

## OPINION PIECE

# The Black Industrialist programme: A small step towards industrialising South Africa or a giant leap towards economic inclusion?

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The Oxford Dictionary of American Political Slang defines a “boondoggle” as “an extravagant and useless project.” In South Africa, this is a view that is increasingly associated with public projects, including the Black Industrialist (BI) Programme. Nevertheless, what indeed, is the BI programme?

Cabinet approved the BI programme in 2015 with the overriding aim, among others, to increase meaningful participation of black-owned companies in the mainstream economy with the BI programme formally kicked off in 2017. It is a programme implemented by the Department of Trade, Industry and Competition (the dtic) and its entities, namely, the Industrial Development Corporation (IDC), the National Empowerment Fund (NEF) and to a lesser extent, the Competition Commission (Compcom). While the programme’s purpose was to leverage the state’s capacity to unlock the industrial potential within black-owned and managed businesses that operate within the South African economy through deliberate, targeted and well-defined financial and non-financial interventions, the programme also sought among other things to achieve the following objectives:

- (a) to accelerate the quantitative and qualitative increase and participation of black industrialists in the economy,
- (b) to create multiple and diverse pathways and instruments for black industrialists to enter strategic and targeted industrial sectors; and
- (c) to promote industrialisation, sustainable economic growth and transformation through the support of black-owned entities in the manufacturing sector.

To contextualise matters, the programme defined a BI as an entrepreneur who is part of a business entity that is at least 50% owned by black people while also being actively involved in the management and operations of the business. Above all, the BI’s must have a minimum investment of R30-million (now R50 m) in their businesses and should secure or increase direct employment.

Two policy instruments facilitates the programme, namely (i) the provision of syndicated funding to the BI’s from Development Finance Institutions (DFIs) such as the dtic’s entities, the Land Bank, the Public Investment Corporation (PIC) and the dtic itself; and (ii) providing market access to the BI’s as they enter the mainstream economy. Although BI funding is extended on concessional terms, the entities nonetheless have an obligation to repay the loans with stringent measures in place to ensure exactly that.

Handouts clearly do not characterise the programme.

A "boondoggle" is also a term used to refer to protracted government initiated projects, that are usually expenditure heavy, involve large numbers of people but where at some point, there is a realisation that the project will never work but the project is continued nonetheless.

A careful examination of salient facts about the BI programme paints an interesting if not different but positive picture.

Upon the BI programme's launch in the 2016/17 financial year, about R1bn was set aside to support 100 BI's over a three-year period. However, six years later, the programme's funding had risen to around R38.9bn in nominal terms (or R45.4bn in constant (real) 2021 values) and supported over 1 000 entities, a significant improvement over the initial target. Of particular interest is that the funding leveraged an additional R93bn of investment. Combined, these entities have contributed to the creation of around 50 000 jobs while also contributing to the saving of around 9 000 jobs. And in what may be the makings of baby steps towards economic inclusion, of the total funding directed at the BI's to date, R13.2bn and around R5bn went to women and youth owned entities respectively.

It is also clear that within the short period of its existence, the BI programme funding has contributed significantly to the national economy. For example, BI funding has on average contributed around 0.81%, 0.32% and 0.4% to the Gross Fixed Capital Formation (GFCF), the Gross Domestic Product (GDP) and overall employment levels respectively per year. With the country's real GFCF in 2021 at R 631bn, real GDP at R 4.1tr in 2021 and the latest (quarter 3) employment levels at around 15.8 million people.

Furthermore, the BI entities participate in virtually all the sectors of the economy and the funding has had a meaningful impact on economic sectors in terms of sectoral contribution to the GDP and jobs. In this regard, the results of an economy-wide model aimed at quantifying the impacts of the programme found that the manufacturing, mining, construction and trade sectors stand out with sectoral contributions to the GDP of 2.7%, 1.6%, 1.3% and 0.8% respectively. On the other hand, the electricity, manufacturing, mining and construction sectors stood out with formal sector employment contribution at 7.2%, 2.8%, 1.4% and 1% respectively.

In the six years of its existence, the BI programme's impact on the economy is clearly notable.

Despite these positive contributions, the BI programme continues to attract criticism. Sentiments like, “it is a programme where only a handful of politically connected individuals benefit from the funding”, or alternatively, “who are these black industrialists anyway”, and “what do they do” have been expressed. While sentiments like these are common around the globe in respect of public projects, evidence on the ground appears to paint a decidedly different reality in respect of the BI programme.

On 22 July 2022, the dtic hosted the inaugural Black industrialist and Exporters conference among other things to highlight the BI’s capabilities, celebrate and recognise their contributions to the economy, including reflecting on the progress made towards advancing redress and transformation.

The conference not only had extensive media coverage, but it also had more than 800 entities participating, 139 exhibitors and 9 buyers from the country’s biggest retailers. The cherry on top was the awards of excellence awarded to the BIs who had distinguished themselves. The conference revealed that BI entities are not only participating within almost all the sectors within the domestic economy, but also export their products to markets within the Southern African Customs Union (SACU), Southern African Development Community (SADC) and the rest of the African continent, including markets in Europe, Asia, North America and Australia. The exported products include (but are not limited to) auto components, food, agricultural products, machinery, doors, clothing and textiles, energy components, chemicals and plastics, pharmaceuticals and cosmetics, furniture, rail products and construction equipment.

The entities are clearly making inroads into activities and markets previously closed to black South Africans.

One such entity is VM Automotive, which supplies aluminium and steel products to the automotive industry including producing metal blanks used for various body parts of vehicles. For example, VM Automotive manufactured metal blanks for 10 new body parts for the 4<sup>th</sup> generation Mercedes C-Class. In the past, automakers would import these locally manufactured parts from Europe. This is not only going a long way towards import replacement and boosting localisation, but also generating and saving much-needed foreign exchange. Not only was the Mercedes Benz C-Class exported to more than 80 destinations around the world, but in 2019, VM Automotive also secured a contract to produce metal blanks for the current C-Class projected for exports to 110 countries.

The other entity is Easy Farm, a successful commercial farming operation set on a 200 ha farm and based in the former Venda homeland at Tshivhilwi village. While it produces Mango, Banana and Citrus, It exports around 80% of its citrus produce annually to markets in North America, Europe, China and the Middle East with the remainder destined for the domestic market and citrus juice processors. This is notable given that South Africa is the second largest citrus exporter in the world, and citrus is its largest export crop. While employment varies seasonally, it averages around 65 employees, drawn mostly from the surrounding area.

The awards ceremony was a further testament of the diverse areas in which the entities are involved. The seven award categories attracted a combined 57 entries, 27 finalists, and 9 winners (two categories had two joint winners).

To demonstrate the extent to which the entities are making inroads into previously closed off economic activities for black South Africans, as well to demonstrate the programme's impact in promoting economic inclusion, a highlight of winners from three award categories is in order.

The first entity is Cape Bio, a youth owned entity employing 100 employees and a leading biotechnology company, which won under the category, Innovation and Technology. It manufactures enzymes used in molecular biology research and diagnostics and produces diagnostic test kits for COVID-19, HIV, Syphilis, Malaria, Oncology as well as Laboratory Consumables.

The second is Astrofica Technologies, a 50% women owned company that designs and builds satellites for specific missions. It also manufacture ground-based support systems for the export market, with the UAE, Saudi Arabia, Europe, Australia and the USA as export destinations. Astrofica Technologies was a co-winner of the Woman Industrialist category.

The third is Microfinish that won the award under the black exporter category. It manufactures safety components for internal combustion engines in the automotive, marine and locomotive industries, supplied to Original Equipment Manufacturers and aftermarket customers with 98% of its products exported to customers across the globe. This is over and above directly employing 100 employees while also supporting the indirect employment of 300 other employees.

The inaugural BI and exporters' conference clearly demonstrated that not only are the entities involved in diverse activities across the economy, but also, the program clearly has a positive effect on the overall economy in terms of its impact on the GFCF, GDP, Employment,

localisation and the export market. Above all, the programme has also demonstrated that the continued existence, survival and sustainability of the participating BI entities is not only dependent on their ingenuity, adaptability and enterprise among other attributes, but also that they do not depend on government 'handouts' and bailouts.

For the six years that the program has been in operation, it has certainly played a role in facilitating the entry of black owned entities within economic sectors and activities that otherwise would have been out of reach including opening doors and opportunities to women and youth owned enterprises.

Despite the impressive contributions the programme has brought about, it is not however, without challenges. Some of the challenges include fronting practices where some companies would misrepresent the position and nature of their true shareholding and beneficiaries hence misrepresent themselves as black South Africans when they are not. In other instances, black-owned firms would "lend" their name, as the contractor in tender documents, while the work is undertaken by another company that otherwise should not have participated. The dtic however, continues to be vigilant against such abuses.

The dtic has actually put measures in place to criminalise these activities.

The BI programme to date has demonstrated that carefully managed public projects can in fact go a long way in contributing to levelling the playing fields, facilitate transformation and above all, economic inclusion.

While the BI programme, like other public supported projects may have indeed benefited from government support in its initial stages, its continued existence to date certainly demonstrate that it can be associated with many things but a "boondoggle".