BLACK BUSINESS AND THE STATE IN SOUTH AFRICA.

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Abstract

The South African economy has historically been dominated by an interventionist state and big corporations defined by racial identities. The state and its state-owned companies (SOCs) have coexisted with big business in efficient skills development, capital formation and ultimately higher productivity and income. te Veld (2010) argues that effective state and business interaction can promote more efficient allocation of scarce resources, conduct a more appropriate industrial policy, remove the biggest obstacles to growth and create wealth more efficiently. Following Te Veld's (2010) assertion, the paper discusses how state-business relations (SBRs) in South Africa have compromised growth and constrained the implementation of industrial policy between 2009 and 2015 under President Zuma. It argues that the state is ambiguous in its relations to business as an institution. The state has connected better with emerging black entrepreneurs in South African and has been uncomfortable with the rest of business institutions thus compromising growth and redistribution. The paper discusses the evolution of ties between the state and black business through an institution called Black Business Council (BBC) and the introduction of a racially specific industrial policy instrument called the Black Industrialists Program (BIP). The paper concludes that the state and the Black Business Council need to do more in bringing back the rest of business as partners for development, as failure to do so could result in poor economic performance leading to the widening of inequality, chronic unemployment and high levels of poverty.

Introduction

South Africa's democratic transition, amidst deep ethnic divisions and a turbulent, volatile socio-political atmosphere, led to a political settlement embodying the principle of redress. The form of redress takes different shape or form depending on the nature, balance of forces and external forces to the political settlement. This happens in countries where in the past one group based on race, gender or sexual orientation has been discriminated against statutorily. In South Africa, the racially excluded population in 1994 formed 79 percent of the population but had limited economic participation in the JSE Securities Exchange except through the retirement packages and life policy schemes that were administered by asset managers investing in the stock market. In 2017 direct black ownership in the JSE Securities exchange has not changed much and is estimated arguably to be around three (3) percent (http://www.nefcorp.co.za/ResourcebrCenter/MediaStatementsbrPresentationsbrSpeeches/PresentationsSpeechesView/tabid/156/ArticleId/1075/NEF-welcomes-JSE-s-concurrence-on-3-black-ownership.aspx).

Black Economic Empowerment (BEE) and affirmative action were introduced to redress centuries of deprivation, economic marginalisation and exploitation under colonialism and racial apartheid (Lee & Mondi, 2017). The genesis of BEE was derived from the Reconstruction and Development Programme (RDP) (ANC, The Reconstruction and Development Programme, 1994), a Government's blueprint for transformation in 1996, which articulated that. The RDP articulates the vision and values of BEE as follows:

> "The domination of business activities by white business and the exclusion of black people and women from the mainstream of economic activity are causes for great concern for the reconstruction and development process. A central objective of the RDP is to de-racialise business ownership and control completely through focused policies of Black Economic Empowerment. These policies must aim to make it easier for black people to gain access to capital for business development. The democratic Government must ensure that no discrimination occurs in financial institutions. State and SOCs will also provide capital for the attainment of BEE objectives. The democratic

> Government must also introduce tendering procedures, which facilitate BEE. Special emphasis must also be placed on training, upgrading and real participation in ownership" (Black Economic Empowerment Commission, 2001).

This paper discusses how state-business relations (SBRs) in South Africa have constrained economic growth worsening poverty, unemployment and inequality. The paper argues that the implementation of industrial policy to create wealth in the context of a fragmented business community and the social and political relations that have defined its characteristics have had very little impact in transforming the structure and the racial character of the South African economy. The paper argues that the Black Business Council of South Africa in partnership with the state under the leadership of President Zuma have intensified racial divisions in business by alienating the established predominantly white business community. As a result, by heightening racial tension rather than fostering a partnership for growth and development, the economy has underperformed as poverty, inequality and unemployment worsens. The relationship between the BBC and the state is discussed in the context of the Black Industrialist Program, an incentive program from the state targeted exclusively at black businesses. The paper concludes that the state and the Black Business Council need to do more by bringing in the rest of business for development and failure could result in poor economic performance resulting in widening inequality, chronic unemployment and high levels of poverty.

Methodology

The paper used structured questions to the DTI and the Presidency to understand the origins and goals of the black industrialist led development. The BBC was interviewed to understand their approach to inclusivity, growth, employment and redistribution. Furthermore, structured questions were posed to the BBC to understand its approach to skills, capital formation and competitiveness in a globalising world. Financial institutions such as the Industrial Development Corporation (IDC), National Empowerment Fund (NEF) and the Public Investment

Corporation (PIC) were interviewed on their funding criteria as financiers of the targeted black industrialists and asked whether a racially defined policy could lead to inclusiveness and economic growth. Lastly, as a control mechanism to the study, the other black business institution, Business Leadership South Africa (BLSA) and the all-inclusive Business Unity South Africa (BUSA) was interviewed through structured questions.

The structured interviews contributed in responding to the following research questions. Who is the Black Business Council (BBC)? How did the BBC successfully convince the state to commit over R25bn for 100 black industrialists? Is the Black Industrialist Programme an attempt by the ANC government to appease the black electoral vote? Is the ANC government predatory or opportunist in this effort? Or is it becoming a midwife to nurse the black business constituency? What does the state, the PIC, IDC and the NEF know that the rest of business does not? Is a failing state trying to rescue itself by appeasing the black business class? Is the state rejecting its development state model and market-led development in favour of black business led development in the form of black industrialists? Will the inclusion of black industrialists build a platform to explain the future pattern of industrial development in South Africa?

Press clippings as well as media archives were accessed to support some of the arguments in the paper.

Literature review

Imagining how latecomer black industrialists in an open economy could embark on a new activity that requires economies of scale and a range of specialist inputs is hard. The challenge is exacerbated by the need to compete against domestic and foreign companies that are embedded in long-established specialised production networks (Collier and Venables, 2007). The SBR literature is twofold. Those that present the underpinnings of effective state business relations and others that present the characteristics of successful state business relations. The former SBRs literature including te Veld (2010) argues that effective state-business relations are underpinned by:

- Credible commitment of the state to policies, deals or arrangements, which can be ensured through both formal and informal institutions;
- A stable policy environment, which provides some security for investment by the private sector;
- Strong checks and balances on government policies, tax and expenditure, which help to ensure that taxation policies and the provision of public goods are appropriate and of good quality.

Therefore, for effective SBRs to be pivotal in industrial development they need to overcome two concerns (te Veld, 2010): (1) Market Failures (the market alone cannot achieve an optimal allocation of resources (Stiglitz 1996); markets can fail in areas such as education, innovation, or climate change; and (2) Government Failures (state actors may not be able to address market failures on their own) (Lemma & te Veld, 2015). Governments can also fail because of a lack of perfect information, perfect foresight and moral hazard problems (Hausmann & Rodrik, 2002), or could be captured by powerful elites. However, effective SBRs address market, coordination, and government failures through effective communication and the removal of binding constraints to growth. They do this by improving the investment climate, providing market enhancing public investment, and reducing policy uncertainty (Hausmann & Rodrik, 2002).

Spicer (2016) contends that the South African history of apartheid and race have ensured that the kind of cultural homogeneity found in the East Asian late comer developmental states and shared worldview and goal have never characterised the state-business relationship. Nattrass & Seekings (2010) concur that there has often been a tense relationships between the state and business, as the state sought to push and bully capital into subordinate cooperation, whilst avoiding genuine deliberation, and being careful not to undermine the very economic foundations of white prosperity.

The transition from apartheid to a democratic government in South Africa was a negotiated process rather than a revolution and the process of capital reform and deracialisation of the economy was conceived by the governing black political party, the African National Congress (ANC) and business as gradual and market-oriented. Macdonald (2006) contends that in aggregated terms the beneficiaries of the transition were capital and the black bourgeoisie, whereas Seeking and Natrass (2006) see the beneficiaries as both black and white capital and the organised working class.

Whereas, the post-apartheid democratic South African government successfully put in place the underpinnings of effective state business relations such as credible commitments to stable state policies (The 1996 Constitution of the Republic of South Africa), a stable policy environment (Growth Employment and Redistribution, Accelerated and Shared Growth) and strong checks and balances on government policies, tax and expenditure (Medium Term Budget Policy Statement, the South African Revenue Services and the Parliament through the Standing Committee on Public Accounts), it has not been successful in growth, efficiency and redistributive SBRs.

Spicer (2016) contends that under President Zuma's predecessor, President Mbeki, the state had built strong SBRs with institutions that included the Business Working Group and the International Marketing Council where business interacted with the state. The adoption of the Growth, Employment and Redistribution (Gear) in 1996 by the ANC government angered its allies such as the communist party and the trade unions. Embedded in conservative macroeconomic policy that included the privatisation of state assets, lowering the debt to GDP ratio and budget deficit of less than three percent, the policy was well received by financial markets and business and set up a platform for effective state business relations in South Africa. As a result, by 2002 gross capital formation grew on average by 16 percent between 2002 and 2006. Between 1994 and 2002, the South African economy grew by 3.2 percent a year as measured by the GDP (Gelb, 2004). This would support the te Veld's (2010) argument that effective state and business interaction can promote more efficient allocation of scarce resources, conduct a more appropriate industrial policy, remove the biggest obstacles to growth and create wealth more efficiently. However, inequality remained stubborn under Mbeki and has worsened under Zuma and so has unemployment.

Can the failure of SBRs be accounted for by its character? The characteristics of effective state-business relations are (te Veld, 2010):

- information flows: the exchange of accurate and reliable information between business and government;
- reciprocity: the capacity of state actions to secure improved performance in return for subsidies or other forms of state support;
- close consultation and coordination between state and business.

The nature and character of state business relations in South Africa is defined by a powerful political elite of the governing ANC and capital power in the hands of business who are racial in character. Both the state and business hold their power dearly; as a result state business relations have always been riddled with contradictions. Moreover, the relationships between the business and the state explain the patterns of South Africa's economic development. Business remains fragmented along racial identities between older, white established factions and newer, black dependent ones. Nattrass & Seekings (2010) contend that the former adopted a largely reactive approach to the state, operating within constraints, without trying to challenge those constraints. The latter were required to be more subservient, as long as they were dependent on state patronage (Nattrass & Seekings, 2010).

State business relations in South Africa have been most effective when there is a political or an economic crisis. For example, black business development policy was unexpectedly energised by the political upheavals of the 1976 Soweto uprising. The government introduced a new empowerment policy that recapitalised the Bantu Investment Corporation and increased homeland development subsidies. The policy was supported by white business initiatives including the Urban Foundation and the Small Business Development Corporation. Both the National Party and its liberation movement enemies saw a black middle class as a deterrent to black radicalism and political unrest (Iheduru, 2004, 4-5).

According to Spicer (2016) in the second half of the 2000s South Africa was characterised by corruption undermining society and economic performance. The controversy over the 1990s arms deal lumbered on but perceptions that the country faced a real problem were sharpened by evidence of wrongdoing on the part of leading politicians including deputy President Zuma as well as the phenomenon of Tenderpreneurs (Spicer, 2016). These were black entrepreneurs who became wealthy by soliciting tenders from government at national, provincial and local levels, often in ways that bypassed due process, and in areas where the lives of the poor were directly affected.

Yet government and the political class were not predisposed to listen to criticism from a business community who were perceived as corrupt themselves – each corrupt transaction with a civil servant or politician required in this view a business counterpart. And from a left wing or racial perspective 'white monopoly capital' continued to make excessive profits from exploiting the poor and indulging in anti-competitive behaviour (Spicer, 2016). Hence, it could be argued that both the state and business had complex vested interests that drove both to become able exponents of hypocrisy on economic matters. In 2009, President Zuma faced these challenges and below the paper assesses whether he has sought to achieve effective state business relations.

President Zuma and radical economic transformation

Before Zuma could pursue his economic agenda of state led development through SOCs, which is an essential element of his political project, he had to take account of the divisions in the African National Congress (ANC) which led to the recusal of Thabo Mbeki as the President of the Republic of South Africa and which his accession to power had aggravated. Differences within the ANC extended beyond the black business and political elite to the rank and file membership. A growing divide in black business between those that had benefited from BEE policies under Mbeki and those that had not. Zuma's ascendancy to the highest office in the land provided an accumulation opportunity for the latter.

A quiet revolution in the structures, procedures and personnel of party, government and bureaucracy was the means used by President Zuma to consolidate his position. This quiet revolution reflects Zuma's determination that repurposing the state should be tightly managed and controlled through centralised policy making and a streamlined administration, reflecting his background as long time party intelligence operative and head. Repurposing state institutions refers to the organised process of institutionalising the redirection of rents by reconfiguring the way a given state institution is structured, managed and funded. Understanding state capture purely as a means for looting does not capture the full extent of the political project that enables it. Institutions are captured for a purpose beyond looting. They are repurposed for looting as well as to consolidate political power to ensure longer-term survival, the maintenance of a political coalition and validation of an ideology that masks private enrichment by reference to public benefit[1].

With the help of an infusion of the communist, trade unionists and other grassroot supporters, President Zuma constructed the biggest Cabinet in the emerging democracy full of cadres receptive to his ideas. In 2009 when Zuma became the President of the Republic of South Africa, he inherited a sound macroeconomic policies environment, which was underpinned by a consistent and transparent policy framework. The macroeconomic environment had contributed significantly to economic growth in the period between 2001 and 2007. President Zuma came into power in 2009 in the midst of the global economic and financial crisis. On the eve of Zuma being elected the President of South Africa, output had fallen by 1.8 percent in the fourth quarter of 2008 and by a larger-than-expected 6.4 percent in the first

[1] Betray of Promise: How your country is being stolen. Professor Haroon Bhorat (Development Policy Research Unit, University of Cape Town), Dr. Mbongiseni Buthelezi (Public Affairs Research Institute (PARI), University of the Witwatersrand), Professor Ivor Chipkin (Public Affairs Research Institute (PARI), University of the Witwatersrand), Sikhulekile Duma (Centre for Complex Systems in Transition, Stellenbosch University), Lumkile Mondi (Department of Economics, University of the Witwatersrand), Dr. Camaren Peter (Centre for Complex Systems in Transition, Stellenbosch University), Professor Mzukisi Qobo (member of South African research Chair programme on African Diplomacy and Foreign Policy, University of Johannesburg), Professor Mark Swilling (Centre for Complex Systems in Transition, Stellenbosch University), Hannah Friedenstein (independent journalist - pseudonym).

quarter of 2009. The economy lost over 200,000 jobs in early 2009, and unemployment rose to 23.5 percent in Q1: 2009 from a low of 21.9 percent in Q4: 2008.

His predecessor, President Motlanthle, in partnership with business and labour had agreed to a Framework for South Africa's response to the international economic crisis in February of 2009. The framework comprised of the following principles (The Presidency, 2009):

- Protection of low-income workers, the unemployed and the vulnerable groups from the economic shock, and avoidance of the risk of unfairly placing the burden on them.
- Strengthening the capacity of the economy to grow and create decent jobs in the future, protected and supported jobs as far as possible.
- Maintaining the planned high levels of investment in public sector infrastructure and to encourage the private sector to maintain and improve wherever possible their levels of fixed direct investment and continue with corporate social investment programmes.
- Interventions must be timely, tailored and targeted as is appropriate.
- Need for a bold intervention in the form of a broad stimulus package of R787 billion, as signalled in the recent budget that has economic and social components.

In his first State of the Nation Address (SONA), President Zuma reiterated the framework agreement (SONA, 2009).

> “We must act now to minimise the impact of this downturn on those most vulnerable. Another important element of our drive to create job opportunities is the Expanded Public Works Programme (EPWP). The initial target of one million jobs has been achieved. The second phase of the programme aims to create about four million job opportunities by 2014. Between now and December 2009, we plan to create about 500 000 job opportunities. While creating an environment for jobs and business opportunities, government recognises that some citizens will continue to require state social assistance. Social grants remain the most effective form of poverty alleviation. As of 31

March 2009, more than 13 million people received social grants, more than 8 million of whom are children. We are mindful of the need to link the social grants to jobs or economic activity in order to encourage self-reliance amongst the able-bodied".

The New Growth Path, which was introduced in 2009, complemented the Industrial Policy Action Plan in reviving a struggling economy post the global economic and financial crisis. In the social contract presented in the New Growth Path (NGP) the state committed itself to forge a consensus. The state identified sectors that are labour intensive and not susceptible to changes in conditions in South Africa and globally (Economic Development Department, 2011). The NGP presented a policy package that facilitated employment creation through (Economic Development Department):

- A comprehensive drive to enhance both social equity and competitiveness;
- Systemic changes to mobilise domestic investment around activities that can create sustainable employment; and
- Strong social dialogue to focus all stakeholders on encouraging growth in employment-creating activities.

Both the NGP and the Industrial Policy Action Plan (IPAP) sought to augment the National Industrial Policy Framework (NIPF), which was adopted in 2007. The NIPF had the following core objectives (the DTI, 2007):

- Restructuring the economy and reversing the prospect of deindustrialisation;
- Moving to a more value-adding, labour-intensive and environmentally sustainable growth path – especially in globally competitive non-traditional tradable goods and services;
- Shifting the focus of economic activity towards historically disadvantaged people and regions; and
- Contributing towards comprehensive industrial development in Africa (primarily through infrastructure development, increased industrial productive capacity and greater regional integration).

Under President Zuma, the economy has underperformed spectacularly. Growth has declined from 2.2 percent in 2009 to one percent in 2016. In the second quarter of 2017, the economy experienced a technical recession as the economy shrunk to 0.7 percent. Unemployment has also worsened from 21.5 in 2008 to 27.7 percent at the end of June 2017. South Africa was rated positively as an investment destination by three international credit rating agencies in 2009. In the second quarter of 2017, only one rating agency rated South Africa as an investment grade.

Therefore the calls for radical economic transformation and the introduction of the BIP are a response to the declining fortunes of the governing ANC at the polls as witnessed in the 2016 local government elections where the ANC lost a number of key metropolitan areas and an admission of policy failures under Zuma. According to Zuma, radical economic transformation means:

> "a fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans – especially the poor, the majority of whom are African and female – as defined by the governing party, which makes policy for the democratic (State of the Nation Address, 2017).

In the next section it is argued that ineffective state business relationships account for poor economic performance. The argument is backed by the analysis of state business relations under Zuma.

Business as an institution and institutions of business

South African business remains fragmented and is characterised by racial identities. The Business Leadership South Africa (BLSA) is an association of South Africa's largest corporations and major multinational companies that have a significant presence in South Africa. Their membership is driven by a commitment to addressing the challenges of poverty, inequality and unemployment. The Business Unity South Africa (BUSA) is a confederation of South African chambers of commerce and industry, professional and corporate associations and uni-sectoral employers' organisations. The body was the main representative of South African Business, tackling macroeconomic and high level issues affecting it at national and international level. BUSA originates from a merger between Business South Africa (BSA) and the Black Business Council at the request of President Mbeki that his diaries could not accommodate different business organisation and they needed to merge.

In 2003 the BSA and BBC merged to form BUSA in support of President Mbeki's request. A black billionaire, Patrice Motsepe was elected its President and held a similar position in the BBC during the period. Sectoral business organisations such as the South African Chamber of Business and Industries, National Federated Chamber of Business and Industries (NAFCOC), a black business organisation and Afrikanse Handel Instituut, an organisation of Afrikaner business interest are affiliates of BUSA and kept their shape and identity. However, BBC got absorbed into BUSA operating structures in an attempt to drive the transformation of the South African economy.

The Black Business Council (BBC) is an umbrella organisation, which has two divisions, a business division and a professional division. The business division is composed of NAFCOC, African Cooperatives for Hawkers and Informal Business (ACHIB) and the Foundation of African Business and Consumer Services (FABCOS). The professional division consists of the Black Lawyers Association (BLA), Association of Black Accountants of South Africa (ABASA), Black Management Forum (BMF) and the Association of Black Securities and Investment Professionals (ABSIP). The BMF, who have championed black economic empowerment even under apartheid have in the democratic South Africa been the cornerstone of the BBC. Its leaders have played a dual role as leaders of the BMF and BBC simultaneously. The dual role has had a huge negative impact on the BMF particularly under Mzwanele "Jimmy" Manyi who became very close to President Zuma during his leadership of both institutions. In 2010 former BMF leaders including the late Lot Ndlovu in 2010 asked Manyi to step down after he had proposed changes in the organisation's constitution that would result in the president's term of office to be extended from three to five years. Manyi had also wanted the position of executive president to be created in order to strengthen the president's executive powers and diminish the role of the managing director. Manyi resigned as the president of the BMF and had all the time to bring the BBC closer to Zuma. However, that started the kick-started a series of institutional changes within business as an institution.

In July 2011 the BMF unilaterally split from BUSA arguing that its structure was fundamentally flawed, with the voice of black business "permanently outnumbered and suppressed". However, Spicer (2016) argues that it was not the case but rather the appointment of a new CEO of BUSA that triggered a walkout from BUSA by many of the professional associations of black business. The CEO in question was a black woman and in the interview with some of the players during the period it emerged that BMF had someone in mind rather than the appointed CEO. Instead of debating, persuading and reaching a compromise within BUSA, the BMF saw an opportunity to break ranks arguing that transformation was "low on the list" in the organisation. After the BMF's departure, BUSA responded by issuing the following statement:

> "It therefore remains incorrect and unfortunate that allegations are made that Busa represents white business interests and that, by implication, it is riding roughshod over black business interests. Busa continues with its work and is currently collaborating closely with the government and other social partners in rolling out economic transformation interventions such as the New Growth Path and the National Development Plan".

However, at the Black Business Summit attended by the IT Forum, ABSIP, ABASA, BMF, BLA, FABCOS, NAFCOC and the Black Business Executive Circle, the National Black Business Caucus, the South African Black Technical and Allied Careers Organisation, the National Society of Black Engineers South Africa, South African Women Entrepreneurs' Network, South African Women in Construction, and Women in Food and Hospitality held from the 6-7 September 2011 a resolution was passed suspending the BBC participation at Busa.

The BBC intended to engage Busa on a range of policy, structural and constitutional issues; and the Summit recommended a steering committee led by the presidents of national organisations. The Summit recommended a re-launch of the Black Business

Council focussing on economic transformation—including the building a new community of black entrepreneurs, promoting access to venture capital for black businesses, and job creation; the development and promotion of Small to Medium Enterprises (SMME), for which it would lobby for the creation of a small and black business ministry; and the establishment of an infrastructure investment commission, and a commission to deal with land reform (http://transformsa.co.za/2011/09/black-businesses-converge-to-form-unified-body/).

However, at the Summit, President Zuma argued that "the unity of the business sector is paramount in ensuring the achievement of the transformation goals. As government, we need a unified and united business voice to work with" (https://mg.co.za/article/2011-09-07-economic-revolution-black-businesses-quit-busa). Spicer (2016) argues that although the state regretted the rupture, but through its funding and other material support was happy to support an exclusively black organisation. Spicer's (2016) argument was based on the BBC financial support by the state through its development finance institution, the National Empowerment Fund (NEF) who funded the BBC in 2012 with a R3 million cheque to grow black economic empowerment. (http://www.nefcorp.co.za/ResourcebrCenter/NEFinthemedia/NEFinthemedia/tabid/118/ArticleId/265/NEF-BBC-deal-CITIZEN.aspx).

The support was meant to provide an alternative voice to what was perceived by the state as a marginalised group given the history of South Africa. The DTI also provided support amounting to R7 million for similar purposes. Organisations affiliated to the BBC also assumed a higher profile role in the delegations of business people taken on President Zuma's international travels, according to Spicer (2016), Zuma had shown himself particularly eager to woo black business.

The Black Business Council was re-launched on 1 March 2012 with a mandate to support historically disadvantaged people and help get them involved in business. The first president of the re-launched BBC, Sandile Zungu articulated its mission as follows:

> "The objective is to make sure that black people are first and foremost, the beneficiaries of our efforts".

The next section focuses on how the BBC lobbied the state for an industrial programme and how Zuma captured it by building a coalition for the "radical economic transformation agenda" and the war on *white monopoly capital*.

The BBC, the state and industrial policy – partners in economic destruction?

The re-launched Black Business Council in 2012 succeeded in repositioning itself as a preferred government partner to revive the declining manufacturing sector by increasing output, improve competitiveness, create jobs and improve skill levels. In response to the burgeoning relationship, the state on its part believed that it had found a partner with a panacea to rescue the declining manufacturing sector. In interviews with the BMF, who had developed the concept of black economic empowerment and had driven the institutionalisation of the industrial incentive programme such an incentive would not only achieve the racial transformation of the South African economy but also would turn the tide against de-industrialisation[2].

The BMF contends that initially, it worked hand in hand with the Presidency and the DTI in the development of the Black Industrialist Program (BIP) with the view that its success would enhance its credibility whilst cementing the relationship by keeping BUSA out in the cold. The black industrialist program is an incentive that is wrapped up with a financial package and is delivered exclusively to black business whom the state believes possesses "superior animal spirits that would make them succeed where others have failed" (Keynes, 1935).

According to the DTI, black industrialists are black people who are involved in the origination, creation, significant ownership, management and operation of industrial enterprises that derive value from the manufacturing of goods and services at a large scale; acting to unlock the productive potential of our country's capital assets for

[2] Interview with Dumisani Mpafa, Deputy President of the BMF and Policy and Strategy Executive of the BBC, 5 August 2017, Johannesburg.

massive employment locally (Department of Trade and Industry, 2015). According to the DTI (2015) the core elements of an "industrialist" are:

- Significant influence in an enterprise or industry;
- Control of an enterprise through shareholding;
- Board and executive management control; and
- Production of products (goods and/or services) with significant wider use.

A black industrialist is a black South African who owns and, through significant shareholding, controls an enterprise whose product is significantly used and has significant impact on decent employment and creates broad-based economic opportunities. The term Black People is a generic term that includes people of African, Coloured and Asiatic origin that are citizens of the Republic of South Africa by birth or naturalisation before 27 April 1994 or would have been entitled to acquire citizenship by naturalisation prior to 27 April 1994 (Department of Trade and Industry, 2015).

The term Economic Transformation is defined by the Strategy for Broad-Based Black Economic Empowerment as transition from an economy that confined wealth creation to a racial minority into one that benefits all citizens; and is characterised by ownership, management and control of factors of production by previously marginalised communities (Parliament of the Republic of South Africa, 2003). The Black Industrialists Development Programme aims to create more than 100 black industrialists within three years and putting black industrialists at the forefront of South Africa's industrialisation efforts (Department of Trade and Industry, 2015).

The objectives of the Black Industrialist Program (BIP) are to:

- Accelerate the quantitative and qualitative increase and participation of black industrialists in the national economy, selected manufacturing sectors and value chains; as reflected by their contribution to growth, investment, exports and employment; and

- Create multiple and diverse pathways and instruments for black industrialists to enter strategic and targeted manufacturing sectors and value chains (Department of Trade and Industry, 2015).

The following are characteristics of a black industrialist:

- high levels of ownership (>50%);
- dominant black ownership and management control may be considered for projects that are deemed strategic by the DTI, but may need to include other shareholders to attract relevant skills, finance and scale-up the investment opportunities;
- exercises control over the business;
- takes personal risk in the business;
- does business in the manufacturing sector with particular reference to IPAP focus areas; and
- makes a long-term commitment to the business and is a medium- to long-term investor

Black people refer to African, Coloured and Indian persons who are natural persons and:

- Are citizens of the Republic of South Africa by birth or descent; or
- Are citizens of the Republic of South Africa by naturalisation before the commencement date of the Constitution of the Republic of South Africa Act of 1993; or
- Became citizens of the Republic of South Africa after the commencement date of the Constitution of the Republic of South Africa Act of 1993, but who, had it not been for the Apartheid policy, would have qualified for naturalisation before then.
- The definition of "black people" now includes South African Chinese people as per the Pretoria High Court ruling on 18 June 2008 (Department of Trade and Industry, 2015).

The key focus areas of the programme are on the following productive sectors:

- Blue/ocean economy, including vessel building and repair
- Oil and gas
- Clean technology and energy
- Mineral beneficiation
- Aerospace, rail and automotive components
- Industrial Infrastructure
- Information communication technologies
- Agro-processing
- Clothing, textiles/leather and footwear
- Pulp, paper and furniture
- Chemicals, pharmaceuticals and plastics
- Nuclear
- Manufacturing-related logistics
- Designated sectors for localisation

Funding of black industrialists

According to the Rob Davies, the Minister of Trade and Industry, in his budget vote speech on the 22 of March 2017 the BIP has gathered momentum with 46 projects having been approved and more than R2bn deployed through government agencies. The programme was launched in March 2016 with the aim of supporting 100 black industrialists until March 2019. In addition to the financial support of the government agencies, approved black industrialists have received R122m in grants from the department. "Our support has allowed these black industrialists to undertake investment projects of R3.7bn and is projected to create more than 8,000 direct jobs and close to 12,000 indirect jobs. As we have indicated earlier we have now decided to accelerate the implementation of the programme to support 100 black industrialists. Instead of reaching this milestone by March 2019 we now intend to reach this target by the end of the current financial year, that is, by March 2018," Davies told MPs (https://www.businesslive.co.za/bd/business-and-economy/2017-05-23-rob-davies-says-almost-50-projects-approved-in-black-industrialist-programme/).

The IDC and the NEF are state owned development finance institutions (DFIs) which are mandated to fund the BIP. The asset manager of the Government Employees Pension Fund (GEPF) was also designated as funders of the BIP. Unlike the two DFIs, they invest pensioners' money and any losses could compromise the retirement packages of state employees consequently burdening the taxpayers. The PIC and the NEF were reluctant to engage on the pros and cons as well as their progress on the BIP.

In 2015 the IDC planned to invest about R23-billion towards black industrialists in support of the BPI. The IDC's funding gave fresh impetus to the expansion of the benefits of transformation in the country. The IDC has supported black economic empowerment for the past 21 years providing a minimum of R28-billion to black-owned businesses, and more than R53-billion for broad-based black economic empowerment (B-BBEE) generally (IDC, 2015). Between 2015 when the BIP was introduced and March 2017, the IDC has concluded about 203 (two hundred and three) deals of R11,4 bn to about 185 (one hundred and eighty five) companies which created and saved about 11 725 (Eleven thousand seven hundred and twenty five) jobs. According to the IDC chief executive, "supporting the creation of black industrialists has been a strategic imperative for the organisation and this has not changed" (https://www.idc.co.za/images/2017/integrated_report/FINAL%20IR%20Presentation.pdf).

The BIP is at an early stage of implementation. It remains a very controversial programme by targeting only a 100 black industrialists. The process and rigour of accessing the BIP, the allocation of funds and the beneficiaries remain secret, something that has irked a number of black industrialists including the BMF.

Conclusion

Te Veld (2010) argues that effective state-business relations are underpinned by:

- Credible commitment of the state to policies, deals or arrangements, which can be ensured through both formal and informal institutions;

- A stable policy environment, which provides some security for investment by the private sector;
- Strong checks and balances on government policies, tax and expenditure, which help to ensure that taxation policies and the provision of public goods are appropriate and of good quality.

However, when the state has been captured by an elite, growth can be compromised and poverty worsens. StatsSA's Poverty Trends in South Africa report reveals that between 2011 and 2015, the proportion of people living in poverty (below the poverty line of R1138 per person per month in 2017 prices) increased from 53.2% to 55.5%, respectively, equating to 30.4 million people. Of these, 13.8 million people (up from 11 million in 2011) live in extreme poverty (below the food poverty line of R531 per person per month), lacking adequate nutrition. Shockingly, 67% - two in three - of South Africa's children live in poverty – a much higher proportion than for any other age group. Over 13 million children, almost all of them black, are growing up in poverty, their early childhood development compromised and their life chances stunted. Millions of children go to sleep on an empty stomach and sleep badly as a result; they go to school on an empty stomach and perform badly as a result. Some 15 000 children per year are admitted to hospital for severe acute malnutrition, of whom around 1 500 die from it.

Imagining how latecomer black industrialists in an open economy could embark on a new activity that requires economies of scale and a range of specialist inputs is hard. But through the BIP the South African government believes that this is achievable. We doubt it given its poor track record under the Zuma government. The challenge is exacerbated by the need to compete against domestic and foreign companies that are embedded in long-established specialised production networks (Collier and Venables, 2007). The BIP may not be the answer but something more radical. An inclusive growth agenda that goes beyond race and class could just be the medicine that South Africa needs for her to overcome its challenges of racial identies, class formations, poor levels of growth and worsening poverty levels, particularly amongst black people.

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