysis and promotion

South Africa's history is one of stringent regulations which systematically discriminated against large parts of the populations. It would be difficult to imagine that lifting of discriminatory regulations would on its own allow for equal access to independent economic opportunities. Policy intervention is required to address systemic racial and gender disparities which limit the entry and expansion of emerging business.

A number of policy dilemmas arise. In geographic terms, certain parts of the population, particularly black women, have been left in non-urban areas which are far from agglomerations of economic activity. Should policy be directed to raising agglomerations in these areas? International experience shows that the attempt to develop pockets of growth in this way have dismally failed. Should policy instead encourage demographic movement into areas with agglomerations of growth? Should policy offer generalised support, allowing business to locate according to market forces?

In terms of the dispersion of assistance across industries, should business incentives and assistance be offered on a generalised or targeted basis? Prior to entering government, African National Congress (ANC) economists tended to support targeted assistance, in line with East Asian growth strategies. On the one hand, there is concern that the state does not have the capacity to identify the appropriate industries for growth: the decision should be left to the entrepreneur. However, state resources are limited. The experience with General Export Incentive Scheme (GEIS) and with the Small Business Development Corporation (SBDC) shows that generalised support may cast scarce resources over too thin ground, with little overall identifiable impact.

There are plans in the SMME Directorate to focus sectorally, once generalised support structures such as NEPA, are in place. The target sectors are still being considered, but may include aspects of agriculture, clothing, construction and tourism.

2.7 Policy Recommendations

To encourage growth of the economy and improve income distribution as well as democratising it, the following reform measures are necessary:

- The dismantling of the import substitution strategy, through a speedy implementation of the GATT agreement. This will open South Africa to foreign competition, resulting in increased foreign investment. Liberalisation policies should include a specified period of protection of black infant industry so that they may have the opportunity to compete on a level paying field.

- Study ways and means of restructuring and privatising some of the state-owned enterprises with a view to opening opportunities for black empowerment. State assets designed for privatisation should be clearly identified; percentage of privatisation set aside for black empowerment should be clearly specified along the lines of NAFCOC's 3-4-5-6 program for black economic empowerment.

- Pro-active policies be designed aimed at addressing the imbalances resulting from apartheid policies.

- Study ways and means to abolish foreign exchange controls in order to facilitate investment outside the country by South Africa business.

- Strengthen the competition board by giving it powers to prevent monopolies and the establishment of cartels in the economy.

- Develop active policy intervention at provincial level to address issues such as access to capital, markets, skills training opportunities, business infrastructure development in the townships and make meaningful institutional reforms

3. ACCESS TO FINANCE

3.0 Introduction

A major structural barrier to entry often cited by SMMEs is access to finance. The high capital requirements to enter certain markets have been exacerbated by competition with conglomerates not able to invest outside South Africa because of exchange controls, thus entering into domestic markets outside their core activities. Interlocking directorships and ownership create an environment conducive to providing loans to activities of larger firms, to almost the exclusion of SMMEs. This section intends to explore some issues related to problems of the financial institutions, SMMEs and general access to credit for earlier disadvantaged businesses. In this regard, this section will also spell out present efforts by the GNU and ends with recommendations of what needs to be done, in the form of policy measures.

3.1 The South African Banking System

South Africa's financial services industry is the most sophisticated in Africa, but one of the most protected in the world. Foreign financial institutions face extremely tough barriers to entry because of the monopolistic, oligopolistic, and cartel structure of the financial services industry. The strong links of major commercial, merchant, and investment banks to parent industrial conglomerates have fostered what appears to be a fairly uncompetitive environment for financial institutions. South African banks for example, do not engage in loan syndications or public offerings and have the tendency to assume all the financial risks, but also be the sole beneficiaries of all the rewards for distributing securities to buyers. This causes a strain on capital and reduces the strength in distribution. This is a major barrier to entry which also discourages foreign investment from coming to South Africa.

The oligopolistic market structure of the financial services industry has enabled banks and building societies to operate on spreads of approximately 4.5-5.0 percent (Table 3.1). South African financial institutions can mobilise low cost funds through current and savings accounts (commercial banks) and share accounts (building societies). Provisions during 1994 were also low (0.58 percent) compared to total advances. Despite these fairly high spreads, the average return on total assets to commercial banks in South Africa is only about 1.0 percent, in line with levels in other countries (Table 3.1).

3.2 Operating Efficiency

The relatively high operating spreads of South African banks combined with average levels of profitability, imply that South African institutions are directing a substantial level of their cost structure to operating expenses and suggests that they may be inefficient when compared with those of the Organisation of Economic Cooperation and Development countries. Two of the most widely used indicators of banking efficiency are the ratio of operating expenses to average total assets and the ratio of operating expenses to operating income. Table 3.1 shows the ratio of operating expenses to average total assets of South African banks increased from 4.16 percent in 1991 to 4.63 percent in 1992 before decreasing to 4.56 percent in 1993 and 4.8 percent in 1994.

Table 3.1 Average Interest Spread of South African Banks (Percent per Year)					
	1991	1992	1993	1994	Average 1991-94
Average Lending Rate	19.0	17.82	14.59	14.51	16.48
Average Cost of Funds	14.8	12.48	9.77	9.88	11.73
Gross Spread on Loans	4.2	5.34	4.82	4.63	4.75
Provisions of Loan Loss	0.6	1.07	0.6	0.58	0.71
Interest Spread (net of provisions)	3.6	4.27	4.22	4.05	4.04
Operating Expenses as a Percentage of Average Total Assets	4.16	4.63	4.56	N/A	N/A
Net Income (profit after tax) as a Percentage of Average Total Assets	0.79	0.68	0.98	N/A	N/A

Source: South African Reserve Bank, Supervision Department, Annual Reports, 1992-95

As Annex V shows, during 1992-93 operating expenses of South African banks exceeded their net interest income by 29 percent and absorbed 70 percent of their operating income. These statistics are higher than those recorded by most Organisation of Economic Co-operation and Development (OECD) countries. Annex IV also shows that net interest income more than covered operating expenses of 10 of the 17 OECD countries while operating expenses accounted for less than 70 percent of the operating income of 11 of the 17 OECD countries. This implies that operating costs of South African banks remain high despite substantial investment in modernisation and new technology. The extent to which South African banks are inefficient can be measured by the level of bank assets per employee and the ratio of staff costs to average total assets. Again, as Annex V shows the average level of bank assets per employee in South Africa was only US$ 730,000, lower than 16 of the 17 OECD countries. The ratio of staff costs as a percentage of average total assets was 2.55 in South Africa, the highest of all OECD countries in the survey.

3.3 Access to Credit

Access to credit is one of the major structural barriers to entry most frequently cited by small business enterprises because it is readily identifiable. The financial services industry has been catering primarily to big corporations while smaller enterprises in particular have been discriminated against when it comes to financial access. Most importantly, because the financial system serves only the "modern" sector, the financial data mainly reflect developments in this sector. There is a lack of statistics on the informal financial institutions like Stokvels and other informal money lenders. Small businesses, in particular, face major barriers to entry which usually include:

- **Unfamiliarity with established business practices.**
  There is still unfamiliarity among black entrepreneurs about the basics of business practices, for example marketing, sales, finance, and production management. This is mainly due to the historical exclusion of this group of entrepreneurs from engaging in business;

- **Conducting business in a professional manner.**
  This deficiency is mainly because of the lack of business education, exposure, and experience and is usually an impediment to success in business;

- **Lack of financial and managerial expertise in business management.**
  This is one of the weakest and riskiest areas most frequently cited by financial institutions in their evaluation of loan and equity financing. Black entrepreneurs are extremely deficient primarily because of the previous apartheid policy which kept them out of the mainstream of the formal economy;

- **Lack of training and marketing techniques.**
  Most financial institutions and venture capital funds will not finance start-up businesses and will only finance existing businesses which are either expanding, joint ventures, or transmission financing which usually involves a change of ownership. The only case in which start-ups are financed is in franchising because of the management, marketing, and technical support as well as training which the franchisee will receive from the franchiser.

Small enterprises are considered riskier ventures by financiers resulting in them often assuming higher interest rate charges than larger enterprises. They experience great difficulty in obtaining long-term finance and do not have the same access to the finance opportunities as larger companies. Small enterprises are often forced to rely on short-term bank credit, particularly bank overdrafts, to finance permanent capital requirements because of their difficulty in obtaining long-term loans. Increasing corporate tax rates and inflationary pressures have further reduced the ability of small enterprises to re-invest retained earnings into their business.

Small businesses, particularly in the black business sector are constrained by the narrow range of market opportunities and limited access to finance. Until recently South Africa's financial system had catered mainly to large corporations in the "modern" white sector of the economy. While black entrepreneurs are currently not explicitly precluded from the financial system, a number of examples show they have often been excluded in practice:

- High collateral and deposit requirements for loans from commercial banks, community banks, and building societies; example, the apartheid laws did not permit blacks to own property in cities, therefore they were unable to provide collateral;

- Restrictions on lending by state-owned agricultural banks to black farmers in specific agricultural areas; very few blacks own property or land in specific farm areas. This is particularly acute for black businesses in communal areas who do not hold title deeds for their land as it is communally owned;

- Concentration of bank branches in central business districts and other white areas;

- High interest rates (30-40 percent) by banks for SMME lending.

3.4 Collateral

This is major barrier particularly for black entrepreneurs because they lack capital and have no asset base which can serve as collateral. The lengthy procedures and high cost of establishing title and security is yet another major barrier for many SMMEs and seem to dissuade them from borrowing. This problem is even more acute in the black community particularly in rural and some urban areas where chieftainship and communal land ownership prohibits freehold land ownership by individuals. In fact, there is a view by certain cultural persuasions in the black community that land ownership should not be privatised. This group further argues that land should be held in trust by the state on behalf of the citizens and that businesses should rent or lease land from the state. This poses a major constraint on black entrepreneurs who would like to use property as collateral to secure loans. Banks would simply not accept property with no freehold ownership as collateral.

3.5 Ability to prepare Business Plans

The failure of entrepreneurs to formulate bankable business plans and proposals on viable projects is yet another barrier to obtaining loan and equity financing. Bankers and financiers are not convinced or persuaded by business proposals which are prepared in an unprofessional manner. Black entrepreneurs specifically need technical assistance and promotional support services to develop projects from an idea stage to preparation and formulation of an investment undertaking.

3.6 Character of the Borrower

The economic boycotts of the 1980s (rent, utility, mortgage payments, loans: in the black neighbourhoods resulted in potential and prospective black entrepreneurs being "black listed" by credit bureaus because of their actions. This is a major barrier because the boycotts can impact negatively on the character of the borrower and disqualify and deny them access to finance. Let it be emphasised that some black entrepreneurs have been black listed for loans that they could not pay because their shops were burnt during the struggle.

3.7 The Usury Act

The current Usury Act is yet another major barrier to black business entry to a number of markets. The Act was amended in 1992 to allow individual loans of less than R6,000 to be exempt from requirements of the Act. This meant that lenders could charge interest rates above the maximum rate stated by the Act. This provision has been abused, particularly by retailers of household goods and has led the DTI to consider repealing the legislation. However, an Alliance of Micro-Enterprise Practitioners have urged the DTI to introduce a code supported by monitoring facilities to oversee the process of lending to SMMEs. Rather than focus on the cost of credit, the Alliance is placing more emphasis on access to credit. Restricting the exemption to only R 6 000 implies that small operations with loans below R 20 000 are not covered by the Act although the cost of operation is still very high for lending institutions.

3.8 Sources of Finance

As mentioned previously, the financial services industry in South Africa is designed to cater primarily for large corporations. Although loan portfolios of many financial institutions now include black businesses, they still represent a small percentage of their total lending. Over the past few years, South Africa has experienced the establishment of several financial intermediaries such as venture capital funds which are specifically designed to assist black enterprises.

3.8.1 The Commercial Banking Sector

Commercial banks represent one of the most important sources of finance to the business community. The basic goal of commercial banks is to make a profit through efficient utilisation of demand deposits. Their business loan decisions are based on: minimising risk, maximising profit, and maximising service to their clients. They place more emphasis on minimising risk since bankers are by nature very conservative and risk averse. The business must usually have a reasonable potential for financial success and must be in a strong financial position. Small businesses have almost no access to finance because of the high transaction costs of lending to small borrowers. Because banks have difficulty in assessing the creditworthiness of small borrowers they either require stringent collateral conditions, charge high interest rates to compensate for the high risk, or simply refuse to lend to small enterprises. The quality of management is also an important criteria in bank lending.

Annex VII shows that in 1991, most bank credit was extended to whites, 90 percent, while blacks received only two percent. Mechanisms must be worked out to increase this low level of black borrowings.

3.8.2 Development Finance Institutions (DFIs)

DFIs are primarily state-owned financial institutions which assist the private sector, but have in the past favoured white-owned businesses. Many of these organisations are currently undergoing review and are being re-oriented to incorporate the needs of the emerging black business sector for greater access to the financial system. Examples are the IDC, the quasi state-owned SBDC, the DBSA, and the Land Bank among others. The IDC focuses on medium-to-large industries in the private sector which do not have the same access to capital as larger groups by providing loan and equity financing at market rates. About 67 percent of projects are initiated by smaller companies with total assets of less than R12.0 million.

The SBDC is a state/private sector partnership established to stimulate and develop entrepreneurship in the small business sector. The major services offered to small entrepreneurs are direct finance for business in the industrial, commercial, or services sector and support services such as information and advisory services, a mentor advisory programme, provision of affordable business premises and business skills training. SBDC currently has an R190 million Pioneer Project Fund aimed at developing micro businesses and assists entrepreneurs in the negotiation of contracts, sourcing of raw materials, costing, pricing, and marketing. Since its inception in 1980, the SBDC has financed over 56,000 entrepreneurs with over R2.3 billion in loans.

At present, the SBDC and the government are discussing a new form of agreement whereby the government will reduce its stake in the SBDC to 20 percent and allow the private sector to increase its stake to 80 percent. Discussion is also revolving around whether government, through its newly-formed agency NEPA, will service the informal or micro business sector with the SBDC taking responsibility for small and medium enterprises.

The new SBDC plans to provide small and medium enterprises with capital assistance in two ways: medium and long-term loans, and equity participation. It plans to offer three financial products: Loan Partner, Equity Partner, and Risk Partner. The corporation plans to move towards equity finance (no more than 26 percent). Another equity option is the "spin-out" of non-core activities by large corporations such as Eskom and Hoechst Chemicals who have contracted certain parts of their manufacturing requirements to black/white partnerships formed by their former employees.

The DBSA provides loans to small scale industries through their Small Business Development Program. The corporation does not undertake project development itself, but merely extends finance and other services to existing entrepreneurs through DFIs and NGOs.

A number of foreign DFIs have either established or are about to establish a presence in South Africa to promote industrial development in the public and private sectors through financial assistance to projects. These include Commonwealth Development Corporation (CDC), Netherlands Development Finance Company (FMO), Industrial Fund for Developing Countries (IFU), Societe de Promotion et de Participation pour la Cooperation Economique (PROPARCO), Caisse Francaise de Development (CFD), and German Finance Company for Investments in Developing Countries (DEG). Most of these DFIs are aimed at promoting joint ventures between companies from the home country and South Africa businesses. They have a wide range of programs ranging from assistance with feasibility studies to loan and equity financing.

3.8.3 Equity Financing

The cost of money in South Africa is extremely high. The weighted average cost of equity capital for a typical large corporate company in South Africa is about 21.3 percent compared to the average after tax cost of debt which is about 10.45 percent. The average capital structure (debt/equity ratio) is about 39.8 percent. Traditionally, rights offering has been the most popular and frequent financial instrument used by large corporations to raise financing for expansions.

3.8.4 Venture Capital

A number of venture capital funds have recently been established specifically to assist medium-size black-owned businesses. These include Nedbank Investment Bank which recently set up two venture capital funds: the Franchise Fund of South Africa, and the Msele NedVentures Fund. The Franchise Fund is a R50 million fund established by Nedcor and the International Finance Corporation (IFC) to assist entrepreneurs by taking equity in franchising businesses. The Fund will assist entrepreneurs with franchise start-up loans, franchise expansion loans, leasing equipment, suspensive sale agreements, and working capital finance. Other foreign investors in the fund are the CDC and FMO. South African investors include the DBSA and the Independent Development Trust (IDT). The Fund will also assist entrepreneurs in obtaining the necessary technical and managerial skills and help set up partnerships that will allow experienced entrepreneurs to share their knowledge and expertise with less experienced partners. Co-investors will be required to provide at least 15 percent of the capital required. The Fund can take a maximum shareholding of no more than 49 percent and may not invest more than 10 percent of its total resources in a single franchise or more than 25 percent in a specific master license. The aim of the Fund is to reduce its shareholding to 0 percent over a 5 year period.

The Msele NedVentures Fund is funded by DFIs from European countries (France, Germany and Switzerland together with Nedcor). Approximately R22 million has been committed to the Fund which will have a lifespan of 10 years. The Fund will specifically assist disadvantaged entrepreneurs to obtain technical and managerial skills and will help set up partnerships. Co-investors will be required to provide at least 15 percent of the capital from their own funds. The Fund will take a shareholding of no more than 49 percent in any single project and may not invest more than 10 percent of its total resources in a specific venture. Like the Franchise Fund, the aim of the Equity Fund is to reduce its shareholding to 0 percent over a five year period. No funds have been disbursed from either the Franchising or the Equity Fund because the funds have only been in existence since May 1995. According to NedEnterprises which manages both funds, it takes at least three to six months to structure a deal. However, three franchising and two equity projects (about R1 million each) are underway and are expected to come on stream by December 1995.

IFC, CDC, and Investec Bank also invested R20 million each in a R100 million venture capital fund for black entrepreneurs. The USAID-supported Southern Africa Enterprise Development Fund (SAEDF) is another example of financial assistance to indigenous and disadvantaged SMEs in southern Africa that lack access to long-term risk capital for start-up ventures and business expansions. The fund is a private non-profit corporation and will invest US$10 million a year into South Africa over the next five years. SAEDF was provided US$100 million seed money by USAID. The fund provides loans, equity investments, feasibility studies, financial advisory and technical assistance, training, insurance, and guarantees. The donor-financed **Independent Business Finance Centre** is another venture capital fund for emerging black entrepreneurs.

Several Fund managers have indicated that they have been extremely disappointed with the low number of viable business proposals from black entrepreneurs. According to one of the funds, only three viable projects were found out of a total of over 100 applications. Most of the proposals are not well prepared and presented and lack proper business planning. Both long-term financing and project advisory facilities need to be established to assist black entrepreneurs in adequately meeting the needs of financing requirements.

3.8.5 Other Sources

Many international players see black investors and black-owned businesses as important investment vehicles for forming joint ventures. One such organisation which supports joint ventures in developing countries and just recently opened South African operations is the European Community Investment Partners (ECIP). South Africa's recent trade agreement with the European Union (EU) also give it partial access to the Lome Convention's Centre for Development of Industry (CDI). CDI focuses on the development of joint ventures between African, Caribbean, and Pacific (ACP) entrepreneurs and EU countries.

3.9 Recent Reforms

The government faces considerable pressure to reform and expand the financial system to make banking services and credit more easily available to emerging black businesses. It has made progress in deregulating the industry to remove some of the major barriers to market entry culminating in the release of a White Paper and the completion of national and provincial workshops on small business. The Centre for Small Business Promotion located within the DTI is preparing the *National Small Business Development Act* which will provide for the creation of two statutory business promotion organisations: The National Small Business Council (NSBC) and Ntsika Enterprise Promotion Agency (NEPA). The role of the NSBC which will be developed through the formation of provincial councils will be to ensure representation of small business interests at the national level; to make policy recommendations on national support for small businesses; and to respond to strategies and policies developed by the government.

NEPA will be closely linked to an Apex Facility, more specifically the Wholesale Finance Facility (WFF). Both institutions are expected to be operational this November. The Apex program will be partly funded by NEPA with some contribution from foreign donors and will operate alongside a national Credit Guarantee Scheme (CGS). NEPA and WFF will not deal directly with small, medium, and micro enterprises, but will provide assistance through intermediaries such as financial institutions, NGOs, and provincial government development organisations for on-lending to entrepreneurs. SMME lending presents new management challenges both to Apex institutions and to the participating commercial banks and personnel need training and guidance in dealing with those challenges.

NEPA will serve five major functions: accreditation of institutions delivering services such as *Local Business Services Centres*; support to organisations providing entrepreneurial training; public and private sector assistance for small businesses; facilitation of export opportunities and co-ordination of annual trade exhibitions; and the formation of an information unit providing data on small businesses in South Africa. The NSBC will be made up of representatives from consistency-based organisations serving small business interests at a national level as well as representatives from the nine provinces through the provincial small business councils (PSBCs) and from the Chief Directorate for Small Business in the Department of Trade and Industry. At the provincial level, a similar form of representation would exist in the PSBCs. The DTI currently also subsidises 30 SMMEs which share in South African Foreign Trade Organisation's (SAFTO's) Mariner export development program which provides support for intending or existing exporters through the provision of a monthly subsidy of R1,500. The program provides two types of services: preparation of an export marketing plan, and implementation of the plan in consultation with the client.

3.10 Summary and Conclusions

The analysis, in this chapter demonstrates that in spite of the recent political changes that have transformed South Africa, major economic barriers are still pervasive and are an impediment to bringing black enterprises into the mainstream and contributing towards building a vibrant and healthy economy. These barriers also have important implications for sound economic policy decisions on the part of the government. In short, the major barriers are:

- Lack of competition because of the monopolistic and oligopolistic structure of the banking industry;
- Discrimination against small enterprises because they are considered riskier;
- Unfamiliarity with established business practices;
- Lack of financial and managerial expertise in business management;
- Lack of training and marketing techniques;
- High collateral and deposit requirements;
- Concentration of banks in predominantly white areas;
- High interest rates;
- Ability to prepare business plans;
- The Usury Act;
- Judgements or blacklisting by banks;
- Lack of title deeds for land in communal areas.

There is no question that new financial infrastructures are needed including the availability and expansion of appropriate financial services. At the same time, expanding the financial system should not endanger it. Such expansion should address the institutional and legal issues in expanding financial services to black owned enterprises, but should also ensure the safety and stability of the financial system. Subsidised credit programs have in the past tended to erode lending margins, reduced incentives for banks to expand their lending, or encouraged them to cross-subsidise unprofitable businesses with high-margin, high risk activities.

The record indicates that it has not been easy to design and operate a CGS in such a way that encourages the right amount of risk-taking by the financial institution and correspondingly broadens the credit access of SMMEs with viable investment projects without the carelessness that can contribute to poor borrower selection, low payment rates, and high subsidy to the system. An effective CGS should be designed to spread risks across sub-projects and across commercial banks in a way to avoid excessive risk aversion by the commercial bank. Experience from studies in other countries have shown that such schemes are likely to be costly and it is usually the case that fees do not cover claims.

The history in South Africa has been that credit has always been used to lead economic development rather than to follow development. The private sector should be the sole if not the prime source of credit. Private credit unions, co-operatives, and new financial institutions should be encouraged and nurtured alongside commercial banks. To facilitate the expansion of lending to SMMEs, banks could rely on leasing and short-term loan contracts. As banks expand beyond their traditional base (new branch offices/agencies, staff), they will probably experience a decline in profitability as smaller loans entail higher transaction costs and loans to relatively inexperienced borrowers might result in higher loan losses. As this process unfolds, the adequacy of security and the means for recovering against defaulters will become even more important.

The government also needs to foster a good investment environment by having a minimum of regulations and make available two critical inputs: adequate infrastructure and support services to entrepreneurs. Improved infrastructure, particularly in the rural areas will make expansion of banking system possible through the provision of telecommunications, postal, and transportation services. Support services such as training and extension of advisory services will help make first-generation entrepreneurs more bankable and increase their chances of success. The government may be able to draw on donor funding to assist with the provision of these support services.

3.11 Policy Recommendations

To overcome some of the barriers, the government should consider taking the following steps:

- Begin the process of instituting regulations to foster a more effective competition policy including the establishment of a strong judiciary to implement the legislation so that all players including foreign institutions have equal access to the South African financial services industry.

- Rely primarily on the private sector to lead the expansion of credit with input and assistance from the national and provincial government. Many of the DFIs in the former homelands were badly managed and have not yet been privatised. Some of these institutions could be made more efficient and effective and turned into an instrument to benefit black businesses.

- Institute sound macro economic policies aimed at reducing the high interest rates and level of inflation.

- Create the economic and regulatory environment needed to encourage and nurture the establishment of private credit unions, co-operatives, and new financial institutions.

- Foster a positive investment environment by having a minimum of regulations and make available two critical inputs: adequate infrastructure, and support services to entrepreneurs.

- Address the issue of judgements in a progressive way. Some accommodation in respect of such judgements should be sought on a case by case basis.

- For people living in townships who have paid up to date rent for 20 years, transfer title deeds of their houses to occupiers to they can collaterise them. This is already being done in many parts of the county, except in the former homelands.

- Convert all commercial titles to ownership by land occupiers in order to provide collateral for long-term loans.

4. ACCESS TO MARKETS

4.0 Introduction

It has been stated earlier in this study that import substitution industrialisation aimed at expanding the growth of the economy through satisfying domestic demand expansion was adopted by South Africa 70 years ago. Barriers to entry into this market were raised for foreign firms through protecting the domestic market, This resulted in goods from a few conglomerates flooding the domestic market and raising barriers to entry for SMMEs.

Indeed, studies show that most small enterprises consider lack of access to markets for their products a major constraint to expanding their businesses. The conglomerates have pushed small businesses into crowded and mostly uncompetitive markets where they compete to sell the same products to a segment of population whose incomes are low.

Unless these barriers to market entry are removed, great efforts to uplift SMMEs will result in resource waste. Some entrepreneurs that have been interviewed in the course of this study said it was difficult to produce and market a product at the same time. The marketing costs, including opportunity cost associated with production, do constitute a major barrier to entry. In some countries, e.g. Norway, SMMEs market their products through a co-operative arrangement where the co-operative buys from the entrepreneur and markets the product at a profit. This is a way to address market access constraints for small businesses in that country. In South Africa, models for addressing this constraint are still under discussion by big business, the government and the SMME community.

In this section, the following issues need to be highlighted:

- Lack of market focus leads to production of goods and services not responding directly to market needs. Consumer needs, tastes, quality, standards and pricing are not researched, which results in an inability to produce goods and services that sell. Part of the removal of this barrier to entry is to consider seriously how SMMEs can create collective marketing arrangements. This is the responsibility of SMMEs themselves as government can not organise them into co-operatives;

- The exclusion of the blacks and women from businesses, especially through apartheid policies, created constraints where blacks and women lack knowledge regarding the market response in South Africa. There is need, therefore, to provide a mechanism to do market research for SMMEs to conduct market research in order to reduce barriers to entry arising from these constraints;

- In rare cases where barriers to entry can be overcome and a small business enters the market, the difficulty becomes how one can maintain a profitable position in that market. This entails regular review of market information, news and various fashions for specific niche markets. Often. a small entrepreneur is unable to gather this information, and this becomes a barrier to remaining in markets and therefore must exit;

- Present GEIS schemes are mostly available to big exporters, as SMMEs do not understand how claims are made. As they often do not have registration documents, it is not possible for them to obtain benefits resulting from GEIS. In this sense, further barriers to entry into the external markets are raised against SMMEs. Big exporters are therefore favoured and SMMEs neglected;

- The Job Reservation Act was passed by the PACT Government of the 1924 and for over 70 years black South Africans were denied experience and on-the-job training for certain management levels. For this reason, the lack of management experience is a barrier to entering certain markets;

- The Native (Urban Area) Acts of 1923 and 1945 stipulated that black businesses could market only daily consumables, such as milk, dried fish, etc. They were specifically denied the opportunity of owning and running such businesses as dry-cleaners, bookshops, garages, hardware shops, pharmacies, etc. The lack of skills and knowledge of running these types of enterprises has become a barrier to entry. For this reason, most black business are confined to consumables particularly the micro-enterprises;

- It is acknowledged that to enter the manufacturing and the service sectors, skills are needed by entrepreneurs, e.g. it is not possible to supply wood products without carpentry skills, or repair watches without a skill. The legacy of apartheid is that a majority of the population could not develop these skills because of laws governing apprenticeships. This constraint is reviewed in some detail in Chapter 5. Lack of skills development arising out of legislation has become a barrier to entry into manufacturing where skills are essential.

It is clear that barriers to entry may have been policy induced initially and with the passage of time became structural. This is clearly demonstrated by the assortment of issues raised in this chapter.

4.1 Relaxing Some Assumptions

Underlying the discussions on barriers to entry into the domestic market, one must always be mindful of the apartheid policies which created most of the barriers to entry discussed above. A plethora of restrictions imposed on the black population has constrained black business development in the formal sector.

It must always be borne in mind that central to the philosophy of apartheid was the notion that African people were "temporary sojourners in the White cities of South Africa". Their purpose of being in these white cities was to sell their labour as cheaply as possible. This conception was enforced through :

- The Job Reservation Act of 1924 where blacks could not occupy supervisory positions;

- The Land Act of 1913, which denied Africans the right to own property outside the reserves allocated to them. This now creates a barrier to entry in respect to obtaining capital to start a business without collateral. White businesses who bought their premises when they were cheap, have a stronger bargaining position with respect to market entry;

- The Influx Control Act allowed Africans to be in the white cities if they could demonstrate that they had a job. For this reason, the Africans were not allowed to consider themselves settled enough to enter business. Often those who entered business did not plan to but fell into it. Those who sought education, did so in order to seek employment, perhaps in the Bantustans as teachers, doctors, priests, etc. A spirit of entrepreneurship was not encouraged by this Act. Lack of this spirit is a significant barrier to entry;

- The Native (Urban Areas) Act of 1923 and 1945 have been commented upon in section 4.0. However, it is important to point to a 1963 circular sent to all local authorities charged with management and control of townships, limiting black entrepreneurs to a single business. This circular specifically prohibited the establishment of black controlled financial institutions, manufacturing plants and operation, construction and building businesses, etc. Further, denying them on the job the training, hands-on skills development and discouraging an idea that these are profitable ventures which can be managed by blacks. This is now a major policy induced barrier to entry.

These issues, which underlie barriers to entry, especially in regard to SMMEs, must always be central to any policy proposals aimed at removing barriers to entry.

4.2 Further Assumptions Relaxed

In section 4.0 it was stated that import substitution industrialisation, particularly its derivatives, such as exchange controls, have denied South African economic agents from pursuing business opportunities outside of South Africa. True, the Reserve Bank often gave permission to export capital to some large firms, for SMMEs any such export of capital has been non-existent. These controls are particularly restrictive with regard to SMMEs entering into joint ventures with economic agents across the borders of South Africa.

Section 4.0 indicated that the inability of large firms to enter foreign markets as a result of exchange controls, forced them to look to the domestic market for investment and growth. Annex III shows that this strategy worked well until the 1980s when further expansion of output through the domestic demand expansion was no longer possible.

However, it is important to identify the following barriers to entry:

- All South African economic agents have not been able to enter foreign markets easily because of exchange controls and those who have been able to enter have either used off-shore funds or received the rare approval to do so by the South African Reserve Bank. In both cases, it was only large businesses who could profit from these opportunities. Though the barrier was binding for all South African economic agents, it was severe for SMMEs;

- Big business, by directing its expansion to the domestic market, raised barriers to entry for SMMEs. To enter a market, where these sub-units of conglomerates operate, immediately raises capital requirements and scale of operations. This becomes a barrier to entry for SMMEs;

- The interlocking directorships, especially between state-owned natural monopolies and conglomerates have effectively closed out the SMMEs in certain markets by scale economies. Considerable sub-contracting opportunities have remained with the big ones;

- Price-cutting by large companies to out-compete SMMEs is common practice in South Africa. In this manner, barriers to entry are raised;

- As black businesses were disadvantaged historically, they are only now entering the market. Big business as well as white business in general have this absolute cost advantage because they entered the market first. This gives big business control of sources of inputs, information, finance and markets through patents and other restrictions. Measures to dismantle some of these barriers to entry may need to be formulated.

4.3 Barriers to Market Access: Domestic Issues

Under apartheid the government used public institutions for affirmative action for the Afrikaners. Tender Boards were constituted in a manner to benefit the development of one segment of the population. There was an implicit assumption that providing markets for Afrikaner business was the purpose of state tendering system. All state procurement was organised through tender boards whose composition is geared to the requirements of big business. Attempts are underway to correct this state of affairs.

4.3.1 National Tender Board

Tender requirements are often complicated for SMMEs, especially at central government levels. It has often been said that SMMEs do not stand a chance to obtain contracts because they are small and projects tendered by the central government are often large, requiring considerable organisational capabilities.

This reality calls for joint ventures between SMMEs and big business. Rules of Tender Board could also be formulated such that a large company in joint partnership with a small company receives extra points when making a tender together. This would go a long way in transferring skills to SMMEs as well as opening up market channels.

At local government levels, where SMMEs are most likely to benefit through government purchases, a portion of all local government purchases could be reserved for SMMEs. Sourcing of procurements by health, education and housing activities of local governments provide possible markets for SMMEs.

Sourcing of government procurements from SMMEs was first recognised in the economic policies of the ANC prior to the 1994 election. Subsequently, considerable discussions of these issues were recognised both in the white paper on SMMEs and the President's Conference on Small Business, held in Durban in March 1995.

The issues have remained at the discussion level and have not yet been concretised into new operational policies for Tender Boards. With local government elections on the horizon, these issues will be key in the future functioning of SMMEs.

4.3.2 Procurement Policies of Big Business

The role of big business in removing barriers to entry for SMMEs is also related to the procurement policies pursued by them. An environment that favours sub-contracting and procuring some inputs from SMMEs would go a long way in democratising business life in South Africa. Incentives should be worked out by the DTI aimed at fostering this productive relationship between SMMEs and big business.

4.3.3 Licensing and Franchising

The temporary removal of Restrictions on Economic Activities Bill of 1985 and a watered down Act of 1986 was the first attempt by the apartheid government to remove barriers arising out of licensing. Of course the removal of these barriers met with considerable resistance from some established businesses who expressed concerns about unfair practices, consumer groups feared being exploited by SMMEs through the sale of sub-standard goods and services. The Congress of South African Trade Unions (COSATU) feared a possible disregard of labour laws and promotion of poor conditions for workers thus reversal of gains already made.

The result of these protests created a situation where the removal of restrictions, particularly licensing a business, did not apply uniformly in the country. The 1991 Business Act provided for the abolition of trading licenses, but by the end of 1993 only the Cape Province had fully implemented the Act. Problems still exist with respect to zoning regulations in most municipalities.

Health regulations providing for handling of food are a considerable barrier to entry. True, it may be argued that, food handling regulations are designed to promote hygiene, (e.g. the refrigeration requirement0; but, their applications vary and do create considerable barriers to entry, by raising the capital requirements of entering into the food handling business.

On the whole, it has been shown that while only one license per 650 people was issued in the black townships in 1982 in Cape Town, this can be compared to the average of one license per 60 white people during the same year in the same town. In the Johannesburg area, information available shows that there were 25 times as many trade and commercial licenses issued to whites as compared to those issued to blacks in 1981.

Clearly, the advances made by the 1991 Business Act, (i.e. removing all licensing requirements to operate business) are a step in the right direction. The important issue is to standardise the applications of this policy and clearly restate the minimum regulations required. The issue of franchising needs to be studied at some length. It is common that franchising opportunities go mostly to experienced and sophisticated people. A study is necessary to examine how franchising can also be extended to earlier disadvantaged communities.

4.4 Barriers to Market Access: International Issues

Annex IV demonstrates that by the 1980s, the import substitution strategy had run out of the steam. It further shows that expanding growth through domestic demand expansion was no longer on the cards as a source of growth. As domestic opportunities became relatively depleted and an increasing realisation that an inward strategy hindered economic growth, export orientation became the watchword. The DTI's commitment to export promotion in the late 1980s and early 1990s was not entirely credible: constantly changing trade policies were implemented within an environment of international sanctions, particularly applied to agricultural and manufactured goods.

A number of factors exert pressure on South Africa's trade policy position in the 1990s. These include the re-orientation of the economy towards export, particularly in non-traditional products. The Uruguay Round of GATT tightened a number of provisions. In particular there had previously been a separate 'Subsidies Code' which members could voluntarily choose to sign. Signatories to the Subsidies Code were committed to a narrow range of policy instruments by which they could encourage industrial expansion. The current Round incorporates the Subsidies Code into the general agreement to that all signatories to GATT must comply to its provisions. This fat limits the policy variables available to a new government in promoting industry and exports at a time when considerable assistance is required to support exporting SMMEs.

The ability to access to international markets can pose substantial barriers to business growth. The domestic market in South Africa is small and poses constraints to the competitiveness and market size that can encourage growth in emerging business. Although firms involved in resource-based industries have strong international links, South Africa's relative isolation has limited international trade relations for higher value-added and service based industries. In a fluid international environment, certain institutional factors may have an impact on the ability of emerging South African business to penetrate international markets. Regional arrangements may pose barriers where regional trade partners are favoured. Multilateral trade arrangements such as GATT may circumscribe the incentives that the South African government may legally offer. Non-institutional inhibitors of SMME exports include the high cost of financing entry to export markets. Moreover, SMMEs tend to undertake business in sectors not associated with international trade such as retail activity.

4.4.1 <u>Trends in South African Trade Patterns</u>

South Africa's major trading partners are the EU and the United States, accounting for 47.5 percent and 12.4 percent of South African exports respectively. To these markets, South Africa tends to be an exporter of raw materials and importer of manufactured goods. Where South African exports manufactured goods, they tend to be barely processed items such as cold rolled steel.

There are few markets where the opposite is true. South Africa's exports to Africa are primarily manufactured goods, approximately 13 percent of South African exports went to African markets. If the exports to the BLNS countries (Botswana-Lesotho-Namibia-Swaziland) are included, this figure then rises to 32 percent (Table 4.1). South Africa sells about 35 percent of its manufactured exports to Africa.

Table 4.1 Percentage Distribution of South African Exports to World excluding the BLNS countries		
Region	**1990**	**1993**
Africa	9.8	12.8
Europe	55.1	47.5
America	8.0	12.4
Asia	26.3	26.0
Oceania	0.8	1.1
TOTAL	100.0	100.0
Source: DTI		

These numbers may not accurately reflect South African trade patterns because they exclude unrecorded trade.

Unrecorded trade is any cross-border sale of goods, legal and illegal, that is not officially recorded by customs. Unrecorded trade in legal goods often occurs on a small scale, where foreign shoppers enter South Africa usually from Southern Africa and use their holiday duty-free allowances to purchase goods for re-sale in their home country.

Maasdorp (1993) estimates that, within the Southern African region, unrecorded trade is quite substantial. In 1991, Maasdorp performed a quick test to estimate cross-border trade by analysing visas issued to mainly Zimbabwean women taking day-trips to shop in South Africa. These goods are then re-sold on informal markets. This exercise showed that at least an additional 15 percent of South African exports to Zimbabwe are contributed by unrecorded trade.

Although unrecorded trade is difficult to measure statistically, substantial visual evidence of unrecorded trade is found in early morning markets, particularly in Durban and Johannesburg. These traders, drawn from many different countries, primarily purchase goods from hawker-wholesaler outlets, with whom they build regular customer relationships. This trade depends on a regular supply of identified goods as hawkers return to their market with samples and take orders for identical goods. These markets can provide substantial opportunities to smaller, lower-range-of-the-market producers and retailers.

The African market is important in the development of SMMEs in South Africa. Reducing barriers to entry in this regard is pivotal to the growth of exporting SMMEs, unless they smuggle their goods in and out of South Africa.

4.4.2 Multilateral Trade Arrangements (GATT and the World Trade Organisation)

In light of the re-negotiation of multilateral arrangements, the Marrakesh Agreement of GATT and the World Trade Organisation (WTO) have significant implications for South African trade policy and incentives package.

4.4.2.a Intellectual Property Rights

Intellectual property rights were a major source of contention in the Uruguay Round of GATT negotiations. In other developing countries, substantial business exists in counterfeit consumer goods, supplied to the domestic market. This activity opens avenues for emerging businesses in both production and wholesale-hawking. More stringent attention to upholding intellectual property rights will, quite fairly, limit this kind of activity in South Africa.

4.4.2.b The Subsidies Code

The end of international sanctions has meant that South Africa must now abide by GATT rules. Most significantly, the Marrakesh agreement embodied the Subsidies Code as compulsory, substantially limiting the scope for South Africa industrial and trade incentives. The developed country signatories are given a three year transition period in which subsidies offered must come into conformity with the GATT Protocol. In particular, subsidies cannot be tied to export performance nor favour the use of local inputs. Moreover, subsidies cannot be targeted at a particular firm or industry. The inclusion of the Subsidies Code means that programmes such as the GEIS becomes illegal within GATT. GEIS offered generalised cash incentives, the level of which was determined by a formula tied to value-added and use of local inputs. For this reason, GEIS will be phased out by 1997.

The DTI has also offered other programmes, such as the duty-credit certificates which are tied to export performance. This limitation could pose a problem for efforts to promote the expansion of South Africa's industrial base, particularly where there is a desire to target certain industries. On the other hand, GEIS and the duty credit certificates (DCCs) offered large established firms a special advantage as they could afford the export activity.

4.4.2.c The Multi-Fibre Arrangement (MFA)

A transition period of 10 years is outlined in which MFA signatories must integrate clothing and textile protection with the normal requirements of GATT. In particular, the changes will require the elimination of non-tariff barriers and of discriminatory trade arrangements. Since South Africa is not a signatory to the MFA, quotas do not apply to its clothing and textile exports into developed countries. Substantial export opportunities exist for emerging business and exporters in the clothing industry over the next three to five years. This is particularly valuable for emerging business, as clothing is an industry with few barriers to entry.

4.4.2.d The Negotiated Tariff Reforms within GATT

The tariff reforms enforced by GATT are a set of duties negotiated between GATT and the member country on the manner in which protection and industrial promotion policies come into conformity with the GATT code. Generally, countries negotiate rates on the basis of previous liberalisation programmes. In South Africa much of the quantitative restrictions, except on agriculture, had already been eliminated.
In terms of the negotiation, tariffs are to be fully phased down to target rates by 2004. The final tariff on industrial products negotiated with GATT was to be an average of 17 percent. The DTI has chosen to reduce tariffs by more than that required by GATT, to a final average rate of nine percent over seven years, as shown in Table 4.2.

Table 4.2

New Tariff Dispensation for Industrial Products

	Duty Collected as percent of imports	Avg. Rate of Duty (import 1994 weighted)				Trade Balance(R bn)		
		1994	1999	2004	GATT Binding	Import	Export	Balance
Capital	3	10	7	7	16	32.8	5.8	-27.0
Intermediate	5	7	5	5	10	16.5	32.3	15.8
Consumption	9	34	24	20	26	13.7	4.9	-8.8
TOTAL	5	15	10	9	17	62.9	50.0	-12.9

Source: IDC

4.4.3 Recent Tariff Reductions and the Impact of Liberalisation

Liberalisation affects emerging businesses by lowering input costs and by intensifying price competition in consumer markets. The intensification of competition has greater impact on emerging business, particularly where established firms may have the capacity for price reductions.

Popular concern about tariff reductions may be somewhat misplaced. A report by the World Bank written prior to the GATT negotiations found that tariffs were actually quite low. The common belief of high rates of protection were primarily the result of high official tariff determinations. Using IDC data, this study found that:

> "Tariff rates are three times as high as tariff collections"..."the difference between the statutory and the collected rate stems from bilateral agreements (with

> Zimbabwe, Malawi, Mozambique, Poland and Hungary), rebates and duty drawbacks, exemptions for specific firms and from overvaluation of the *ad valorem* equivalent rate of specific and formula duty rates"(Belli 1993:15).

As the table above shows, the actual tariff collected at customs on industrial products in 1994 was only five percent. The rate on agricultural goods is somewhat higher as a result of quantitative restrictions. While the average official trade-weighted tariff on consumer goods in 1994 was 34 percent, the actual duty collected was amounted to only nine percent on average. These rates of protection are similar to those found into the EU and the United States and are far lower than those imposed in middle-income developing countries.

Most recently, changes have emphasised tariffs in the motor, clothing and textile sectors. While the tariff reductions exceed the commitment to GATT, the changes have not been dramatic in comparison to tariff reductions prior to GATT. The structure of tariffs will be simplified over the coming four years. The duty credit certificates for clothing exporters would be phased out over three years, but with the addition of requirements on performance in human resource development and productivity improvements. Rebates on inputs will be phased out over eight years. These industries will further receive a 50 percent subsidy on management consultancy fees for five years.

The tariff reductions for clothing and textiles are not dramatic in light of the low de facto payment on these goods at customs points since about 1990. Detailed analysis has shown that the balance of policies offering duty-free credit certificates has resulted in a situation where the average tariff actually paid in 1993 was only eight percent on clothing and 14 percent on fabric.

The proposals should have a positive impact on emerging clothing producers, once the DCCs are actually phased out. Export promotion policies that allowed exporters to import duty-free undermined smaller producers that directly supply the local market. Subcontractors could potentially have gained from expanded business where runs were too long for exporting companies.

These announcements may encourage investment as the DTI has, for the first time in many years, committed itself to a tariff programme extending over a substantial period of time. Previously, tariff policy was highly uncertain, with changes made every six to twelve months.

4.4.4 Regional Trade Arrangements

GATT allows regional trade agreements although, in principle, they violate central GATT principles against non-discrimination.

According to the major small business representative organisations, few small businesses export. Those who do export are involved in a range of activities. These firms primarily export to Europe, with the United States being of increasing interest. Few formal small businesses appear to export to Africa since it is perceived as excessively risky.

The DTI has substantially increased its attention to improving trade between South Africa and its neighbours. This increased emphasis recognises the interdependence of the Southern African region. The DTI increasingly sees the need to develop the region, in part, to stem labour migration into South Africa. More importantly, Table 4.1 shows that 32 percent of South African exports are sold within Southern Africa, particularly the countries party to the Southern African Customs Union (SACU). Southern African markets have accounted for the largest growth in South African exports in the past few years. The trade profile with developed countries demonstrates a reliance on basic minerals and raw material exports. By contrast, South African exports to Africa are more weighted towards manufactured goods. This is significant for emerging business, since the majority of business opportunities will lie in higher value-added goods and services.

4.4.4.a European Union (EU) and the Lomé Convention

The EU accounts for the largest share of South African exports; Yet, the bulk of exports consist of basic unprocessed goods with precious and semi-precious stones and metals, mineral fuels and oils, iron and steel, ores, slag and ash, inorganic chemicals, basic textiles, copper & related goods, and fruit, accounting for 69 percent of exports. In contrast, the EU exports manufactured goods to South Africa: Machinery and appliances and vehicles accounting for 46 percent of EU exports to South Africa.

The DTI has exerted considerable energy to negotiate a favourable agreement with the European Union. The DTI had sought to gain partial Lomé status. The outcome of these negotiations is closer to an asymmetrical bilateral free trade agreement in South Africa's favour. The phasing of free trade is still under negotiation. There have also been references to a package of financial assistance from the EU, possibly totalling $650 million over a period of four years. South Africa is still seeking to gain from ACP cumulation rules allowed under the Lomé Convention.

Emerging business gains from EU trade in two main ways. First, licensing and franchising offer excellent opportunities for local business seeking to establish. Second, particularly German firms are known for their developmental relations with foreign subcontractors.

4.4.4.b Southern African Customs Union (SACU)

SACU is a customs union or free-trade agreement between South Africa and the BLNS countries. The SACU arrangement is currently being re-negotiated, with three main issues in mind. First, the revenue-sharing formula is being revisited. Second, the institution is to become more democratic. Historically, South Africa has wielded substantial control over the terms of reference and determination of import controls. Joint determination of tariffs will have important implications for the boundaries of the Board of Tariffs and Trade (BTT) and for industry groups that seek to lobby government for changes to the tariff schedule. On the other hand, joint decision-making may improve controls over dumped imports, entering through more poorly guarded customs points in the BLNS and former homelands. Third, a harmonisation of agricultural, industrial and competition policy will be pursued amongst the countries party to SACU.

4.4.4.c Southern African Development Community (SADC)

SADC was established in 1981 as the Southern African Development Co-ordinating Conference (SADCC) by the Frontline States. It now includes Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe, with Namibia and South Africa joining in 1990 and 1993 respectively. SADC was formed to counter economic dependence on apartheid South Africa by encouraging international trade and co-ordinating regional co-operation in development projects.

Intra-SADC trade accounts for only four percent of the total trade of SADC members. This trade within SADC is highly skewed: 25 percent of total SADC trade is with South Africa. South Africa is an important exporter to the region, with a trade surplus of 5.5:1. These exports are particularly important as they account for about 25 percent of South Africa's manufactured exports.

With political change in South Africa, increasing emphasis has been placed on promoting trade integration, with the reduction of protective barriers for intra-SADC trade, a movement to the co-ordination of external tariffs, allowing for freer movement of capital and labour, establishing regional infrastructural authorities and creating a development bank. SADC members met in August to discuss the formation of a Southern African economic community by 2000, with free trade, free population movement, a single currency and agreements on joint initiatives to share scarce water and power resources.

4.4.4.d Common Market for East and Southern Africa (COMESA)

COMESA was instituted in 1981 by the EEC and United Nations (UN) with the idea of forming a preferential trading area (PTA) within 22 countries in east and southern Africa. These countries include: Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Mauritius, Rwanda, Seychelles, Somalia, Sudan and Uganda. All SADC countries are also members, except for Botswana, Zimbabwe and South Africa. The purpose of COMESA was to reduce tariffs between these countries and eventually form a common market. COMESA seeks to develop a common economic community by 2004 which includes SADC. To date, COMESA has achieved a 60 percent reduction in tariffs for trade between its members.

Toward the end of 1995, a summit will be held between SADC and COMESA to determine areas of co-operation. While SADC has not been enthusiastic to join COMESA, there are at least nine countries that are already members of both organisations.

A lifting of barriers to trade within Africa will have important implications for emerging business. New opportunities for expanding in non-traditional exports should increase as Africa is an important market for South African manufactured goods. A reduction in red-tape, such as import or export licensing, associated with trade would particularly assist smaller firms and informal operations to sell goods within the region. SACU and SADC offer particular opportunities for small business: As discussed below, substantial expansion into these markets would require the establishment of an export fund to assist in marketing and export credit guarantees to cover risk.

4.4.5 <u>Institutional Issues</u>

4.4.5.a Pressure on Finance for Supply-side Assistance

The relationship between the DTI and the Department of Finance has long been fraught with complications. Now, the competition for funds has intensified. Generally, the DTI seeks to offer some recipe of assistance including tax rebates and/or direct cash incentives.

The latter requires budget transfers. The former requires acceptance of reductions in tax revenue.

The DTI's total budget for 1995 is R 3.5 billion, of which R2 billion is allocated to export promotion. The majority of this export assistance, R 1.8 billion is earmarked for GEIS payments. As GEIS is phased out in 1997/8, the Department of Finance is hoping to transfer this allocation out of the DTI budget. The DTI appears to be winning the challenge to convince the Department of Finance of the necessity of maintaining these funds and channelling them into alternative supply-side incentives.

4.4.5.b Institutional Change in the DTI

The DTI has actively introduced a plan of institutional change that will allow for the incorporation of technical expertise in public policy formulations. Historically, resources in the DTI were very thin and poorly supported. Policy determination relied substantially on the proposals and pressures of interest groups. The DTI staff spent most of their time answering technical questions and dealing with interest group lobbying. The offices were barely computerised, posing a great barrier to effectively determining rational policy where tariff determinations are highly complicated. It is unclear how the setting up of new directorates will improve conditions of exporting SMMEs.

4.4.5.c South African Foreign Trade Organisation (SAFTO)

SAFTO, which provides services to exporters, has recently moved to the IDC. Their central services include:

Information Base

SAFTO carries highly detailed data on foreign markets, duties into foreign countries, company directorates and other relevant economic information. Now that SAFTO is located within the IDC, its database is expected to improve dramatically.

SAFTO also publishes details on foreign companies making trade enquiries in South Africa. Officials at SAFTO note that this information tends to be more useful as an indicator of the existence of a market, rather than in specifically linking the enquiry to an exporter.

Publications

A range of publications are produced, ranging from basic to advanced. The most basic book, "The ABCs of Exporting" is subsidised by the DTI. SAFTO also produces international export directories in which South African products are listed.

Training Facilities

SAFTO training ranges from basic to advanced training, generally offered in short modules. It also offers a three-year diploma in export management, primarily relevant to larger companies that would have a dedicated export office.

Trade Promotion

SAFTO organises trade missions, with increasing focus on African markets. The emphasis on Africa is partly the growth in African markets, particularly to East Africa and Ghana. Second, African markets provide important outlets for South African manufactured goods.

Yet, participation in trade fairs is extremely expensive, costing R25,000 to R30,000 for only a small exhibit. As export markets often require six to 18 months to establish, this initial investment would be extremely difficult for small businesses.

SAFTO offers MARINER, an export market development programme. The MARINER programme offers services such as market identification, the development of sales and the handling of export documentation. The programme is meant to facilitate entry to export markets and reduce the time spent by exporters on market research and overseas trips. The cost of these consulting services is R5,000 per month of assistance. For select smaller companies, the DTI may subsidise this cost, reducing the price to R3,500 per month. This programme can service a maximum of 30 companies per year, chosen on the basis of realistic capacity to undertake export activity. Criteria can include the availability of dedicated export staff and sufficient access to finance.

SAFTO offers services on a cost-recovery basis, with very few of its services subsidised by the DTI. For emerging business, the DTI subsidises the production of "The ABCs of Exporting", a product promotion magazine and the MARINER programme, assisting in the development of export markets. As these services are relatively expensive for smaller businesses, there are some plans to join SMMEs into networks of groups that would be serviced or mentored by one SAFTO staff member.

4.4.6 Policy Dilemmas

4.4.6.a Excessive Emphasis on Tariff Levels Vs Tariff Structure

While the tariff reforms are moving duties toward unified rates, the recent announcements allow for the continuation of an irrational and opaque system of protection over the next four years. Particularly in the clothing and textile sectors, the system of duties is highly complicated and dispersed, with three tariffs applying to 2000 tariff items depending on product weight and value. The current abuses of this system may continue while the DCCs remain in place over the next three years. Since 1989, the DCCs have been tradable and applied to trade-sensitive products to which the highest duties applied. The proposals allow this system to continue over the coming four years, to eventually be phased into a single ad valorem rate. While the system will become more rational, there will be difficulty in controlling under-invoicing and dumping in the absence of a duty based on weight. These imports particularly affect the ability of SMMEs to compete in the local market.

4.4.6.b Timing of Tariff Reductions vis-à-vis Supply-Side Assistance: The prospects for raising value-added in South African exports

There has been some criticism of the recent tariff reductions, since supply-side assistance has not been developed simultaneously. Supply-side assistance goes further than direct export incentives. It may also include programmes to encourage human resource development, technological development and adoption and improved work organisation.

On the one hand, the phasing of tariff reductions are not particularly radical and do allow for some time to develop complementary policy. On the other hand, supply side programmes are far more complicated to develop and implement. Without the tariff reform, it is unlikely that industry would make the required organisational changes. However, without some supply-side assistance, it is possible that many local firms may fall by the wayside: a result that is untenable given the high unemployment rates.

While tariff reductions appear to be small, the reductions particularly affect smaller importers and producers. It was primarily the larger companies that could enhance profits by taking advantage of duty-free rebates, sometimes at the cost of large increases in import penetration and job loss.

More attention should be paid to promoting local and foreign joint ventures, franchise opportunities, tendering and procurement opportunities. For emerging business, joint ventures and franchising particularly offer important economic opportunities. Government tendering and procurement practices must encourage developmental relations with suppliers.

4.4.6.c Non-complementarity of Export Incentive Schemes

Export incentive schemes have been introduced on an ad hoc basis, with programmes often cancelling each other out. For example, GEIS, the most widely used export incentive tends to eclipse the use of Duty Drawbacks (470.03) and export credit from the Credit Guarantee Insurance Corporation (CGIC). First, export finance from the CGIC and GEIS may not be used simultaneously. Second, the local content provision in the GEIS formula competes with the benefit provided by DCCs in the import of imported inputs. While the local content variable in the GEIS formula is beneficial in principle, a dependency on local inputs could dramatically reduce the potential competitiveness of South African exports. To successfully compete in global markets, clothing exporters require access to reasonably priced, varied inputs. Where the 470.03 rebate scheme is used, exporters of higher value-added products lose approximately ten percent of their GEIS assistance. Yet, this subsidy is required since, unlike many other developing countries, South African exports to the EU are subject to a 14 percent duty.

4.4.6.d GEIS and Duty Drawbacks (470.03)

Duty-rebate schemes that are tied to exports are the most highly regarded export incentives. While the local content variable in the GEIS formula is beneficial in principle, a dependency on local inputs could dramatically reduce the potential competitiveness of South African exports. To successfully compete in global markets, clothing exporters require access to reasonably priced, varied inputs.

Clearly, international competition becomes extremely difficult in the fact of a 25 percent price disadvantage. Where the 470.03 rebate scheme is used, exporters lose approximately 10 percent of their GEIS assistance. Yet, this subsidy is required since, unlike many other developing countries, South African exports to the EU are subject to a 14 percent duty. Hence, if an exporter does not use 470.03 the cost disadvantage is 25 percent - 19.5 percent +14 percent = 19.5 percent. If an exporter does use 470.03, the cost disadvantage is 0 percent- 8.8 percent + 14 percent = 5.2 percent.

While the combination of export incentives may neutralise relative practices, the dramatic export expansion desired has not occurred. Incentives targeted at behaviour are required, encouraging productivity improvements and export market development.

4.4.6.e Export Marketing Assistance (EMA)

Until 1991, the state offered a tax rebate to exporters, known as 11bis: Exporters gained a value of two times the marketing costs incurred. Some exporters were unhappy with 11bis, since the tax rebate could take up to two years to be realised.

The benefits offered by the EMA are substantially less than those previously gained by 11bis. For the development of each new market, the EMA offers only 50 percent of one economy airfare, a stipend of R400/day for 15 days and R600 for transport of samples. The EMA is currently being reconsidered by the DTI.

4.4.6.f Export Credit Re-insurance

The DTI introduced foreign exchange rate cover, replacing the former policy of a single predetermined spot exchange rate. In the new scheme, exchange rates are guaranteed for specified dates in the future.

The Finance Guarantee Scheme for SMMEs to enhance pre-shipment export finance, as outlined in the White Paper, will probably not be offered.

4.5 Policy Recommendations

Greater coherence is required in incentive packages: South African export assistance has at times been contradictory, with programmes cancelling each other out and has encouraged import displacement through DCCs. Moreover, export promotion incentives need to include the following:

- The Export Marketing Assistance programme should be extended. The current assistance barely touches the financial requirements of establishing export markets. Firms seem to spend about ten to fifteen percent of export sales on marketing activity. The large investment in marketing is required over a period of at least two to three years. Export marketing requires numerous overseas trips, expensive communications, the determination and payment of overseas agents and the establishment of offices and warehouses. Finally, there is a learning curve where a firm increases its sophistication in terms of sizing, labelling, and quality expectations. The larger exporters simply absorb the cost. The lack of export marketing assistance discriminates against smaller companies. Assistance with the substantial costs inherent to developing export markets is required for businesses with low margins and weak cash flow.

- Incentives need to cover the cost disadvantage of the anti-export bias, and should therefore be tied to productivity improvements. Incentives should be monitored and linked to desired behaviour to ensure that resources are not lost in subsidising uncompetitive industry. Ongoing incentives may be tied to investment, organisational change, productivity improvements or employment generation. As it is mainly larger companies that export, incentives should encourage developmental relationships with suppliers, particularly SMMEs.

- Local and foreign joint ventures, franchise opportunities, tendering and procurement opportunities should be promoted with active black business participation. For emerging business, joint ventures and franchising particularly offer important economic opportunities. Government tendering and procurement practices must encourage developmental relations with suppliers.

- Government and big business procurement policies must encourage sourcing of inputs from the SMME sector.

- Technical assistance in terms of market research should be undertaken by government and NGOs for the SMME sector. Market news and information should be made available to SMMEs by the marketing support facility.

- Tender boards should be restructured and made transparent to include representatives for the SMME sector. The administration of tender boards should be revised and tender documents simplified so that SMMEs can take advantage of procurement opportunities from the public and private sector.

- Incentives should be devised to encourage big business to source inputs from SMMEs, sub-contract to SMMEs and enter into joint ventures with them.

- Black entrepreneurs and businesses should have access to information on joint ventures and partnerships with local and international investors. NAFCOC should be notified and made aware of such opportunities so that members can be readily informed.

5. BUSINESS LEGISLATION AND REGULATIONS

5.0 Introduction

Throughout this study, reference has been made to laws, regulations and other government policy measures which have acted as or which remain barriers to entry. The laws already analysed elsewhere in the text will not be discussed in this section. It is important at this stage to summarise the most important pieces of legislation and the ways in which they impede business growth. Many laws need to re-evaluated and possibly reformed.

It has been difficult to arrive at a proper classification of the many laws and regulations. The laws have been grouped into nine broad categories.

All the laws presented here affect the performance of markets, their structures and conduct. These laws need to be revisited with a view to making reforms aimed at removing barriers to entry, promoting growth, democratising the economy and championing equity. The laws are summarised below in Table 5.1 and ranked according to the degree that they represent a barriers to entry. The rank also represents the degree of urgency attached to each law as needing attention.

Following the summary table, each law is analysed as to the manner in which it constitutes a barrier to entry. Policy recommendations, offering suggestions as to what ought to be done to ameliorate the barrier, are made in the final section. It is important to emphasise that a more rigorous examination of how reforms can be made will be required. The purpose here is to highlight certain laws and regulations and to recommend the direction of reform.

Table 5.1 BUSINESS LAWS AND REGULATIONS AFFECTING BUSINESS GROWTH		
Classification	**Contents**	**Degree of Barrier** **1 - High** **2 - Medium** **3 - Low**
Agriculture and Food Processing	• Agricultural Land Use • Agricultural Land Sub-division • Agricultural marketing • Animal Slaughter/Meat Processing • Bakeries and Butcheries • Dairies • Land	1 1 1 1 1 1 1
Buildings	• Building Costs • Factory	1 2
Financial Institutions	• Deposit taking institutions • Usury Act (Discussed in Section 3.7)	1 1
Environmental Protection	• Environmental laws	1
Entertainment	• Liquor Licensing • Gambling • Boarding Houses • Hotels • Parks	2 3 1 1 1
International Trade	• GEIS (Section 4.0) • Import Control Act • Export Controls • Foreign Exchange Control	2 1 1 1
Labour Market	• Job Reservation (now abolished) • Labour Relations Bill • Apprenticeship	1 1 1
Mineral	• Mineral Rights	1
Other Laws	• Companies Act • Competition • Conveyances • Co-operatives	1 1 1 2

5.1 Agriculture and Food Processing

This category of laws covers a wide spectrum with consequences for barriers to entry. Table 5.1 lists six laws in this category. The list is by no means exhaustive, but it is a selection of examples for comment with regard to barriers to entry for all forms of industries in South Africa and the international investor. Some comments will be made on each of the laws for purposes of indicating where barriers to entry exist. The final section of recommendations indicates the direction of the required policy reforms.

5.1.1 Agricultural Land Use

A number of laws, regulations and by-laws regulate land use in South Africa. These include : conservation, mining, commerce and industry.

It is land use related to commerce and industry which is most important as a barrier to business growth. The other two land use forms (i.e. mining and conservation) are important as well, but have less impact from the point of view of barriers to entry. Issues like the terms of the title deeds of the land are important in two main respects :

- For agriculture land, often it is specified that the land cannot be used for developing farm industrial activities. This requirement creates barriers to entry for the development of farm crafts, hotels, recreation facilities, agricultural produce processing, informal settlements, etc.;

- Title deeds covering tribal land ownership is a vestige of the feudal period when the chief had the powers to allocate land. This concept of title deeds bears no relationship to title deeds which banks can regard as collateral in order to extend credit. In this sense, this type of title deed system needs to be abolished, as a remnant of feudalism.

The law requires that for agricultural land to be used for other purposes, official permission must be obtained.

5.1.2 Agricultural Land Sub-division

The Agriculture Land Act of 1970 prohibits the sub-division of agricultural land without the permission of the Minister. Changes in technology now allow for small farms as opposed to an earlier period when expansion in hectarage was a way of increasing output. Intensive agriculture, based on small-scale farms, is also a way to increase output.

Farmers are not even allowed to let part of their land to tenants for more than 10 years without the express permission of the Minister and in the same Act. Clearly, this Act prevents emergent farmers from acquiring land and hence raises barriers to entry. This barrier to entry is no longer necessary and should be replaced by positive incentives which encourage growth of output in agriculture, commerce and industry.

5.1.3 Agriculture Marketing

This concept dates back to the 1924 Hertzog PACT government. As this was a government of alliance between the workers and the then poor farmers (all white), it was important to devise a mechanism of assisting farmers with agriculture marketing. Later, particularly during the 1930's, a view was also held that both stabilisation of prices for agricultural produce and reducing distribution costs were central to the development of the sector. Various Agricultural Boards were set up to control marketing conditions, including the quality of the product, and to initiate, particularly through co-operatives, the development of agro-industries and to become professional skills training institutions for Afrikaners, who constituted the backbone of South African farming from the apartheid point of view.

These considerations resulted in the Marketing Act of 1937, which created the 14 agricultural marketing boards in South Africa. The effect of setting up these boards was the denial of opportunities to transport produce by small transport businesses. Indeed, the Act raised considerable barriers to entry in the market concerned with agriculture. These barriers are unnecessary, since in a study by the Board of Trade and Tariffs, it was concluded that the existence of these agricultural marketing boards in agricultural marketing increase prices of food.

Regarding the question of prices, most governments have entertained the illusion that prices can be controlled. There was little appreciation that it is income fluctuations, coupled with conditions of supply and demand, that determined prices. At times, inaccurate intervention by the government can cause major disequilibrium in the market and one has often observed shortages, queues and other negative features. If government wants to control prices, then it must have a rapid mechanism to respond to changes in supply and demand and particularly changes in incomes measured by GDP.

Therefore, governments can aim at influencing the development of prices rather than control them. Clearly, the marketing boards need to be reviewed and perhaps dismantled in order to reduce barriers to entry in agricultural marketing.

5.1.4 Animal Slaughter/Meat Processing

In terms of barriers to entry, the Act regulating slaughter introduces three forms of controls:

- Requirements that animals be slaughtered at approved abattoirs;
- Minimum health standards were stipulated for abattoirs, meat transport and meat processing;
- Geographic monopoly.

South African abattoirs are obliged to slaughter according to European Union standards, which are amongst the most stringent in the world. Many have argued that these standards are excessive for a developing country and create barriers to entry. In practice however, the majority of South Africans eat meat not slaughtered according to these standards. Tribal traditions sometimes require that animals are slaughtered at the site of a wedding, funeral or other ceremonies. Clearly, these do not conform to these standards.

The high standards required by this legislation creates barriers to entry for SMMEs by raising the capital requirements to operate an abattoir, a butchery or transport meat. There is need to rethink these issues in order to reduce barriers to entry into this market by SMMEs.

The cost of transporting cattle to approved abattoirs and complying with minimum requirements, all are geared to the sector remaining the monopoly of big business. The long distance transportation of animals, in crowded pens, violates the 1962 Animal Protection Act regarding cruelty to animals. It seems the tribal methods of slaughter are more in conformity to the spirit of that Act.

5.1.5 Bakeries and Butcheries

Bakeries and Butcheries regulations require special licenses to control the quality and standards. The result is that SMMEs have difficulties in obtaining these licenses as capital requirements to reach the required standards are high.

5.1.6 Dairy Products

There are special aspects of the Agricultural Marketing Act, that impose regulations on dairy products which are significant barriers to entry for SMMEs. A Dairy Scheme imposes restrictions with regard to registration and at times a monopoly position is given to a particular dairy. The scheme also contains controls on hygiene.

Again it seems the hygiene requirement is difficult to explain in a South African context, e.g. it is required by law that milk should be pasteurised before sale. This requirement is not observed by a majority of South Africans who produce and drink large quantities of milk yearly, especially in the rural areas. Sour milk, a staple diet of some communities is made out of unpasteurised milk.

The health requirements for transportation, storage and distribution of milk are appropriate for developed country conditions. For this reason, these are not complied with in most of South Africa, where transportation, storage and distribution would be impossible otherwise. For the purposes of this study, the regulations imposed barriers to entry into the dairy market. It seems the removal of the requirements would not affect the health of the majority of the population.

5.1.7 Land

During discussions on the subject of agricultural land issues, a number of laws were examined. There are still a number of other laws pertaining more generally to land which act as barriers to entry such as various laws regulating land tenure and ownership, land survey, land taxes and rates, stamp duty, title deed registration and transfer duty.

The Land Rights Conversion to Ownership law is part of the legacy of apartheid. During the apartheid era, various forms of title to land were used, from government short-term leases for housing and permission to occupy land in tribal areas, to 99-year leases in urban areas.

Reforms to some of these laws, rules and regulations was attempted in 1988 with Conversion of Certain Rights to Leasehold Act passed that year. This Act allowed for de facto holders of site permits and certificate of occupation to convert these to 99-year leases. This new law made it possible for de-facto holders of site permits and certificates of occupation to get rights to the land, the right to transfer it to another owner, and the right to mortgage the property.

The Conversion of Land Tenure Rights, 1991, extended this right to 99-year leases to townships which are fully surveyed and shown on an approved general plan. The 99-year lease could then be extended to those areas where a separate title deed exists and registered as such in the deeds office as well as proper land survey map.

The difficulty is that most townships are not surveyed. There is no township register open in the deeds registry for the majority of townships. This creates constraints to the holding of titles and makes it difficult to take advantage of the reforms. One way of solving this problem is to conduct an area survey. Clearly, any black empowerment concerns must centre around how to make it possible for them to have title deeds for land in the townships and in rural areas.

From the viewpoint of barriers to entry, the land law has not adequately addressed problems of earlier dispossessed communities, in terms of providing them with collateral acceptable to banks. Further, even cases where conversion is possible, the land surveyors', registrars', conveyancers' fees, stamp duty and transfer payments, all constitute substantial expenses. This creates more barriers to entry and should be closely reviewed.

5.2 Building Codes and Factory Laws

5.2.1 Building Codes

Most commentators have argued that if township houses had been built by a private firm, they would have been condemned for not meeting required standards. By the National Building Standards Act, the government violated its own rules by building houses of poor standards in the townships. This act should be made consistent with removal of barriers to entry and democratising the South African economy.

5.2.2 Factory Laws

Comment is necessary on the 1994 Factories, Machinery and Building Work Act which stipulates high standards of safety and other requirements. These stringent standards are clearly drawn from developed economies and therefore, only large companies can comply with the requirements.

SMMEs have difficulties in complying with these regulations. Those who can afford the required standards are apprehensive of possible de-control. Some de-control exercises were attempted in the then Business De-regulation Act of 1984. This Act exempted businesses with employees less than 20 workers from all the legislation in the Act's schedule. This was a step forward but has not been revisited with a view to removing barriers to entry.

5.3 Financial Institutions

5.3.1 Deposit-Taking Institutions

It has been stated elsewhere that the Deposit-Taking Institutions Act of 1990 makes South Africa a difficult and costly country in which to establish a deposit-taking institution. There are requirements to minimum capital, and the banking experience of the Board and key personnel to run the business. Meanwhile, stokvels developed in the townships as parallel deposit-taking institutions. While the need to protect the general public is acknowledged, barriers to entry into this market must be re-examined. The focus of such re-examination must be the extent to which barriers to entry can be reduced.

5.4 Environmental Protection

The environmental protection lobbies have produced a modern population which is conscious about conservation and proper utilisation of the environment. However, it is equally true that due to the unbalanced nature of world development, some countries are better able to afford environmental technology and regulation. Unfortunately, developed country environmental standards often create barriers to entry for SMMEs in several markets. In South Africa, concern over the environment must be weighed carefully against the urgency of stimulating greater black business growth.

5.5 Entertainment

5.5.1 Gambling

Controversy still rages about gambling laws and regulations and a new gambling bill was tabled on July 17, 1995. In the former TBVC, gambling was allowed. In fact, it was looked upon as a great source of government revenue by the former Bantustans.

The 1992 Act outlawed gambling and steps are being taken to allow each province to decide on these matters.

Before the Act to outlaw gambling, casinos and gambling enterprises employed thousands of workers, who faced dismissal with the implementation of the 1992 Act. The majority of South Africans continue to gamble in Shebeens and informal gambling establishments. It seems the law is more applicable to the formal sector of the economy as it is ignored by the lower socio-economic groups.

This again is an area where a number of laws exist that constitute barriers to entry. The entertainment business is growing at a considerable rate, especially when one considers the tourism area. A comprehensive list of the legislation affecting this are has not been attempted. However, key laws needing attention are summarised below.

5.5.2 Hotels and Accommodation

Under the Hotels Act, hotels, including other accommodation establishments are to be registered and graded on a one to five star scale system. This system is internationally used but the minimum grading of one star is still rather high for the majority of South Africans. It is possible to consider registering "ungraded" hotels. This is to allow the public to choose even the ungraded hotels, depending on affordability.

Considering the question of barriers to entry, ungraded hotels could be an entry point for SMMEs who want to venture into the tourism industry. The present high standards for registering hotels is a barrier to entry into this sector, particularly if one considers the need to encourage domestic tourism.

5.5.5 Liquor Laws

South Africa's liquor laws date back to Lord Milner's Liquor Proclamation at the beginning of this century which prohibited blacks from drinking alcohol except traditionally brewed beer. The implicit assumption was that blacks cannot handle alcohol. The results of this Proclamation were the mushrooming of Shebeens in the townships where liquor was sold illegally, a situation similar to the speak eases that developed in the USA for the same reasons. Although blacks can now drink any liquor they like, the effects of this law regarding drinking places needs to be reviewed.

5.5.6 Game Parks

Trading is not allowed in national parks. While one understands that national parks should not become flea markets, there is a need to lower barriers to entry for SMMEs who could usefully produce and sell crafts and other services in the game parks. SMMEs are limited by laws governing game parks to benefit/participate in tourism opportunities.

5.6 International Trade

Table 5.1 lists a number of laws and regulations creating barriers to entry for South Africans into foreign markets and for foreign investments into the South African economy. A number of them have been reviewed in other sections (e.g. import controls arising through high tariff walls, foreign exchange controls, GEIS, etc.). Benefits granted by these laws accrue mainly to large businesses.

The only piece of legislation not discussed in other sections is that establishing export controls.

5.6.1 Export Controls

Traditionally, South Africa, aiming for a good name in international markets, has imposed quality controls on exports. The European Union standards are usually demanded regarding packaging. For this reason, those who have exported officially, and can therefore benefit from GEIS, have been the conglomerates.

These controls have imposed considerable barriers to entry by SMMEs into the export market. These regulations need to be reviewed.

5.7 Labour Market

5.7.1 Labour Relations Bill

Various labour laws, including the draft Labour Relations Bill of 1995 are significant achievements of labour and big business. The aim of the Bill is to bring labour legislation in line with the new constitution and to speed up conflict resolution, placing emphasis on mediation and arbitration and far less on the courts. The key body in this process will be the Commission for Conciliation, Mediation and Arbitration, which will comprise representatives of government, trade unions and business. The concept of Workplace Forum has been introduced, designed to facilitate communication and joint problem solving in enterprise employing more than 100 people. To what extent labour laws should be enforced on SMMEs is a point of major dispute. A strict and high level of employee benefits can constitute a barrier to entry for SMMEs.

5.7.2 Apprenticeship Laws

The now abolished Job Reservation Act formed the basis of South Africa's apprenticeship laws. The protection of white craftsmen and maintenance of black cheap labour is the basis upon which the 1981 Manpower Training Act was enacted. In theory, the 1981 Act was not discriminatory; but the requirements become so especially the educational requirements.

It is clear that skills development constitutes the most important opportunity for upward mobility and empowerment of black South Africans. However, there are over 200 professions and occupations requiring minimum qualifications and which have various acts protecting them.

Examples of legislation creating closed professions include the :

- Public Accountants and Auditors Act (1991),
- Agricultural Produce Agents Act (1992),
- Architects Act (1970),
- Quantity Surveyors' Act (1970),
- Engineering Profession of South Africa Act (1989),
- Natural Scientists Act (1982),
- Professional Land Surveyors and Technical Surveyors' Act (1984),
- Town and Regional Planners Act (1984),
- Valuers' Act (1982),
- Estate Agents Act (1976),
- Attorneys Act (1979),
- Admission of Advocates Act (1964),
- Profession of Town Clerks Act (1988),
- Municipal Accounts Act (1988),
- Patents Act (1978),
- Travel Agents and Travel Agencies Act (1983),
- Tour Guides Act (1978),
- Social Work Act (1978),
- Security Officers Act (1982),
- Dental Technicians Act (1979),
- Nursing Act (1978),
- Veterinary and Para-veterinary Professions Act (1982),
- Medical, Dental and Supplementary Health Service Professions Act (1974) and Pharmacy Act (1974).

All these Acts have had the effect of creating barriers to entry into these professions. Minimum qualifications, including apprenticeship training, are barriers to entry. Originally, the argument for these laws was to maintain high standards. In practice, they have functioned to protect members of the profession from wider international competition. The have also been used to limit supply into these professions, to create an elite of highly paid professionals. Furthermore, the educational requirements included in these acts precluded those who obtained degrees abroad from practising the profession in South Africa. This affects black professionals in particular.

5.8 Mineral and Mining Rights

Under these laws, it is unlawful for unlicensed business to deal in uncut gemstones and unwrought precious metals. Those who already have licenses are protected by this law which imposes barriers to entry for those without licenses.

5.9 Other Laws

There are a number of laws under this category, some of which are currently being debated. These are not all of the same magnitude in relation to barriers to entry. Minor ones are the censorship laws, which dated back to the apartheid era. These laws did raise barriers to entry for those materials not approved. However, the bulk of the laws on censorship fall outside the arena of barriers to entry into the "moral values" arena. For these reasons, although inconsistent with a free society, they are not the subject of discussion here.

5.9.1 Companies Act

Traditionally, it was difficult to open a company in South Africa until the introduction of the Close Corporations Act. However, even with respect to the formation of a close corporation, the provisions regarding registration are still high. This Act requires record keeping and reporting, the use of qualified accounting officers and other formalities which are costly and out of reach for many small businesses. These requirements create barriers

5.9.2 Conveyances

An issue separate from title deeds for acquired land is that it is obligatory that title deeds must pass through a conveyancer who has to check all entries have been correctly entered before a title deed is issued. This system developed during the time when most title deeds were hand-written and, to avoid misinterpretation of the document, the use of a conveyancer was essential.

The expenses involved in this requirement are not justified in the age of computers. A computerised system could provide storage for title deeds information. The system is, therefore, no longer necessary and has been made redundant by modern technology.

5.9.3 Co-operatives

The Co-operatives Act of 1981 empower the Minister to declare any co-operative practice to be one that could be pursued exclusively. This sometimes forces sales through a particular channel which distorts the market, leads to artificially higher prices in the farming sector.

5.10 Policy Recommendations

All the laws presented here affect the performance of markets, their structures and conduct. They need to be revisited with a view to making reforms aimed at removing barriers to entry, promoting growth, democratising the economy and championing equity.

5.10.1 Agriculture Land Use

This law should be amended such that farmers can have freedom to benefit from opportunities requiring alternative use of land. Such an amendment of the laws would empower agricultural communities and enhance their views regarding the use of land from a demand driven point of view. This would increase the value of land and access to finance can be greatly facilitated.

5.10.2 Agriculture Marketing Boards

Emphasis on control boards should be relaxed and these institutions should focus on providing marketing services to farmers. They should sell their services to farmers and farmers should be free to buy these services, and if the services are not up to standard, farmers should be free to use other channels. It is clear that emphasis on controls prevents boards from working out a comprehensive service to farmers.

The boards should be commercialised and change ownership structure from government to farmers themselves or employees and other investors. Consideration should even be given as to whether these institutions should be floated on the stock exchange.

This recommendation would allow newcomers, especially black farmers, to compete more effectively. Further, this recommendation would result in a restructuring and re-orientation of agricultural marketing to a flexible and dynamic marketing system.

5.10.3 Animal Slaughter

The monopoly powers of abattoirs should be abolished and farmers, butchers and large consumers such as mines should be allowed to slaughter as long as normal hygiene standards are maintained. However, this should be done with great caution because it can lead to price wars by the more well established white farmers who have the ability of locking small black farmers and businesses out of the market. Much of this is already happening in the Northern Cape province where small black farmers and businesses have been the hardest hit.

5.10.4 Land

This is an important issue related closely to questions raised regarding access to finance.
As such it is recommended as follows:

- that after meeting certain agreed criteria (example, length of occupation, time, etc.) title to land should be converted to ownership. Emphasis should be put on title to land in communal areas and the townships;

- township properties and business centres should be sold to occupants at historical (book) value and not at market related prices. In addition, the price and size of farms have not yet been fully dealt with in the former homelands and needs urgent attention. A method should be devised to clearly spell out the pricing policy of these properties with participation from NAFCOC;

- township homes which have been occupied for more than 20 years should be considered as having fully paid and title deeds for the properties handed to occupants. This program is already underway in the urban black townships, but not in the former homelands or bantustans. Properties in the former homelands should be converted into title deeds and handed over to occupants;

- that more state land be sold to communities, individuals and particularly black entrepreneurs so as to reduce financial barriers to entry.

5.10.5 Dairy Laws

Liberalisation of dairy laws and removal of restrictions regarding pasteurisation of milk should be considered. The presently strict conditions regarding storage, processing and distribution of dairy products should be critically examined with a view to removing barriers to entry.

5.10.6 Environment

A careful cost-benefit analysis should be made before specific environmental requirements are imposed by law. Without such an evaluation, which should allocate who will pay the costs and who will benefit, environmental protection laws may raise considerable barriers to entry for SMMEs.

5.10.7 Labour

There is need to discuss and re-examine some of these labour laws and see how possible removal of barriers to entry can be achieved, especially for a country with a high unemployment rate.

5.10.8 Game Parks

The situation which prevents SMMEs from operating in the national game parks needs to be examined as it limits certain entrepreneurial opportunities. A study of the potential needs to be conducted and a limited range of trading activities should be allowed.

5.10.9 Gambling

It is desirable to have the consistent regulations concerning gambling across the whole country. However, the preferred option is that any meaningless government intervention raises barriers to entry. As such it is not desirable for regulations of this nature to raise barriers to entry for SMMEs.

5.10.10 Apprenticeship Laws

Entry barriers into trades, occupations and professions should be systematically and critically re-examined. A number individuals who possess the knowledge and skills but do not hold certificates in specific trade should be tested and allowed to practice their skills. A special Qualification Accreditation Board under the direction of the Department of Education is currently examining this question. The artificial shortage of skilled people, created by protecting certain trades only helps those who are already insiders and is a barrier to entry for those who are outside.

5.10.11 Minerals

Many have argued that trade in precious metals and stones, as well as stone-cutting and polishing, provide important SMME opportunities.

5.10.12 Tendering System

Up to now the tendering system has not benefited black business. Representation on tender boards should include black business representatives nominated by NAFCOC. Legislation surrounding tenders in the provinces should be revisited and reviewed to avoid misinterpretation and ensure transparency.

5.10.13 Tax Laws

The tax law should be revised to include tax shelters and incentives for black businesses and to companies setting up businesses in black townships or rural areas.

6. EXISTING INSTITUTIONAL SUPPORT

6.0 Introduction

South Africa can be classified as a semi-industrialised developing country. It has neither a developed nor a typical underdeveloped economy. However, its economy is distinctly different from others in Sub-Saharan Africa. Although the larger scale industries produced a modern manufacturing sector which is very capital intensive relative to South Africa's resource endowments, they created few jobs. In addition, the high productivity that characterises large scale industries relative to smaller scaled SMMEs is also by no means synonymous with economic efficiency given the scarcity of capital and abundance of labour in South Africa. SMMEs have the potential of combining economic efficiency with job creation and positive income distribution. The development and promotion of black-owned SMMEs will be essential for achieving social and economic integration and can be an effective means of pursuing growth, employment, and equity objectives.

One of the major barriers facing entrepreneurs in South Africa is the lack of institutional support, particularly in project preparation, design, implementation and supervision. The new emerging black entrepreneurs face the challenge of surviving in markets they are not familiar with and in assimilating production methods and management's techniques. SMMEs, which have been regarded as the engine of economic growth throughout the world face barriers in South Africa in regard to appropriate sources of plant and equipment, marketing, and financial management. Many businesses fail primarily because of poor project design, inadequate preparation and supervision and poor project implementation. Furthermore, the problem of adequate investment, promotional services, and direct advisory and technical assistance is one of the major constraints limiting the investment and growth of SMMEs. A full array of advisory services in project formulation, preparation, and promotion will need to be established to help SMMEs entrepreneurs overcome these barriers and to adequately meet the needs of emerging black businesses.

6.1 Technical Assistance for Entrepreneurs

Technical assistance is an important element towards building a strong institutional framework which can best serve and support the small business community. Technical assistance typically emphasises the transfer of general business skills to entrepreneurs, construction/operation of physical facilities for new and existing entrepreneurs across industries, and the transfer of technical skills to specific sub-sectors. Technical assistance programs have the ability to screen and appraise projects or business ideas to determine their viability. The goal of technical assistance is not to provide entrepreneurs with direct financing, but to help make them bankable so that they obtain the necessary funding from domestic and foreign sources. The lack of technical assistance to black entrepreneurs have resulted in black businesses not being adequately prepared to meet their objectives in quantity and quality of services delivered and is a major barrier. There are various approaches to technical assistance including:

Provision of national and/or provincial extension services to provide entrepreneurs with business advisory services;

- Government sponsored business promotional service centres;
- Education on entrepreneurship development and other topics in business;
- Promotion of selected industries where entry for black entrepreneurs is less difficult, example construction and tourism.

6.1.1 Project Preparation

Project profiles, preparation, and assistance of most black ventures is of poor quality and sub-sector focus is almost non-existent. This is because black entrepreneurs still play no significant role in the modern, white dominated sector of the South African economy. Only a small percentage of blacks own businesses because of their previous exclusion from the formal economy. In addition, the cost of preparing project feasibility studies by private management and consulting companies are prohibitive for the majority of emerging black entrepreneurs. These barriers impede the establishment and growth of emerging black businesses.

6.1.2 Project Implementation

Successful project implementation is an important consideration in measuring the ultimate success of an investment. Implementation is the follow-up support to entrepreneurs after financing have been secured. Implementation is essentially getting the business underway including assistance in determining appropriate sources of plant and equipment, marketing, production, and sales. Again. this is major barrier for black businesses because they lack assistance in this area.

6.1.3 Business Management and Extension Services

The role of national and regional agencies charged with promoting SMME development and providing services and training to entrepreneurs is extremely important and should be designed to provide the best service to clients. These services have been largely non-existent in the past and prohibited SMMEs from growing on a large scale. Business programs should be offered on a national basis and should not be too formal, sophisticated or overly ambitious in scope. Extension services should offer entrepreneurs on the spot assistance with simple managerial or technical problems.

6.1.4 Entrepreneurship Development

Entrepreneurship development is aimed at setting up new businesses and radically transforming existing ones. The development of a business idea and its transition into a viable venture is the key to entrepreneurship development. Entrepreneurship development programs (EDPs) can be promising routes to overcome major barriers and increase the number of black entrepreneurs in South Africa. EDPs seek to identify candidates with entrepreneurial abilities, equip them personal confidence and basic skills, and facilitate them entry into business with financial plans and credit applications at hand. EDPs can serve as excellent resource development centres because the environment in South Africa businesses is highly supportive of SMMEs. They can also be integrated with financial services specifically designed for SMMEs.

There is a great demand for EDPs in South Africa because black entrepreneurs have difficulty in diversifying existing businesses into new trades. A well developed EDP program could provide opportunities to emerging black entrepreneurs establishing new enterprises in an expanded SMME sector. The number of new SMMEs will be a strong indicator of the level entrepreneurial development and the growth of entrepreneurial capacity. A strong technically oriented EDP training program would contribute to the long-term supply of capable and adaptive black entrepreneurs. The most important element for a successful EDP is an intensive and competitive business planning activity whereby applicants can identify, develop, defend, and implement a sound business idea.

6.2 Sector Specific Technical Assistance

Technical assistance can also be targeted to specific sectors identified as having relatively easy entry for black entrepreneurs, high potential for growth, employing many people, or offering significant productivity gains from improvements in technology. Examples of these are the construction and tourism sectors. Technical assistance that targets specific sectors can be extremely beneficial to emerging black business.

6.3 Export Promotion

Export promotion can be another important focus for SMMEs to grow and develop, but the emphasis should be on two aspects: upgrading product design and quality to meet the requirements of domestic or export markets, and marketing products in new countries. In many countries, public export promotion bureaus or boards are usually the implementing agencies, but there are inherent limitations in using public agencies for export promotion. Public agencies can lag far behind the private sector in obtaining information about markets. Chronic logistical problems in transportation, procurement and construction particularly in the rural areas can also frustrate the ability of SMMEs to access foreign markets.

6.4 On-Going Assistance

Very few technical assistance programs which support enterprises with project preparation and appraisal have been established in South Africa, although some are currently underway. These programs provide assistance to black-owned enterprises who want to make the transition from the informal to the formal business sector. Technical assistance also includes the development and preparation of business proposals capable of satisfying the criteria of prospective domestic and international investors and the raising of funds for projects. Other programs assist companies with establishing ownership structures and positioning companies for an increased competitive environment. These programs involve feasibility studies, technology transfer, sector and project identification studies, operational identification studies, and operational technical assistance.

One example of a technical assistance program is the African Management Services Company (Amsco) which is a joint initiative by the International Finance Corporation (IFC), United Nations Development Programme (UNDP), and the African Development Bank (AfDB) to help rehabilitate ailing companies in Sub-Saharan Africa and create a pool of well qualified African managers. Amsco has been operational in South Africa since May 1995 and contributes to the development of locally managed businesses that are profitable, competitive, self-sufficient, and helps integrate them into the international business community. It provides companies with experienced business executives under secondment arrangements while simultaneously training the staff and managers of these companies so that they can take over when the seconded managers leave.

Another example is the Africa Project Development Facility (APDF) which commenced operations in South Africa in July 1995. APDF is a joint effort established by the AfDB, UNDP, and IFC. APDF provides African entrepreneurs with project preparation and funds mobilisation assistance. More specifically, APDF assists black entrepreneurs in formulating and screening project ideas; provides guidance and makes technical and consulting services available to black entrepreneurs who need project preparation and feasibility studies to promote and implement sound and productive businesses; assists black entrepreneurs in identifying joint venture opportunities with foreign investors or financial institutions by bringing the parties together and helping to negotiate fair and equitable conditions of co-operation, and assists black entrepreneurs interested in purchasing parts of local companies from domestic and foreign shareholders. Since its inception in 1986 to December 1993, APDF has completed financial arrangements for 163 projects in 29 African countries with an estimated total investment cost of US$270 million. The Facility helped raise a total of US$188 million in loan and equity financing. The 163 projects are expected to create more than 14,000 new jobs and generate about US$96 million in foreign exchange earnings.

Technical, managerial, and promotional assistance to private entrepreneurs will also be available once various multilateral institutions such as the United Nations Development Programme (UNDP), United Nations Industrial Development Organisation (UNIDO), International Labour Organisation (ILO), and the Lome Convention's Centre for Development of Industry (CDI) have established their programs of assistance in South Africa. CDI focuses on the development of joint ventures between ACP entrepreneurs and countries. The promotional work done by CDI would be extremely valuable since CDI can provide technical and marketing assistance by drawing on its large contact base in the EU. United Nations agencies are required by statute to react primarily to requests from governments and have been oriented towards enterprises promoted by the public sector or local authorities.

Defining the institutional framework which will best serve the business community is an extremely important element in building strong business institutions. Demand for business support services in the black business sector continues to be on the increase particularly since black businesses have played a rather insignificant role in the formal sector of the South African economy. Black enterprises need considerable technical assistance to best harness the growth potential of their businesses. Many of the recently established technical assistance programs are now available to black entrepreneurs. The government itself has begun to institute special measures to encourage the establishment of SMMEs. These institutions are expected to play a pro-active and co-ordinated role. The DTI has also allocated R180 million to promote and facilitate growth in SMMEs and proposed in its small business policy the establishment of capacity building support. A Small and Medium Sized Business Promotion Unit and NEPA have already been established in the DTI.

6.5 Support Services

6.5.1 Business Associations

A number of organisations in South Africa play an active role in the South African business sector and in the advancement of the black business community at both the national and local level. These organisations could play a key role in identifying viable business projects and passing these on to financial institutions and venture capital funds. Several of the leading associations include:

South African Chambers of Business (SACOB) which is one of the largest business associations in the country. SACOB's membership consists largely of the predominantly white formal sector enterprises.

National African Federated Chamber of Commerce and Industry (NAFCOC), which represents over 240 Chamber of Commerce branches through out the country in retail, manufacturing, transport, taverns, farming, building construction, hawkers and various other service industries. NAFCOCs membership is made up predominantly of the black business community in both the formal and informal sectors.

6.5.2 Corporate Assistance & Support

Several corporations in the private sector provides support to black entrepreneurs through sub-contracting and linkages with smaller businesses. These include:

- The Anglo American Corporation (AAC) and De Beers *Small Business Initiative (SBI)* which operates through the Purchasing Unit which selects potential vendors then convinces various AAC business units to purchase through the SBI;

- Anglovaal's *Small Business Development Program* allocates 10 percent of all purchases to small business vendors;

- Barlow's *Small Business Program* appoints small business consultants in each operating company of the Group to act as catalysts to promote the purchase of goods and services from black entrepreneurs;

- Bosch, a German multinational corporation invested funds in the SBDC to establish a joint pilot project to develop black entrepreneurs who wish to set up outlets to sell and service power tools;

- Gencor's Engen purchases all its overalls and requirements from small (mostly black) businesses. Engen also sub-contracts the production and packaging of the company's range of car care products to small black entrepreneurs;

- During 1994, Eskom's *Small Business Development Unit (SBDU)* subcontracted R20 million worth of business to black owned enterprises. Eskom also assists its suppliers with writing professional business plans and proposals to enable them to secure funding for expansions or improvement from the commercial banking sector;

- Hoechst, a subsidiary of a German multinational set up a *Business Development Services (BDS)* unit to promote the growth of chemical manufacturing within the black community. Hoechst SA offers an assistance package including technical assistance, business skills training, after sales consultation, and provides credit lines for low cost bulk buying.

- Johannesburg Consolidated Investment Company's (JCI) *Small Business Unit* sources products and services from small businesses and acts as guarantor for the entrepreneur's creditors;

- The Premier Group established a separate company, *New South Africa Management (NSA)* to co-ordinate the Group's business programs with black entrepreneurs. The company takes a minority equity stake in black-owned organisations in return for assisting the entrepreneur to raise capital, obtain contracts, and provide on-going management expertise to the company;

- South African Breweries (SAB) started two business programs in the mid 1980s: the first is the SAB's owner-driver scheme where SAB opened its beer distribution routes to the company's drivers and assisted them in purchasing their current vehicles from SAB. The second is the SAB's wholesaling and distribution scheme in the former homelands where SAB assisted a number of black entrepreneurs in establishing companies involved in the wholesaling and distribution of SAB's range of beer products.

6.6 Summary and Conclusions

There is a danger that technical assistance programs may be geared to political or social agendas rather than to the needs of entrepreneurs or to economic/financial performance criteria. This must be avoided at all costs. Many governments have also shown a strong bias towards the use of government institutions as implementing agencies, even when they are relatively weak and inexperienced. Poorly conceived and changeable government policies and priorities have in the past undermined technical assistance programs. In some cases, the lack of government commitment has been apparent in the government's failure to deliver on agreed resources. Government programs can also be excessively bureaucratic in policies and procedures, vague on mandates, and limited in their effectiveness with entrepreneurs because they lack personnel with first hand experience in the private sector.

The adoption of a comprehensive SMME policy encompassing managerial and technical support for the development of particularly black-owned SMMEs, greater regional distribution of industry, and entrepreneurial development training will be important policy considerations. The idea is that economic growth should come primarily from the private sector and government should provide social and other services to facilitate and enhance industrial development. Formulation of SMME policy is currently being addressed by the Ministry for Trade & Industry.

The major barriers under this chapter are the lack of institutional support in project preparation, formulation, implementation, and supervision.

6.7 Policy Recommendations

With regard to institutional support to business in South Africa, particularly SMMEs it is recommended as follows:

- That a multiplicity of support institutions can be detrimental for SMMEs as this will further fragment assistance to the sector.

- The implementation of DTI's SMME policy should be closely monitored and evaluated to ensure successful delivery of assistance to intended recipients.

- The relationships between all the new mushrooming institutions of the new government e.g. Apex facility, local business service centres, etc., and the old support structures such as SBDC, DBSA, IDC, DTI etc.) must be co-ordinated.

- Business associations should develop member support services, among others through organisation of market news for producers, market research, courses on exporting or importing, assistance with business plans and management development training.

- The relationship between international donor support for SMMEs, joint venture proposals by foreign investors and information on SMMEs, big business and international donors must be co-ordinated.

7. INDUSTRIAL SECTORS

7.1 The Building And Construction Industry

7.1.1 Market Size and Composition

The construction industry has been unable to pull itself out of the current recession which has been on-going since 1990. The market size of the industry declined from a high of R13.2 billion in 1990 to R10.5 billion in 1994, a decline of 25 percent (see Table 7.1.). There has been some improvement in the residential buildings sector of the market, but non-residential buildings have suffered the worst decline. Even the contribution of the construction industry to GDP was approximately 8 percent during in 1994. Expenditure in the industry is divided into residential buildings, non-residential buildings, and construction works. Growth in the construction industry is barometer of GDP growth which grew at only 2.5 percent in 1994 and is expected to show a modest 3 percent growth in 1995.

Table 7.1.

The Construction Industry in South Africa

(Rand millions)

Description	1994	1993	1992	1991	1990
Residential Buildings	5,521	5,465	5,639	5,375	5,167
Non-residential Buildings	5,025	5,111	6,094	7,405	8,027
Total Market Size	**10,546**	**10,576**	**11,733**	**12,782**	**13,194**
Growth	- 0.3%	-11.0%	- 8.9%	- 3.2%	- 6.7%

Source: Building Industry Federation

The building and construction industry is expected to be one of the strongest growth potential areas for blacks to enter the industry as contractors and sub-contractors. It is considered to be an "easy entry sector" for most of the smaller construction companies because of the massive provision of low-income housing which is seen as a catalyst to stimulating the construction sector. The labour intensive production methods will also give the smaller (mostly black) companies an opportunity to participate as sub-contractors in the sector. However, black construction companies face major barriers which could severely limit their participation in the expected housing boom. Black building contractors face tremendous problems related to internal management weaknesses and the external business environment. Black companies operate at the lower end of the construction market and lack the sophistication of medium and large contractors. They lack supervisory and management expertise and skills and have little experience in tendering, project management, procurement and financial control. They also lack the technical ability required to understand building plans and specifications.

Few black construction companies are able to compete on large projects because of the increase in technical demands which require larger labour pools and greater levels of output. Another barrier is the effective monopoly which large corporations have over the entire housing and construction market. Black contractors seldom meet the financial requirements for site purchases and allocation in black townships and central business districts. Access to credit, the high cost of materials, shortage of skilled and reliable labour, and access to land and competition are among the most serious barriers to market entry for black contractors. Securing credit for material purchases and bridge financing for up-front costs and work-in-progress is extremely difficult because black companies are regarded as high risks by banks. Special financial arrangements for black contractors will be necessary to enable them to enter the mainstream of the construction industry.

One way in which small emerging construction companies can overcome significant barriers, develop capacity and empower themselves is to form joint ventures with larger construction groups. The construction industry is expected to show significant growth, particularly in the low cost housing market. Joint venture partnerships have the potential of being exploitive unless the partners feel they will benefit from the association. Negotiating ability, planning, going outside to find the work and managing a business efficiently and effectively should be sharpened more.

The most lucrative market for small black construction companies is in the low income housing market, but this sector is primarily dominated by large construction enterprises and property developers. The shortage of skilled labour, lack of business experience, finance or start-up capital, and access to markets are the major barriers to entry for small enterprises wishing to enter the industry. Lack of proper networking is another major barrier which can be overcome if black or smaller companies have contacts with larger enterprises. There is also the problem of under estimating tenders. Scale economies in buying materials and supplies is also a major barrier because small enterprises cannot purchase in bulk or large numbers. An important sector which has been neglected is manufacturing. The government must help and promote joint ventures in manufacturing between black businesses and domestic and foreign partners.

7.1.2 Recent Reforms

The Department of Public Works (DPW) has recently formed a committee to review procurement procedures in an effort to simplify and standardise tender documents and make them more accessible to all levels of suppliers. The DPW is also working closely with the Provincial Departments of Public Works to establish a pilot roster system for the appointment of consulting companies for public works projects. The pilot roster will enable and facilitate suitably qualified, previously disadvantaged consultants to obtain work at which they are competent and thereby develop their capacity and experience; and encourage companies with progressive human resource development programs which addresses historical imbalances to tender for public works projects. The DPW has also established a National Public Works Program (NPWP).

7.2 Tourism

7.2.1 Market Size and Composition

Tourism is a R12-14 billion industry and employs more than 450,000 South Africans. During 1993 South Africa received approximately three million foreign visitors generating foreign exchange earnings of R6.0 billion. (See Table 7.2). The size of the domestic tourism market was approximately R8.0 billion in 1993. Of the 3 million foreign visitors, 2.4 million came from Africa while the remainder came from other parts the world. Foreign tourism represented about 7.0 percent of South Africa's total foreign trade and 3.0 percent of GNP in 1993. Foreign tourism is the fourth largest contributor to foreign exchange earnings in South Africa and a significant importer of foreign capital. Tourism's contribution to GDP is expected to rise by 15 percent (between R1 billion and R1.5 billion), but growth is hampered by poor development of the industry itself. Furthermore, improvement in the infrastructure is needed to foster the level of growth required to make the industry competitive.

Table 7.2

South African Foreign Trade 1993

Item	Rand Billions
Manufactured Goods	27.95
Gold Exports	22.23
Mining	19.04
Tourism	**6.0**
Agriculture	3.04
Other Goods	6.95

Source: CSS and SARB

Tourism is likely to be a future growth sector in South Africa and has the potential of providing quick and immediate opportunities to entrepreneurial talent because it provides relatively fast job entry for low skilled workers in the economy. However, the current contribution of tourism to South Africa's GNP is three percent compared to the world average of six percent. Despite the low contribution to GNP, South Africa has the potential of becoming one of the world's greatest tourist destinations. The industry has begun to gain some momentum particularly since the installation of the new government and has been able to attract a significant number of foreign visitors. Tourism has the potential of increasing foreign exchange earnings to R12.5 billion within five years and as much as R20 billion in ten years.

7.2.2 Structure of the Tourism Industry

The tourism industry is highly concentrated. For example, the hotel industry is controlled by small clusters of large hotel chains. The government has control over the National Parks and licensing in the gambling and casino industry. The average number of employees involved in the tourist industry in South Africa is about 1.4 percent of total employment compared to the rest of the world which is ten percent.

There are currently 40 casino licenses in South Africa of which Sun International owns 17. Global Resorts reports that the government is expected to award an additional 29 licenses for resort and hotel development which is estimated to cost about R10 billion in total. The new casino resorts are only expected to begin operations in 1997. Casino licenses are awarded by the Lotteries and Gambling Board at both the national and provincial levels. It is expected that casinos will have a turnover of R20 billion per year and create about 100,000 new jobs by 1997. This is expected to create about 40,000 casino jobs and thousands more in the construction industry.

Tourism is mainly marketed through the joint government/private sector South African Tourism Board under the Ministry of Environment Affairs and Tourism. There are many private associations which play a leading role in tourism. Some examples are Federal Hotel, Liquor and Catering Association of South Africa (FEDHASA), Association of South African Travel Agents (ASATA), South Africa Tourism and Safari Association (SATSA), and Airline Association of South Africa (AASA), among others. The major barriers to entry for tourism are: lack of professional and managerial skills, training, financial requirements, and the tight networks (contacts in the industry). The black tourist market offers great potential for the development of the industry.

7.2.3 International Versus Domestic Markets

As can be seen from Table 7.3, about twenty percent of South Africa's R5-6 billion foreign tourist industry in 1993 was provided by overseas tourism. The remainder (eighty percent) was provided by tourists from Africa. Foreign visitors to South Africa totalled 1,029,093 (1990), 1,709,554 (1991), 2,703,191 (1992), and 3,093,183 (1994). The South African domestic tourism market was valued at approximately R8.0 billion in 1993. The greatest opportunities lies in the black domestic tourist market.

Table 7.3 International Tourism Market 1990-1994				
	1990	**1991**	**1993**	**1994**
Total Number of Foreign Tourists	1,027,620	1,707,786	2,702,162	3,080,785
% Growth	10.6%	66.0%	58.2%	14.5%
Number of Overseas Tourists	498,712	521,257	559,913	618,508
% Growth	5.7%	4.5%	7.4%	10.5%
Number of Tourists from Africa	528,908	1,186,529	2,142,249	2,462,277
% Growth	16.3%	124.3%	80.5%	14.9%

Source: Satour

Income derived from tourism can have a significant multiplier effect in local domestic economy. Timeshare also attracts foreign investors interested in South African vacations and looking for a lower cost exchange route to vacations around the world.

7.2.4 Current Problems

South Africa has great potential for tourism, but the viability of the tourist industry is being dampened by violence and rampant crime which could impact negatively on the entire industry. A recent South African Tourism Board survey indicated that more than 30 percent of international tourists are affected by the crime wave. Although the Rand/Foreign currency exchange rate makes it inexpensive for foreigners to visit South Africa, the increasing rate of inflation, as well as political and economic uncertainty are causing tourists to stay away. The tourist industry could grow between 20 and 25 percent and earn foreign exchange earnings of R10.2 billion over the next five years (1995-2000) if violence and crime were contained.

Satour is expecting about one million visitors during 1996, an increase of 35 percent over last year's 714,000 tourists if the current momentum continues. South Africa's main tourism market remains Europe (mainly UK), but growth areas include North America, Scandinavia, and the Far East. According to the Business Times, a survey of hotel groups shows that foreign hotel reservations for the summer are up compared to last year. The high level of crime remains the single biggest impediment to growth in tourism.

7.2.5 Recent Reforms

The government has taken some steps to boost the tourist industry. It currently reforming gambling legislation which is expected to assist the tourist industry in attracting thousands of tourists in the foreseeable future. It also recently announced the formation of a separate Chief Directorate of Tourism in the Department of Environment and

Tourism. The goal of the directorate is to determine tourism policy, co-ordination, and tourism investment and training. A number of other initiatives are also underway including a Green Paper on Tourism, the development of a tourism strategy, incentive schemes for the tourism industry, workshops on tourism training and aspects of tourism safety and security.

The government must ensure that a uniform policy is adopted in the tourism sector on both national and provincial levels and involve black business in the restructuring of the tourism industry.

8. HUMAN SKILLS AND RESOURCE DEVELOPMENT

8.0 Introduction

There is considerable variation with regard to human skills development in the South African economy. In this section, three main areas relating to skills development are identified. They are: business skills, labour market skills, and skill development.

8.1 Business Skills

Until recently, constraints on Africans to open businesses in the urban areas were quite severe. The policy of apartheid held the view that the role for the Africans was mainly in the homelands and in the cities they were merely guest workers. This view also included the possible positions blacks could hold in the public sector or private sector. With respect to the public sector, blacks could hold positions as doctors, nurses, social workers, school teachers and university professors in Bantu Universities. The extent of their public sector involvement was restricted to these professions both within and outside the Bantustans.

The rigorous rules applied in regard to business licences, implied that most black businesses remained in the area of informal sector. This sector expanded dramatically with the removal of Influx Control Act in 1984 and the deregulation policies of the P.W. Botha years. The massive transfers from the Pretoria regime to the Bantustans during the 1980's, implied that more posts were created, and some of this money was used to start businesses.

An analysis of entrepreneurship development is given in an Africa Institute for Policy Analysis (AIPA) publication showing that by 1991, 16 percent of the economically active white population owned their own businesses. A comparative figure for Africans was 4.4 percent. For Indians, this figure was 13.7 percent and 3.2 percent for Coloureds. Detailed figures are given in Annex V.

Although the percentage for Africans is small in comparison to whites and Indians, compared to 1980, business ownership by Africans was only 1.8 percent compared to 10 percent for whites, 8.6 percent for Indians and 1.3 percent for Coloureds. Clearly the Africans can be regarded as recent arrivals into the business world, and therefore, skills to manage own enterprises still leave much to be desired.

From this perspective, there is necessity for business skills development for Africans. However, such skills development programmes, though favouring Blacks, should not exclude Whites, Indians and particularly Coloureds.

8.1.1 Extension of Credit

One of the ways to measure entrepreneurship development is to look at the amount of credit extended to different groups in society. It is difficult to obtain figures for this aspect. However, from the scattered statistics, AIPA was able to construct a table given as Annex V. From the Annex, it can be observed that in 1990, only 8 percent of all credit extended that year went to Blacks, 6 percent to Indians, 5 percent to Coloureds and 81 percent to Whites.

Skills development with respect to the use of credit in business must be seen from this perspective. The present desire to extend credit to Africans without a well sorted out support strategy will not produce the required results. Issues such as ability to develop business plans for new entrants into the business world must be seen as part and parcel of general skills development for the entrepreneurs.

8.1.2 Registration of Business

Official figures on black businesses must be viewed with considerable reservation. It has been stated in Section 2.3 that apartheid policies have put considerable restrictions on the quantitative and qualitative development of black businesses. This has produced a reluctance to register businesses, resulting in most black businesses falling under the informal sector level.

A survey by Central Statistical Services for 1989 - 1990 showed that the size of the informal sector is considerable. It seems safe to conclude that among the participants in this sector there is a substantial presence of the retarded entrepreneurial talent. It is estimated that in 1990, there were 304 000 full-time black operators in the informal sector in the then South Africa, which excluded Transkei, Bophuthatswana, Venda and the Ciskei. To this must be added a further 1 901 000 with a total work force of about 350 000. This means about 33 percent of the black labour force was employed in the black informal sector. This implies that the income of black labour force is increased by 33 percent.

This, indeed, is a major impact on black earnings. True, the contribution of this sector to GDP is modest because of low productivity. Estimates are not clear on this point but a figure of 16 percent is sometimes mentioned. However, there is no doubt that the growth of a business class among blacks is a "crucial requirement for long-term economic progress, but this requires in turn that both physical and social constraints on entrepreneurship be removed." Facilities which allow urban areas (townships) in order that alternative economic possibilities can be realised. In this respect, therefore, there is considerable need for training to enhance entrepreneurship talents.

8.1.3 Notes on Black Business Advancement

It is estimated that more than 40 percent of the South African labour force and more than 50 percent of the black labour force are not integrated into the modern economy by way of formal sector employment. About 20 percent, although in formal employment, are in the low paid agricultural and domestic service sectors of the economy.

The expansion of the economy is the main method of integrating blacks into the economy as this will create opportunities for better jobs and black business activities. It is also envisaged that both the quality and quantity of black education and training will be improved to allow development of skills. Job opportunities in the public sector would also allow blacks to receive hands on training in management, crucial to later entering business on own account basis. Such a situation would stimulate black entrepreneurship, and entrepreneurs.

8.2 Labour Market Skills

The world is said to be a global village where increasing the skills and capabilities of workers is a key factor for economic growth and increasing market share in an integrated world economy. According to the World Bank report "Workers in an Integrated World," investing in labour market skills can boost the "living standards of households by expanding opportunities, raising productivity, attracting capital investments, and increasing earning power". It is now acknowledged throughout the world that investing in human capital, particularly, education, improves household welfare and economic growth.

The basic skills required, particularly in developing countries, are literacy and numeracy. On these basic skills, workers can acquire specialised skills, the ability to manage complex tasks and to supervise assignments. Acquiring basic skills, building onto them more complicated skills increases productivity, through expanded capacity to process and use information. It is this reason that has motivated nations to invest in education. The nations that do not do so, will not create a climate for investment.

An important aspect connected with human capital development is the utilisation of skilled labour. Another important aspect is that investment in human capital must be for relevant skills.

8.3 Skills Development

Skills development is regarded as pivotal in the creation of a flexible workforce. Besides being a breeding ground for SMMEs, it is also the mechanism to reduce market segregation and redressing racial inequalities. The removal of Job Reservations Act in 1979 and racial restrictions on access to apprenticeship in 1981, resulted in significant increase in numbers of blacks entering managerial positions.

The 1992 figures given by the Southern African Development and Research Unit (SALDRU) show that 72.6 percent of all artisans were white and 68,6 percent of all apprentices were white, while only 5.8 percent of all artisans were black. It is clear that these percentages are low and that it will take a long time before there is significant change which represents the demographic profile of the country. Most of the black apprentices were in the building sector only, which offers little possibilities for career advancement and is subject to cyclical fluctuations. There was hardly any increases in such sectors as metal and engineering, electrical trades and motor trades.

There are, however, no proper statistical records for those who have acquired skills through informal training, which represents the largest share of black artisans and apprenticeship. It is worth noting that considerable in-house training takes place in industry but no formal certificates are issued. Those trained in this manner have little chances to advance or to easily get employment in other companies.

8.3.1 Skills Development and Entrepreneurship

To engage in manufacturing and to provide services, it is imperative that the entrepreneur has skills in the particular activity. Lack of skills must then be considered as a barrier to entry into that particular economic activity. For this reason advocating an intensive skills training programme should not only be seen from the point of view of job hunting but also from the point of view of removing certain barriers to entry for SMMEs.

8.4 Policy Recommendations on Skills Development

A national thrust on skills development consistent with removal of barriers of entry and improving the investment climate objectives must take the following into account :

- A national qualification structure must be created which takes into account both the formal and informal ways of training is recognised. This task is currently being examined by the Qualification Accreditation Board.

- The registration of businesses and the application of business licenses should be streamlined and the process simplified so that black businesses can be more easily registered.

- An information base on current provision of sectoral capacities and constraints to provision of skills in the South African economy must be developed

- A core curriculum recognised by all economic sectors. Linkages between curriculum development and adult literacy is currently being investigated by a National Task Force who has been appointed to examine this issue.

ANNEX I

SOUTH AFRICA: DE FACTO LABOUR FORCE AND FORMAL EMPLOYMENT OPPORTUNITIES (1960 - 1990)

Year	De Facto Labour Force	Formal Employment Opportunities		People without Formal Employment Opportunities	
		Number	%	Number	%
1960	6 901 000	4 652 000	67.4	2 249 000	32.6
1965	7 875 000	5 440 000	69.1	2 435 000	30.9
1970	8 985 000	6 164 000	68.8	2 821 000	31.4
1973	9 908 000	6 597 000	66.6	3 311 000	33.4
1976	10 926 000	7 078 000	64.8	3 848 000	35.2
1979	12 049 000	7 298 000	60.6	4 751 000	29.4
1983	13 582 000	7 757 000	57.1	5 825 000	42.9
1987	15 140 000	7 858 000	51.9	7 282 000	48.1
1990	16 340 000	7 953 000	48.7	8 387 000	51.3

1. The de facto labour force is taken as 95% of all the males in the 15-64 year age group and the 55% of the females in the same age group. The definition differs from the President's Council definition of 100% of the males in the 19 64 year age group and the 50% of the females in the same age group.

Source: L.K. van Niekerk. *Public Works Programme",* Development Bank of Southern Africa, August 1991.

ANNEX II

SOURCES OF INDUSTRIAL GROWTH IN PERCENTAGES (1972 - 1990)

Subsector	Output Expansion		Export Expansion		Import Substitution		Domestic Demand Expansion	
	1972 - 83	1983 -90	1972 - 83	1983 -90	1972 - 83	1983 -90	1972 - 83	1983 -90
Food, Beverages & Tobacco	56.3	16.4	1.3	2.9	0.4	-0.8	54.6	14.4
Textiles, Clothing & Footwear	44.8	-8.8	5.2	-8.4	3.2	4.5	36.5	-5.0
Wood & Wood Products	49.3	-10.8	4.5	-5.8	6.7	1.7	38.1	-6.6
Paper & Paper Products	32.5	19.8	1.9	4.0	-1.7	-0.2	32.3	16.0
Chemicals	67.9	11.2	2.6	3.7	3.2	-8.7	62.2	16.3
Non-Metallic Minerals	23.8	-0.8	-0.7	-5.8	0.5	1.7	24.0	3.3
Basic Metals	70.9	20.6	15.5	19.4	21.7	-1.3	33.7	2.5
Metal Products & Equipment	40.2	-15.7	-0.2	-2.4	-0.5	6.1	40.8	-19.4
Other Manufacturing	19.1	83.4	-2.0	30.7	-22.0	2.9	43.1	49.9
Total Manufacturing	50.1	3.5	2.5	5.3	3.0	-3.3	44.6	1.6

Source: World Bank : South Africa : A Review of Trade Policies : P. Belli et al, 1993

ANNEX III

MEASURES OF INDUSTRIAL CONCENTRATION BASED ON GROSS OUTPUT

Industry	CR10(%)		Herfindahl-Hirschman Index	
	1982	1988	1982	1988
Food	25	39	.0103	.0244
Tobacco	100	100	.5072	.4814
Textiles	32	36	.0192	.0350
Clothing	18	24	.0077	.0110
Wood and Wood products (excl. furniture)	36	46	.0205	.0318
Furniture	26	29	.0137	.0205
Printing, Publishing & Allied	37	39	.0229	.0206
Industrial Chemicals	78	64	.1666	.0700
Rubber Products	89	82	.1396	.1364
Pottery, China, Earthenware	85	83	.1480	.1439
Glass & glass products	94	92	.2504	.2385
Other non-metallic mineral products	71	73	.0858	.1247
Basic Iron & Steel	77	80	.2706	.2274
Basic Non-ferrous Metal	73	80	.1051	.1056
Fabricated Metal Products(excl. machinery)	26	26	.0124	.0122
Non-electrical Machinery	28	23	.0135	.0106
Electrical Machinery	35	38	.0212	.0195
Motor Vehicles & parts	60	69	.0469	.0650
Other: Sporting & athletic equipment	67	64	.1294	.0685
Toys	89	90	.3573	.3146
Brushes & brooms	92	95	.2332	.2969

Source: Census of Manufacturing According to Groups and Subgroups, CSS, 1988
Notes: The CR10 ratio measures the percentage market share of the largest 10 firms. The Herfindahl-Hirschman Index is a measure of inequality: the HHI is equal to one when there is a monopoly. HHI decreases the more equal firms are in market share. The two measures are presented since the CR10 is discrete in offering information only on the largest firms. The HHI offers a better summary of industrial concentration.

ANNEX IV

COMPARISON OF BANKING STATISTICS BETWEEN SOUTH AFRICA AND OECD COUNTRIES (AVERAGE FOR YEARS 1991-93)

Country	Net Interest Income (1)	Operating Income (2)	Operating Expenses (3)	Net Income before Tax (4)	Net Income after Tax (5)	Real return on Equity (6)	Bank Assets per Employee (7)	Staff Costs as a percent of Total Assets (8)
1. Luxembourg	0.80	1.23	0.48	0.43	0.28	4.33	23,420	0.25
2. France	1.08	2.02	1.43	0.13	-0.46	-3.75	7,240	0.85
3. Japan	1.25	1.29	0.93	0.22	0.10	1.30	15,590	0.49
4. Finland	1.25	2.65	4.45	-1.79	-1.81	-33.49	4,540	0.82
5. Belgium	1.4	1.94	1.31	0.32	0.22	3.06	9,810	0.74
6. Switzerland	1.8	3.63	1.83	0.66	0.52	4.33	6,340	1.22
7. The Netherlands	1.83	2.65	1.78	0.57	0.40	6.71	5,710	1.01
8. Greece	1.83	4.16	2.58	1.22	0.82	0.67	1,260	1.82
9. Austria	1.98	2.85	1.82	0.41	0.35	3.00	5,360	1.23
10. Germany	2.20	3.19	1.99	0.51	0.28	1.31	-	1.99
11. Australia	2.35	4.11	2.89	0.39	0.20	0.56	-	-
12. Sweden	2.47	4.84	5.94	1.96	1.20	-1.02	5,150	0.92
13. U.K.	2.53	4.48	2.89	0.54	0.32	5.20	2,435	1.58
14. Canada	2.98	4.36	2.77	0.66	0.43	5.83	-	1.53
15. Norway	3.00	4.31	2.43	-0.36	-0.41	-16.90	3,730	1.23
16. Spain	3.27	4.41	2.64	0.52	0.26	-2.58	2,790	1.65
17. Italy	3.35	4.55	2.78	0.98	0.38	-1.30	3,180	1.91
18. South Africa	**3.55**	**6.60**	**4.59**	**1.32**	**0.84**	**2.92**	**730**	**2.55**

Source: Overview of the South African Banking System. Central Capital Markets Department, IFC.
Notes 1-5: As percentage of average total assets.
6: Derived by deflating nominal rates by changes in the consumer price index.
7: in thousands US$.
8: Average for years 1992-93.

ANNEX V

CREDIT EXTENSION TO INDIVIDUALS BY RACE GROUP, 1990 (IN MILLIONS OF RANDS; SHARE IN CATEGORY IN PARENTHESIS)

	White	Coloured	Indian	Black	Total
Advances to building societies	19 149 (82%)	1 681 (7%)	1 681 (7%)	841 (4%)	22 352(100%)
Loans and credit by Banks (excluding companies and farm enterprises	34 060 (90%)	1 135 (3%)	1 892 (5%)	757 (2%)	37 844 (100%)
Hire purchase	4 469 (60%)	745 (10%)	372 (5%)	1 862 (25%)	7 448 (100)
Stokvels	0 (0%)	0 (0%)	0 (0%)	2 400 (100%)	2 400 (100)
Total	57 678 (81%)	3 561 (5%)	3 945 (6%)	5 860 (8%)	71 044 (100%)

Source: AIPA. *The Economic Democratisation of South Africa.* Johannesburg: WR Publications. 1993.

ANNEX VI

SELF EMPLOYED BY GROUP 1970, 1980 AND 1991
(PERCENTAGE OF ECONOMICALLY ACTIVE POPULATION IN PARENTHESIS)

		Whites	Coloureds	Indians	Blacks	Total
Men	**1970**	155 995 (14,7%)	12 581 (2,7%)	15 831 (10,7%)	55 740 (1,5%)	240 147 (4,5%)
	1980	179 740 (14,1%)	10 900 (1,9%)	20 060 (10,6%)	68 260 (1,8%)	278 960 (4,8%)
	1991	261 523 (21,1%)	31 063 (4,5%)	39 053 (17,3%)	176 713 (4,6%)	508 377 (8,4%)
Women	**1970**	15 563 (3,5%)	1 096 (0,4%)	1 298 (3,7%)	29 789 (1,5%)	47 726 (1,8%)
	1980	25 060(4%)	1 260 (0,4%)	1 980 (3,0%)	32 080 (1,8%)	60 380 (2,2%)
	1991	77 445 (9,3%)	7 757 (1,5%)	6 887 (6,3%)	112 658 (4,2%)	204 755 (4,9%)
Total	**1970**	171 558 (11,4%)	13 677 (1,9%)	17 129 (9,4%)	85 529 (1,5%)	287 893 (3,6%)
	1980	204 800 (10,8%)	12 160 (1,3%)	22 040 (8,6%)	100 289 (1,8%)	339 340 (3,9%)
	1991	338 968 (16,4%)	38 821 (3,2%)	45 939 (13,7%)	289 372 (4,4%)	713 132 (7%)

Source: AIPA. *The Economic Democratisation of South Africa.* Johannesburg: WR Publications. 1993.

ANNEX VII

SKILLS LEVELS BY RACE
(PERCENTAGE OF EMPLOYEES IN ADMINISTRATIVE, PROFESSIONAL AND CLERICAL OCCUPATIONS)

	1960	1970	1980	1985
Africans	5.0	4.7	7.2	8.8
Asians	19.1	22.8	33.4	37.4
Coloureds	9.9	10.5	16.6	18.9
Whites	49.5	48.1	56.4	56.9

Source: AIPA. *The Economic Democratisation of South Africa.* Johannesburg: WR Publications. 1993.

ANNEX VIII

ECONOMIC FORECAST

MEDIUM TERM: 1994 -1999

	1993	1994	1995	1996	1997	1998	1999
1. GROWTH RATES (G7, OECD)	1.5	2.8	2.7	2.7	1.8	2.5	2.5
2. INFLATION RATE (G7 OECD)	2.7	2.3	2.8	3.2	2.9	2.4	2.3
3. GOLD PRICE: ($)	360	386	415	425	4.35	440	440
(R)	1177	1370	1523	1692	1849	1940	2037
4. EXCHANGE RATE: : ($/R)	0.306	0.282	0.272	0.251	0.235	0.227	0.216
(R/$)	3.271	3.550	3.670	3.980	4.250	4.410	4.630
5. RSA GROWTH RATE	1.2	2.1	3.2	4.0	2.5	1.5	3.0
6. PRIVATE CONSUMPTION EXP.	0.5	1.6	2.3	3.0	2.2	0.9	2.0
7. GOVERNMENT CONSUMPTION EXP.	1.5	4.0	4.0	3.5	3.5	3.5	3.0
8. GROSS DOMESTIC FIXED INVESTMENT	-3.1	5.6	9.6	13.3	6.9	-3.1	4.1
9. GROSS DOMESTIC EXPENDITURE	0.8	4.2	4.4	5.0	2.9	-0.6	3.4
10. REAL FINAL DEMAND	0.0	2.8	4.0	5.1	3.5	0.6	2.7
11. RSA INFLATION RATE	9.7	9.3	12.5	12.0	12.0	13.0	11.0
12. BALANCE ON CURRENT ACCOUNT	5933	1000	-3500	-5000	-7800	3200	-2200

Source: SANLAM, October 1992 forecasts.

ANNEX IX

KEY ECONOMIC INDICATORS (1970 - 1994)

Year	Gross Domestic Product (%)	Gross Domestic Fixed Investment (%) of GDP	Current Account (as % of GDP)	Inflation
1970-74	4.4	25.7	-4.4	11.1
1975-79	2.1	28.0	-0.7	11.7
1980-81	6.0	27.2	-0.8	17.7
1982-84	1.0	26.4	-2.5	13.7
1985-91	0.9	20.2	3.0	15.0
1991	-0.3	28.2	2.5	15.3
1992	-1.5	17.8	3	9.6
1993	1.1	17.0	3	7.5
1994	2.3	17.6	-0.7	9.7

Source: The South African Reserve Bank Supplement to the Quarterly Bulletin of June 1994. South Africa: Prospects for Equity and Growth, ADB Country Economic Report

BIBLIOGRAPHY

1. *A Profile of Small Business in South Africa and Ways of Stimulating the Sector.* Rivonia: BMI. March 1992.
2. ADB. *South Africa: Prospects for Equity and Growth.* South Region Department: African Development Bank, 1994.
3. Addleson M.S., Pretorius F. and Tomlinson R. The impact of Industrial Decentralisation policy : *The Business Review,* 1985.
4. AIPA. *The Economic Democratisation of South Africa.* Johannesburg: WR Publications. 1993.
5. Albert, Kenneth J. *Straight Talk about Small Business: What Other Books Don't Tell you About the Pitfalls and Profits of Starting and Managing your Own Business.* New York: McGraw-Hill, 1981.
6. Annual Report of Banks, Pretoria: Bank Supervision Department, South African Reserve Bank, 1995.
7. Annual Report of the Director-General of Trade and Industry, Department of Trade and Industry, 1994.
8. AYC Consultants Inc. *Enhancing the Investment Climate in the Philippines.* Manila, September 1993.
9. Bain, J. *Barriers to New Competition.* Cambridge, MA: Harvard University Press. 1956
10. Bain, J., *Barriers to New Competition,* Harvard University Press.
11. Baumol, W.J. et al. *Contestable Markets and the Theory of Industry Structure.* San Diego, CA: Harcourt Brace, Jovanovich. 1981.
12. Bekker, Frans (et al). *Starting and Managing a Small Business.* Cape Town: Juta, 1988.
13. Belli, P., Finger, M. and Ballivan A. *South Africa: A Review of Trade Policies.* Washington DC: Southern Africa Department, The World Bank. June 1993.
14. Belli, P., M. Finger, A. Ballivian. *South Africa: Review of Trade Policy Issues,* Informal Discussion Papers on Aspects of the Economy of South Africa, No. 4, World Bank. February, 1993.
15. Bernstein, Daryl. *Better Than a Lemonade: Small Business Ideas for Kids.* Hillsboro, Oregon: Beyond Words Publishing, 1992.
16. *Black Economic Empowerment: Sectoral Analysis.* Rivonia: BMI Industrial Consulting. June 1995.

17. Black Empowerment News: July Review, *Business Map, Face Fax*, July 1995.
18. Brannan, W.H. *Successful Marketing for your Small Business.* New Jersey: Prentice-Hall, 1978.
19. Buzzard, S & Edgecomb, E. (Eds.). *Monitoring And Evaluating Small Business Projects, A Step By Step Guide For Private Development Organisations.* New York: Pact, 1987
20. Caves, R. and Porter, M. *Essays on Industrial Organisation in Honour of Joe Bain.* Cambridge, MA: Ballinger. 1976.
21. Caves, R. and Porter, M. From entry barriers to mobility barriers: conjectural variations and contrived deterrence to new competition. *Quarterly Journal of Economics. 1977, pp. 241 - 61.*
22. Clark, Ian (et al). *More Small Business Opportunities in South Africa.* Cape Town: Struik Publishers, 1993.
23. Coetzee, B. and De Haan C. *The Education Project for the Micro Enterprise Field Officers.* Mission of the Alliance of Micro Enterprise Development Practitioners. 1995.
24. Comanor, W. and Wilson T. *Advertising and monopoly power.* Cambridge, MA: University Press.
25. CSS, Census of Manufacturing by Group and Subgroup, 1988.
26. CSS. *October Household Survey.* Pretoria: CSS. 1994.
27. Davies, S. B. Lyons. *Economics of Industrial Organisation*, New York: Longman Group Ltd., 1991.
28. Deloitte & Touche, South Africa - International Tax and Business Guide, 1994.
29. Dewar, David. *Some Proposals for Small Business Stimulation: A Case Study of the Durban Metropolitan Region.* Cape Town: University of Cape Town, 1987.
30. Dia, M.. *The African Experience with Privatisation.* Institutional Development and Management Division, Africa Region, World Bank, mimeo, April., 1992.
31. Dichter, Thomas W. *Business Advisory Services to Small Enterprises and Local NGO's in Africa: Pluses and Minuses.* Norwalk, CT: Technoserve, 1986.
32. Ministry for Public Enterprises, *Discussion Document by the Government of National Unity on the Consultative and Implementation Framework for the Restructuring of the State Assets.*, July 1995
33. Ernst & Young., Investing in South Africa, May 1995.
34. Fallon P., Aksoy A., Tsikata Y., Belli, P. and da Silva P. *South Africa: Economic Performance and Some Policy Implications.* Washington DC: Southern Africa Department, The World Bank, 1993.

35. Fallon, Peter. *An Analysis of Employment and Wage Behaviour in South Africa.* Washington DC: Southern Africa Department, The World Bank. April 1992.

36. Faulkner, Terry (Eds.). *Readings In Small Business.* Aldershot: Gower, 1986.

37. Finance, *The Star, Business Report, July 28, 1995.*

38. Fourie et al., Towards Competition Reform in South Africa, January 1995.

39. Fourie, F.D., Lewis, W. *Pretorius, Towards Competition Policy Reform in South Africa,* Background Working Paper, January, 1995.

40. Government of National Unity, White Paper on Reconstruction and Development, Government Printers, Pretoria,. September, 1994.

41. Harber, Richard, P. Jr. *South Africa's Growth Dilemmas.* Pretoria: USAID. 19 May 1995.

42. Harper, M. *Small Business Promotion: Case Studies from Developing Countries.* London: Intermediate Tech. Group, 1984.

43. Hetherington, I.J. *Development of Small Business in South Africa.* S.N. S.L. 1985.

44. Hirschowitz, R. *Skills Training for Small Business Development.* Pretoria: HSRC, 1989.

45. Hoekman, B.M., *Trade Laws and Institutions: Good Practices and the World Trade Organisation,* World Bank Discussion Papers, No. 282, 1995.

46. Hull, Galen Spencer. *Small Business Agenda: Trends in a Global Economy.* Lanham, MD: University Press of America, 1986.

47. Hunt, Robert W. *Evaluation of Small Enterprise Programs and Projects: Issues in business Community Development.* Washington DC: US Agency for International Development, 1983.

48. IMF Staff Country Report No. 95/21., South Africa - Selected Economic Issues, March 1995.

49. International Council for Small Business World Conference. *Entrepreneurship: New Direction for a Global Economy: Proceedings of the 33rd World Conference of the International for Small Business, 9 - 11 June.* Boston, MA: Kennesaw College, 1988.

50. International Council for Small Business. *Proceedings of the First Conference for Small Business in Southern Africa, 22 -23 April.* Kempton Park: World Trade Centre, 1988.

51. International Council for Small Business. Third Conference of the International Council for Small Business. S.L., S.N., 1990.

52. J E Austin Associates. *Promotion of Sustained Private Sector-Led Economic Growth with Broad Participation in the Benefits by Previously Disadvantaged Groups in South Africa.* June 1995.

53. Kahn, B., Senhadji, A. and Walton M. *South Africa: Macroeconomic Issues for the Transition.* Washington DC: Southern Africa Department, The World Bank. May 1992.

54. Kessides Christine, *The contributions of Infrastructure to economic development, A review of experience and policy implications*. World Bank Discussion paper.
55. Khumalo, Gardner. *Fragile Foundations: Prospects for Black Building Contractors.* Research Report No. 37. October 1994.
56. Korea Federation of Small Business. *Status of the Korean Small Business.* Seoul: KFSB, 1985.
57. Lingen, J. Van. *Set Talent Free: Overview of Seminar on Small Business Development Organised by the Centre for Developing Business.* Braamfontein, Wits Business School, 1986.
58. Loucks, Kenneth (Eds.). *Training Entrepreneurs for Small Business Creation: Lessons from Experience.* Geneva: ILO, 1988.
59. Louw, S.J.H. *Some Basic Concepts Relating to Small Business Development and Employment Creation.* Johannesburg: Development Society of Southern Africa, 1990.
60. Lucas, G.H.G. *Defining a Small Business Enterprise in South Africa.* Pretoria: UNISA, 1992.
61. Luus, C.W., R. Oberholzer. *Provincial Characteristics of South Africa.* Penrose Press, 1994.
62. Maasdorp,G, A. Whiteside. *Rethinking Economic Cooperation in Southern Africa: Trade and Investment,.* Occasional Papers, Konrad-Adenauer-Siftung, February, 1993.
63. Manning C. and Mashigo. *P. Manufacturing in microenterprises in South Africa.* Cape Town: Industrial Strategy Group. 1993.
64. *Manpower and Training: Workshop on Marketing in Informal Small Business Sector.* Sandton: Development Bank of Southern Africa, 1987.
65. Microenterprise Development in South Africa. European Union Study. 1994.
66. Miles, Derek. *Small Building Contractor and the Client: How to Run Your Business Successfully.* London: Intermediate Technical Publishers, 1980.
67. Moore, B.J. and Schoombe, G.A. *Bank Credit to the Informal Sector: Challenge and Reward.* Paper read at the Biennial Conference of the Economic Society of South Africa held at the University of Pretoria. 11 -12 October 1993.
68. NAFCOC, Discussion Document of Land Policy, March 6, 1991.
69. NAFCOC, Report of NAFCOC's 31st Convention. *African Business* 1995
70. Nedcor and Old Mutual Professional Economic Panel. *Second and Final PER Report.* February 1994.
71. Nomvete Bax D. *The Economic Democratisation of South Africa.* African Institute for Policy Analysis and Economic integration (AIPA), 1993.

72. Nomvete, B. *The Role of Black Business in the Promotion of Growth and Redistribution in the New South Africa*, AIPA, monograph, 1994

73. O'Neill, Ken. *Small Business Development: Some Current issues.* Aldershot: Avebury, 1987.

74. Pahn, Lina. *Small Business Management and Entrepreneurship.* Cape Town: Maskew Miller Longman, 1993.

75. Patten, Dave. *Successful marketing for the Small Business.* London: Kogan Page, 1985.

76. Polkinghorne, R. *The Informal Sector - A threat or opportunity for large commercial banks? A South African Experience.* Paper Presented at the International Conference on Employment Creation, Harare.

77. *Proceedings and Papers presented at The Development of Small and Medium Business Enterprises in Economically Disadvantaged Sections of the South African Communities.* Johannesburg: 1 - 2 June 1993.

78. *Proposed Submission to EEC for Possible Funding of NGOs.,* Development Bank of Southern Africa, October 1991.

79. Republic of South Africa, Department of Finance. *Budget Review.* Pretoria: Government Printers. 15 March 1995.

80. Revel Fox and Partners, Urban Problems Research Unit. *Report on Small Business Stimulation in New Crossroads.* Revel Fox Partners, 1981.

81. Robinson, R.J. The promotion and development of small scale industry in India. *Paper presented at the development of small and medium business enterprises in economically disadvantaged sections of the SA communities Conference.* Cape Town, 1993.

82. Rogerson, C. Policies for SA's informal economy. In Preston Whyte, E. and Rogerson, E. (eds.), South Africa's Informal Economy. Cape Town: Oxford University Press. 1991.

83. SACOB. *A Concept for the Development of a New Industrial Policy for South Africa.* Johannesburg, May, 1991.

84. SACOB. *Competition Policy*, June, 1995.

85. SACOB., Submission to the Katz Commission of Inquiry into Taxation in South Africa, 15 July 1995.

86. SALDRU *South Africans Rich and Poor: Baseline Household Statistics*, Project for Statistics on Living Standards and Development, August, 1994.

87. Scase, Richard. *Real World of Small Business Owner.* London: Croom Helm, 1987.

88. SGV Consulting. *Philippines Barriers to Entry Study.* Philippines: USAID. April 1992.

89. Small Business Development in South Africa. Eskom Business Development Unit.

Smit, E vd M. Cost-Benefit Analysis Applied to Small Business Development: A Proposed Framework. *Paper Presented at the Workshop on the Evaluation of the Small Business Development Programme.* 13 February 1991.

90. South Africa. National Manpower Commission. *Report of the National Manpower Commission on an Investigation into the Small Business Sector in the Republic of South Africa, With Specific Reference.* Pretoria: National Manpower Commission.
91. South African Reserve Bank. *Quarterly Bulletin.* Pretoria: SARB. June 1995.
92. South African Reserve Bank Annual Report, August 1995.
93. SRI International., Developing a Framework for Investment in the New South Africa, Final Report, April 1995.
94. Standard Corporate Merchant Bank(SCMB*), Black Empowerment Conglomerates: who and what are they?,* presentation to Young Presidents Organisation by Frank Kilbourn, 1995.
95. Stigler, G.J. *The Organisation of Industry*, Irwin, Homewood, Ill. 1968
96. Taiwan Ministry of Economic Affairs on Medium and Small Business Administration. *Small and Medium Business Development in Taiwan Republic of China.* Taipei: Ministry of Economic Affairs, 1985.
97. Thomas, W.H. *Small Business Promotion in Southern Africa - Scope for Cooperation in the New Southern Africa.* Johannesburg: Development Society of Southern Africa, 1990.
98. Tourism , *The Star, Business Report, July 13, 1995.*
99. Trade Monitor, DPRU, UCT.
100. *Transformation Lending: Helping Microenterprises Become Small Businesses.* USAID, Bureau for Private Enterprise, Office of Small, Micro, and Informal Enterprises. April 1993.
101. United States Small Business Administration. *State of Small Business: A Report of the President Transmitted to Congress.* Washington DC.
102. Usury Act and Small Business Development Act , *The Star, Business Report, July 26, 1995.*
103. Van Dyk, E (et al). Strategy for the Development of the Small Business Sector: The Case of Lebowa. Sandton*: Development Society of Southern Africa, 1988.*
104. von Weizsacker. A welfare analysis of barriers to entry, *Bell Journal of Economics, (11).* 1980
105. Wells, Louis T and Wint Alvin G. *Government institutions to screen, Monitor, and service investment from abroad.* Foreign Investment Advisory Service (FIAS)

106.Wells. Louis T, Wint Alvin G. *Promotion as a tool of attracting foreign investment.* Foreign Investment Advisory Service (FIAS).

107.Whiteout, P.G., *Equity Financing* . MBA Thesis, University of Witwatersrand, 1993.

108.World Bank. *Characteristics and Constraints Facing Black Business in South Africa.* Small and Medium Business Enterprise Seminars: Kagiso Trust, Consultative Business Movement, DBSA, NAFCOC, and the World Bank, May-June 1993.

109.World Bank. *Financing the Metropolitan areas of South Africa.* Infrastructure Operations Division, Southern Africa Department, 1994.

110.World Bank. *Infrastructure for Development.* World Development Report. Washington DC: Oxford University Press. 1994.

111.World Bank. *Reducing Poverty in South Africa: Options for Equitable and Sustainable Growth.* Washington DC, 1994.

112.World Bank. *South Africa, Paths to Economic Growth.* Washington DC: Southern Africa Department, November 1993.

113.World Bank. *Support for Small and Medium Industry in Selected Countries.* Washington DC: Operations Evaluation Division, April 22, 1991.

114.World Bank. *The East Asian Report*, Policy Research Report 1993 World Bank.

115.*Workers in an Integrated World.* World Development Report. Washington DC: Oxford University Press. 1995.