



DOES THE BLACK INDUSTRIALIST PROGRAMME RESPOND TO SOUTH AFRICA'S INDUSTRIALISATION CHALLENGES?

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ABSTRACT

This study explores the extent to which the Black Industrialist Programme (BIP) is able to fulfil its stated mandate of promoting industrialisation in South Africa. In doing so, it redirects the focus away from policy design and instead evaluates the efficacy of the programme's mechanisms of monitoring and adjustment. Using a qualitative, inductive research approach, this study finds that the BIP's ability to promote industrialisation is strongly compromised by the quality of its reciprocal control mechanisms. Firstly, the evaluation of firm performance against the programme's industrial objectives either relies on check-box measures, or is outsourced entirely to private auditors. Secondly, the government is poorly capacitated to perform a rigorous monitoring function. Thirdly, the state lacks both the capacity and willingness to enforce disciplinary measures on underperforming firms. Whether the BIP evolves into a genuine instrument of industrial policy rests on addressing these shortcomings. This requires placing learning at the forefront of policy reform efforts.

DECLARATION

I declare that this dissertation is my own, unaided work. It is being submitted for the degree of Master of Commerce in Applied Development Economics at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any other degree or examination at any other university.

Dhyan Saravanja

A handwritten signature in black ink, appearing to be 'Dhyan Saravanja', written in a cursive style.

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ACRONYMS AND ABBREVIATIONS

BEE	Black Economic Empowerment
B-BBEE	Broad-Based Black Economic Empowerment
BI	Black Industrialist
BIP	Black Industrialist Programme
BIS	Black Industrialist Scheme
DFI	Development Finance Institution
DTIC	Department of Trade Industry and Commerce
IDC	Industrial Development Corporation
IPAP	Industrial Policy Action Plan
MEC	Minerals-Energy-Complex
MEFC	Minerals-Energy-Finance-Complex
NEF	National Employment Fund
RCM	Reciprocal Control Mechanism
SOE	State-Owned Enterprise

CHAPTER 1: INTRODUCTION

1.1. INTRODUCTION

The Black Industrialist Programme (BIP) has emerged as an extension of South Africa's broader Black Economic Empowerment (BEE) framework, due to the failure of earlier waves of BEE to permeate the manufacturing sector (Goga & Avenyo, 2022). However, the BIP's purview goes beyond increasing black participation in industrial activities. The programme is explicitly aimed at "promoting industrialisation, sustainable economic growth and transformation through the support of black-owned entities in the manufacturing sector" (DTIC, n.d.-b, p. 6, 2021, p. 25). This positions the BIP not just as an affirmative action programme, but as an *industrial policy* with an overarching objective of "promoting industrialisation".

The BIP is premised on the notion that achieving structural transformation requires addressing South Africa's substantial barriers to participation in higher value industrial activities (DTIC, n.d.-b). Among the most prominent of these are the lack of access to finance for downstream manufacturers (particularly black players), as well as the country's highly concentrated manufacturing space, where incumbents have a history of exploiting their market dominance (Bosiu et al., 2019; Goga & Avenyo, 2022; T. Vilakazi & Bosiu, 2021). These barriers, which are both structural and racial, can be attributed to the legacy of apartheid and the system of accumulation that has accompanied it (Fine & Rustomjee, 1996; Mabasa, 2020; T. Vilakazi & Bosiu, 2021). By targeting policy support toward black industrial firms with strong potential to contribute to structural change, the BIP can be seen as a response to a dual set of challenges faced by the South African economy: a lack of industrial diversification, and a lack of racial diversification within industry (T. Vilakazi & Bosiu, 2021). Yet, the BIP was introduced in 2015, following over two decades of democratic rule, during which a range of BEE and industrial policies had already been implemented. This prompts two questions: why have these earlier policies failed to create a black industrialist grouping capable of driving structural change, and more importantly, is the BIP able to transcend these failures?

The BIP distinguishes itself from previous BEE and industrial policies through its design and focus. Previous policies have either neglected or inadequately addressed what are recognised

as fundamental barriers to black participation in increasing return to scale activities (Goga & Avenyo, 2022; T. Vilakazi & Bosiu, 2021). The BIP targets these barriers directly through three key policy levers, which provide black industrialists (BIs) with access to funding, markets, and non-financial support (DTIC, 2015). However, although well-targeted policy support may be enough to increase black participation in the manufacturing space, support *alone* is not enough to promote industrialisation.

For policy support to translate to industrial development, it must be both conditional and reciprocal. This requires the use of reciprocal control mechanisms (RCMs), which have been characterised as the linchpin of industrial policy (Amsden, 1989, 2001). RCMs are a mutual set of obligations between the state and capital, where policy incentives offered by the state are tied to firms meeting conditionalities that are reflective of the government's industrial objectives. The prospect of losing policy support compels firms to contribute actively toward industrial learning, which is recognised as the central pillar of industrialisation (Amsden, 1989, 2001; Khan, 2019). For RCMs to effectively fulfil their function, they must be well designed and implemented, in accordance with the specific policy and political economy contexts at hand. In addition, a broader macroeconomic policy framework that includes favourable tax incentives, depreciation allowances, and interest and exchange rates is vital for the success of any targeted industrial policy (Norsworthy & Tsai, 1998).

While research on the BIP remains scarce, existing literature (Bosiu et al., 2019, 2020, 2023; M. Vilakazi, 2021; M. Vilakazi & Moore, 2023; T. Vilakazi & Bosiu, 2021) concentrates primarily on evaluating its instruments of support. However, I argue that the BIP's ability to fulfil its stated mandate of "promoting industrialisation" (DTIC, n.d.-c, 2019, 2021), hinges on the efficacy of its mechanisms of monitoring and adjustment. There is a clear need to investigate the extent to which the BIP is equipped with well-designed and implemented RCMs. This will determine whether the BIP is merely an affirmative action programme designed to colour the manufacturing sector, or a genuine instrument of industrial policy.

1.2. RESEARCH QUESTIONS

Due to the lacuna of literature on the BIP's mechanisms of monitoring and adjustment, the primary research question of this study is:

Is the Black Industrialist Programme equipped with reciprocal control mechanisms that enable it to promote industrialisation?

To facilitate the investigation into this inquiry, this study explores the following ancillary questions:

1. Is policy support tied to criteria that represent genuine learning outcomes?
2. Does the state possess the capacity to monitor the proper fulfilment of the programme's criteria?
3. Does the state possess the capacity to act on threats of removing policy support?

1.3. OUTLINE OF THE STUDY

Chapter two establishes a theoretical framework outlining the significance of RCMs in industrial policy. The structuralist literature provides insights gained from international industrial policy experiences into the considerations for RCMs to operate effectively. An exploration of South Africa's past BEE and industrial policies sheds light on the challenges inherent in implementing RCMs within the country's distinctive political economy landscape. The chapter then examines the extent to which the BIP departs from these previous policies in both its design and its mechanisms of monitoring and adjustment.

Chapter three outlines the qualitative, inductive research approach of this study, which incorporates phenomenological methods. It examines the use of semi-structured interviews for primary data collection and desktop research for secondary data collection. The chapter provides insights into the study's methods of data analysis, limitations, and ethical considerations.

Chapter four presents the empirical findings derived from the interview data, alongside a discussion evaluating the effectiveness of the BIP's monitoring and adjustment mechanisms. This analysis is conducted through three core themes which explore (1) the suitability of the

BIP's criteria as measures of industrial learning, (2) the monitoring of BIs' performance against these criteria, and (3) the state's capacity to withdraw policy support in cases of non-performance.

As a conclusion, chapter five summarises the study's key findings, provides recommendations, and discusses prospects for future research.

CHAPTER 2: THEORETICAL FRAMEWORK

2.1. INTRODUCTION

Drawing insights from the industrial policy literature, this chapter develops a framework outlining the key considerations for the BIP to promote industrialisation, placing specific emphasis on RCMs. By analysing the context through which the BIP was initiated, it provides insights into the challenges that the programme must overcome to succeed within South Africa's political economy context. Section 2.2 emphasises well-designed and implemented RCMs as a fundamental prerequisite for successful industrial policy. Section 2.3 examines the shortcomings of previous BEE and industrial policies in fostering the emergence of a black industrialist class and contributing positively to structural change. Finally, section 2.4 examines the extent to which the BIP departs from these previous policies in both its design and its mechanisms of monitoring and adjustment. The analysis provides a clear justification for the need to investigate the existence and effectiveness of RCMs within the BIP.

2.2. RCMs: THE LINCHPIN OF INDUSTRIAL POLICY

2.2.1. A game of tit for tat

According to a long trail of literature (Amsden, 1989, 2001, 2008; Khan, 2010, 2019; Zalk, 2016), industrialisation is driven by a cumulative process of learning. This process involves adopting and adapting existing technologies, as well as building various tacit and organisational capabilities (Amsden, 2001). However, learning occurs neither automatically nor easily. Despite the emphasis placed on formal education and training, scholars argue that industrial capabilities are acquired tacitly, through a process of in-firm learning-by-doing (Amsden, 1989, 2001; Khan, 2019). Here, workers are exposed to evolving situations within the industrial setting, requiring them to actively engage in different learning routines. However, this learning curve is not linear, and requires both time and experimentation to overcome. This implies that in the early stages of learning, firms are prone to incurring financial losses as they grapple with

production inefficiencies. The fundamental role of industrial policy is to support firms during this initial loss-making stage, allowing them to undergo the learning process without facing the threat of insolvency. (Amsden, 2001).

Although policy support is a necessary condition for learning, it is by no means sufficient. Amsden (1989, 2001, 2008) argues that for support to translate to learning, it must be allocated conditionally, through a set of RCMs. In this sense, RCMs can be seen as the linchpin of industrial policy (Amsden, 2001). RCMs encapsulate the contractual character of industrial policy, by linking support for firms to a series of conditions set by the government. RCMs are often described through a carrot and stick analogy. To encourage learning, the state offers a variety of policy incentives such as subsidies, concessional finance, tariff and non-tariff barriers, and tax breaks. These are the carrots. However, this support is conditional upon firms committing to specific policy objectives, such as export targets, investing in new production techniques, acquiring better equipment, implementing training programmes, improving their production capabilities etc (Nkunzi, 2015). The failure to fulfil these commitments or attain the desired policy objectives ultimately results in the termination of policy support. The threat of removing support serves as the ‘stick’ to compel firms to use state subsidies to invest in industrial learning (Pons-Vignon, 2022).

The reciprocal aspect is crucial because it ensures that firms do not consume state resources without contributing to broader industrial goals. Instead, they are compelled to invest in the required industrial learning and improvements to maintain their access to state support. This contractual arrangement transforms the provision of state resources from a simple financial transaction into a strategic partnership aimed at achieving long-term developmental outcomes.

An illustrative case of RCMs in action is South Korea’s steel industry in the 1970s, particularly through the development of POSCO (Pohang Iron and Steel Company) (Amsden, 2001). While the South Korean government provided significant financial and infrastructural support to POSCO, this support was not given unconditionally. POSCO was required to achieve various production targets, meet international quality standards, and secure a competitive position in the global market. To ensure compliance, the government imposed regular audits and evaluations, directly linking continued financial support to the company’s ability to meet these targets. This reciprocal relationship meant that POSCO could not afford to be complacent;

failure to meet the agreed-upon targets would result in the withdrawal of state support (Amsden, 2001).

Under the pressure of meeting the government's targets, POSCO put itself through an extensive process of learning-by-doing. This involved refining its production processes, improving management practices, and continuously innovating to stay ahead of competitors. In addition, the company invested heavily in R&D, sought international partnerships for knowledge transfer, and implemented technologies that were often new to the region. By the end of the 1970s, POSCO had not only met the government's performance criteria but had far exceeded them, becoming one of the world's leading steel producers (Amsden, 2001).

POSCO's success is a testament to the effectiveness of RCMs, demonstrating how state support, when tied to clear and enforceable performance targets, can drive rapid industrial growth. For the BIP to succeed as an industrial policy, it needs to use both carrots and sticks to align the behaviour of policy recipients with the programme's industrial objectives.

2.2.2. The challenges of firm satisficing

Due to the challenges and complexities associated with the learning process, firms may lack sufficient incentive to invest in learning, despite receiving support from the state (Khan, 2019). This can lead to 'satisficing' behaviour, whereby firms divert their efforts away from learning, and toward safeguarding against the loss of government support (Khan, 2019). In other words, it is more appealing for firms to maintain policy support through creating the *appearance* of learning, rather than engaging in *actual* learning. If firms can successfully conceal their lack of progression, taxpayer money can end up propping up falling profit rates rather than promoting industrial development. This emphasises the importance of having credible criteria, compulsions, and pressures in place to prevent satisficing behaviour.

2.2.2.1. Evidence of learning or check-box criteria?

The way in which policy criteria are evaluated determines the ease at which firms are able to engage in satisficing behaviour. Sometimes, rather than measuring the substance that goes into actual learning outputs, policy criteria become empty in meaning relative to what the policy

aims to achieve (Khan, 2019). In such cases, these criteria risk becoming superficial boxes that firms can tick in order to maintain policy support. The problem is that “it is not easy to construct an adequate understanding of what constitutes learning, and the exercise of assessing whether learning is indeed taking place is not a straightforward process” (Nkunzi, 2021, p. 41).

This is illustrated though the example of Ethiopia’s horticulture sector, where despite impressive export performance, the sector remained a technological “enclave” that did not benefit from knowledge sharing, technology transfer, or other spillover effects (Melese & Helmsing, 2010). In this case, export performance can only be considered a valuable learning outcome when accounting for the spillover effects arising from increased exports. If exports are examined in isolation from these effects, it may give a false pretence of learning.

This illustrates how the appropriateness of a performance criterion as a measure of learning depends on the theoretical lens used for assessment. This lens itself, is contingent on the specific policy objectives in question, as well as the broader political economy context (Khan, 2019). It is not the criteria themselves, but rather the way in which these criteria are evaluated, that determines whether they reflect tick-box compliance or genuine learning outcomes. If the BIP is to promote learning, it must pay careful attention to how its policy criteria are defined, assessed and measured.

2.2.2.2. Hands-on monitoring

Preventing satisficing behaviour requires a high calibre administrative apparatus capable of monitoring and adjusting industrial policy interventions (Wade, 1990). However, industrial policy agencies are often tempted to engage in a ‘desktop’ approach to monitoring, which takes the form of reports, data analytics, and electronic communication channels. This approach not only offers limited contextual understanding of the firm’s performance, but provides delayed and retrospective feedback to the government. This results in responses and adjustments by policy agencies being ill-informed and/or reactive.

Instead, Wade (1990) argues that industrial policy agencies should play an active role in ensuring that policy recipients are engaged in learning efforts. In East Asian developmental states, specialised taskforces were allocated to industries, sub-sectors, specific projects, and

even to individual factories and firms. These taskforces actively gathered and monitored information, facilitating a continuous flow of data between firms and policy agencies, in both directions (Wade, 1990). Not only did this keep firms updated with the latest technological and market developments from the government, but incentivised and enforced discipline among policy recipients (Wade, 1990). The active overseeing of capital played an instrumental role in the success of East Asian industrial policy. If the BIP is to fulfil its policy objectives, the significance of hands-on monitoring cannot be overlooked.

2.2.2.3. Enforcing discipline: a play of power

It is easy to view RCMs from a mechanistic perspective, where the state prevents satisficing through acting as omnipotent disciplining entity. However, the relationship between the state and capital has a profound impact on learning, even in the presence of well-designed and monitored RCMs (Evans, 1995). While industrial policy aims to influence the behaviour of capital, the interplay of political and economic interests among capitalist classes, in turn, influences industrial policy. Thus, an understanding of the synergies between the state and market is of critical importance.

Chibber's (2003) comparison of the state-capital dynamics in South Korea versus India demonstrates how antagonistic relations between these two entities can undermine the efficacy of RCMs. While Korean capitalists acted as collaborative partners to the state, Indian capital comprised of a complex system of intermediary powerholders who prioritised their own interests over the national development agenda (Chibber, 2003). Korea's collaborative state-capital relations allowed industrial policy to be implemented with the active involvement and support of Korean capitalists. On the other hand, even with well-designed RCMs, Indian capitalists were able to organise against the state's disciplinary attempts through embarking on an 'investment strike'. This resulted in the relationship between the two never going beyond subsidisation. The Indian case demonstrates how the state's ability to act on threats of removing policy support is not just technical, but political. The South African government's ability to impose RCMs through the BIP, thus, hinges on the nature of the country's prevailing political economy.

2.2.3. Beyond a one-size-fits-all approach

While the previous section outlined important policy considerations, the literature emphasises that RCMs are not universally applicable tools (Amsden, 2001; Khan, 2019; Wade, 1990). For an RCM to be successful, it must be tailored to the context of the country, and even sector in which it is being implemented. Khan's (2019) comparison of the South Korean and Bangladeshi industrial policy experiences demonstrates the importance of tailoring RCMs to the specific learning environment and political economy conditions at hand.

Like Amsden, Khan (2010, 2019) identifies knowledge gaps as the greatest impediment to attaining competitiveness in higher value-added activities. However, he emphasises the importance of a distinct type of knowledge called organisational capabilities. Organisational capabilities are not knowledge possessed by a single individual, but rather "the knowledge that a large number of individuals have about how to effectively cooperate and coordinate with each other within an organisation" (Khan, 2019, p. 3). This knowledge is a core prerequisite for other forms of knowledge, both codified and tacit, to be utilised efficiently in production. This suggests that without adequate organisational capabilities, investments in other forms of knowledge will yield inadequate returns (Khan, 2019).

Khan (2019) shows how the distinction between these different forms of knowledge has significant implications for the effectiveness of RCMs. In Korea, the primary knowledge gap was one of tacit rather than organisational capabilities, since many South Korean workers had past experience working in competitive Japanese organisations, and had insights into what the organisational learning process entailed. This meant that pressures imposed by RCMs were sufficient to compel firms to engage in both tacit and organisational learning, since it was highly feasible for Korean firms to do so successfully. Moreover, the distribution of power between the Korean state and capital made it difficult for firms to protect policy rents. Korean firms simply lacked the political networks to negotiate or maintain high levels of policy support from the government if they failed to meet the agreed-upon targets. These specific learning conditions and political economy contexts made it far more appealing for Korean firms to use policy support to pursue learning rather than to engage in satisficing.

Unlike Korea, the primary knowledge gap in Bangladesh pertained to a lack of organisational capabilities. This makes the enforcement of RCMs more complex, as the process of organisational capacity building is complex, requiring ongoing experimentation, collective learning, conflict management, and hierarchical restructuring (Khan, 2019). Subsequently, in contexts where the penalties for non-performance are outweighed by the difficulties of organisational learning, putting significant effort into acquiring new organisational capabilities may not be the most rational strategy for firms. Instead, firms are likely to adopt a “rational satisficing strategy”, choosing to produce with existing organisational capabilities and redirect efforts to protecting policy rents (Khan, 2019). This is exactly what happened in Bangladesh, where firms found it relatively easy to protect *ex ante* subsidies through their political alliances with the government. The ease at which lower capability firms were able to appropriate policy rents further reduced their incentive to invest in the challenging process of organisational learning (Khan, 2019).

However, Khan (2019) illustrates, through the example of the Multi-Fibre Arrangement (MFA) in the Bangladeshi garment industry, how context-specific RCMs can facilitate the acquisition of organisational capabilities, even in a context of low initial capabilities and clientelism. The MFA entailed a financial agreement between Bangladeshi company Desh and South Korean chaebol Daewoo. In this agreement, Desh invested in machinery and labour for a large-scale garment operation, while Daewoo invested in the transfer of organisational knowledge through hosting Bangladeshi managers in its factory. Learning skills from an already proficient firm played an important role in imparting Desh with organisational knowledge. More importantly, the Bangladeshi government’s provision of *ex-post* policy incentives created strong incentives for Desh to invest in organisational learning. The fact that policy support was *ex-post* made it significantly more difficult for firms to adopt a “rational satisficing strategy”, since this support could only be received *after* performance targets had been reached.

Khan’s (2019) analysis underscores the need for strategies that target context-specific knowledge gaps, rather than focusing on facilitating one type of learning process. However, this itself requires recognising distinct political economy challenges, and tailoring policy to address these challenges. However, it is also crucial for the state to take into account the learning curve associated with industrial development. Poor performance during the initial stages of learning should not be mistaken for the abuse of policy support (Khan, 2000). Rather than blindly removing support in response to poor performance, the state should take into

account the complex, experiential, and time-intensive nature of learning. It should also recognise how learning can be impeded by exogenous political economy factors that are out of the policy recipient's control. The withdrawal of policy support should, therefore, be carried out in a highly context-specific and case-by-case manner (Khan, 2000). For RCMs to promote learning, they need to strike a balance between holding firms accountable for poor performance, while not unduly punishing them for normal cases of failure. The crucial lesson for the BIP lies in tailoring both the design and implementation of RCMs to the specific context in question, rather than employing a one-size-fits-all approach.

2.3. TWO DECADES INTO DEMOCRACY: WHERE IS OUR BLACK INDUSTRIALIST CLASS?

The previous section emphasised how the BIP's success as an industrial policy depends on the political economy dynamics in which it operates. Grasping these dynamics requires understanding the context behind the programme's initiation and existence. The BIP is essentially a hybrid industrial/affirmative action policy aimed at increasing black participation in manufacturing, while promoting industrialisation. This raises the question of why previous BEE and industrial policies have failed to achieve these respective objectives twenty years into democracy. Addressing this question allows one to uncover the underlying challenges that the BIP is trying to respond to, the characteristics of the grouping that it is targeting for support, and the nature of this grouping's relationship with the state.

2.3.1. BEE: averse to manufacturing; attracted to manipulation

2.3.1.1. The failure to diversify

The B-BBEE transactions analysis reports consistently rank manufacturing as one of the worst performing sectors in terms of the rand value of B-BBEE transactions. In 2022/23, transactions in the manufacturing sector were a mere R0.03 billion, compared to R7.13 billion in the finance and business services sector, and R10.9 billion in the mining sector (B-BBEE Commission, 2023). The BIP seems to be a direct response to this aversion to BEE deals in the manufacturing sector. However, this raises the question of why such aversion exists in the first place.

Many scholars argue that BEE's disclination for manufacturing is not an accident, but rather a product of the political economy in which BEE has been created and upheld (Isaacs, 2014; Mabasa, 2020; Zalk, 2014a, 2016). BEE has been identified as a tool to sustain what Fine and Rustomjee (1996) have conceptualised as the Minerals-Energy-Complex (MEC). The MEC consists of a powerful network of minerals and energy related industries, which "lies at the core of the South African economy ... through its determining role throughout the rest of the economy" (Fine & Rustomjee, 1996, p. 5). However, rather than merely representing a core set of industries, the MEC can be understood as a system of accumulation that has shaped South Africa's industrial structure. This has unfolded through a mutually supportive relationship between the apartheid government and MEC capital, which has fostered a pronounced bias toward minerals and energy related manufacturing activities (Fine & Mohamed, 2022; Fine & Rustomjee, 1996; Zalk, 2014b).

The MEC was developed through a powerful network of conglomerates, involving the expansion of mining activities, the establishment of new SOEs, and the state-led financing of non-mining MEC sectors. As the MEC developed, South Africa witnessed robust growth in industrial activities. However, despite their formal classification, many of these activities are "more closely linked to mining than to manufacturing" (Zalk, 2014a, p. 330). Finance also became an integral component of the MEC, where an oligopolistic financial sector supported the expansion of existing MEC sectors. However, rather than supporting the establishment of productive new industries, financial activities were heavily skewed toward short-term and speculative investments (Isaacs, 2014; Mabasa, 2020). Subsequently, the MEC had evolved into what can be better understood as the MEFC – the Minerals-Energy-Finance Complex (Fine & Mohamed, 2022).

A large body of literature has identified BEE as originating from a handful of MEC business-initiated projects in the early 1980s, for the purpose of influencing post-apartheid government policy (Bond, 2014; Lindsay, 2015; Southall, 2004; Terreblanche, 2002; Zalk, 2016). This first wave of BEE can be thought of as a complex financial architecture designed to promote the transfer of shares to black people (Pons-Vignon, 2011). This architecture was organised around a debt-financed approach, where black investors acquired shares in existing businesses using loans. Many BEE investments struggled with profitability due to the heavy debt burdens placed

on black shareholders. In addition, black shareholders had very limited opportunities to actively participate in business activities and decisions (Pons-Vignon, 2011).

This structure produced a mutually reinforcing set of rents for white-owned conglomerates and black political elites, where the former gained political influence, while the latter was granted access to large revenue streams from lucrative BEE deals (Lindsay, 2015). The debt-financed nature of BEE deals allowed white-owned firms to maintain control over their operations, while gaining political influence through the strategic inclusion of politically-connected black shareholders. Meanwhile, many black political elites reaped benefits from lucrative BEE deals, despite their limited involvement in the actual running of the businesses (Lindsay, 2015).

This power structure has enabled large MEC firms to successfully lobby for neoliberal policy reforms, which have allowed them to restructure domestically and reallocate their funds abroad during the early post-apartheid years (Mohamed, 2020; Zalk, 2016). The restructuring of MEC firms entailed the “unbundling of cross-sector holdings”, and has led to the disposal of the companies’ industrial subsidiaries in order to focus on ‘core’ business operations, which almost always involved financialised activities in highly concentrated sectors (Zalk, 2014b, p. 25). The major players in the South African economy have essentially developed a strong aversion to manufacturing.

A pattern has subsequently emerged, showcasing a preference for BEE transactions in minerals-energy-finance related activities, where highly leveraged ownership transfers have been favoured over local production and job creation (Bowman, 2019; Capps, 2012a, 2012b; Zalk, 2016). BEE has thus helped perpetuate a system of accumulation that has left South Africa with a highly concentrated economy, dominated by upstream capital-intensive conglomerates with little potential for scale economies and labour absorption (Isaacs, 2014; Lindsay, 2015; Mabasa, 2020; Southall, 2004; Zalk, 2014b).

2.3.1.2. Scorecard manipulation, compliance mentality and lack of disciplining

The previous section suggested that, rather than serving as a mechanism of empowerment, BEE deals were often used as tools for political and business elites to forward their own agendas. Indeed, the Black Management Forum’s 1997 resolution states that: “many deals are concluded

by organisations, including Government structures that fall far short of recognising the true aspirations of the marginalised black majority, all in the name of Black Economic Empowerment” (BMF cited in Lindsay, 2015, p. 166). To address these perceived inadequacies, BEE was extended to Broad-Based Black Economic Empowerment (B-BBEE). The B-BBEE scorecard system was introduced as an ‘RCM’ of sorts, by attaching policy support to criteria that were meant to be indicative of ‘broad-based’ empowerment outcomes. In this system, firms are assigned a B-BBEE status level ranging from 1-8 based on their performance against a generic scorecard, where level 1 represents the highest level of compliance and level 9 represents non-compliance. The scorecard is evaluated using Codes of Good Practice which allocate points based on the following elements: ownership, management control, skills development, enterprise and supplier development, and socio-economic development (Goga & Avenyo, 2022).

The B-BBEE scorecard is assessed annually by private sector consultants known as B-BBEE rating agencies. The incentive for compliance lies in the form of preferential procurement policies for government tenders. Under these policies, B-BBEE level 1 entities receive a 135% procurement recognition level, level 8 entities receive a 10% recognition level, and level 9 entities receive a 0% recognition level (Goga & Avenyo, 2022)¹. These mechanisms have been exceptionally effective in fostering compliance with the technical requirements of the programme (Lindsay, 2015). In fact, according to the then Chief Director of BEE Nomonde Mesatywa, businesses have become “obsessed” with accumulating points on the B-BBEE scorecard (Lindsay, 2015, p. 184). However, it is not clear that this compliance has translated to “*meaningful* transformation” (Lindsay, 2015, p. 184 emphasis added). The core question remains: what defines meaningful transformation outcomes, and to what extent is the B-BBEE framework suited to achieving them?

In *section 2.2.2.1*, I argued that the manner in which policy criteria are measured determines the ease with which capital is able to engage in satisficing behaviour. However, Lindsay (2015, pp. 190–191) asserts that “there exists no reliable system for the measurement of [B-BBEE] performance”, where “the very policy framework itself invites variations in measurement and interpretation, incompatible results, manipulation of scores and, thus, outright abuse”. The

¹ For example, when a firm or government entity procures from a B-BBEE level 1 entity, the procurement is valued at 135% of the actual amount for B-BBEE compliance purposes. This means if a firm procures R1 million worth of goods from a level 1 entity, it gets credit for R1.35 million towards its own B-BBEE scorecard.

reliability of the scorecard is further compromised by the influence that the measured entities exert over the rating agents. In an extremely competitive rating industry, firms tend to choose rating agencies that are aligned to their own views on scorecard assessment. “In such an environment, it is to be expected that rating agents will frequently concede to the client’s demands rather than lose business” (Lindsay, 2015, p. 191).

The ease at which this system can be manipulated means that preferential procurement can be easily attained through superficial compliance. In fact, the awarding of state contracts has favoured only a select group of politically-connected firms, resulting in little net benefit for black businesses as a collective (Goga & Avenyo, 2022, p. 13). Moreover, preferential procurement without conditional performance requirements has introduced inefficiencies within the supply chain and diminished the incentive for firms to remain competitive. Essentially, firms that are able to secure contracts based solely on their B-BBEE status have no compulsion to improve their performance or offer competitive pricing. In fact, a study by Olivier and Bracking (2017) found that firms with higher B-BBEE status (levels 1-3) were less profitable than those with lower B-BBEE scores, despite benefiting more from BEE through new business opportunities and contracts.

This analysis demonstrates the tendency of South African firms resort to satisficing behaviour when confronted with easy-to-manipulate disciplinary instruments like the B-BBEE scorecard. While the BIP has positioned itself as a policy intervention with a distinct (albeit overlapping) design and focus from previous waves of BEE, these differences will be mean little if it falls into the same traps during implementation and adjustment – specifically, if policy recipients can easily engage in satisficing behaviour. For the BIP to make a ‘meaningful’ departure from previous BEE failures, it must establish criteria reflective of its policy objectives, and enforce credible disciplinary mechanisms to prevent these criteria from being circumvented.

2.3.2. Post-apartheid industrial policy and the South African nanny state

In *section 2.3.1.1*, I argued that BEE has not only failed to promote black participation in manufacturing, but has perpetuated a system of accumulation that is actively biased against industrial diversification. According to T. Vilakazi and Bosiu (2021, p. 201), the BIP can be seen as a direct response to this problem, through targeting policy support toward industrial

firms “with a high potential to contribute to structural change”. However, this prompts the question of why, despite its initiation of numerous industrial policies, has South Africa failed to develop a diversified manufacturing sector?

Since 1994, the DTIC has initiated many programmes targeted toward promoting industrial development. Yet, there has been limited change in the composition of manufacturing exports, while employment levels within the sector have declined (Goga & Avenyo, 2022). Goga and Avenyo (2022) argue that DTIC policy incentives during the 2000-2008 period were primarily geared toward upstream, capital-intensive industries, which were often the very industries that had been receiving policy support from the apartheid-government. Zalk (2014a) further demonstrates how policy support has continued to favour MEFC sectors in three key ways. Firstly, a number of resource processing continued to receive IDC funding for expansions along with generous tax allowances. Secondly, these firms benefitted from subsidised electricity rates for most of the post-apartheid period. Thirdly, none of this support was tied to strong reciprocal conditionalities.

On the third point, Zalk (2014a, p. 349) argues that support for MEFC conglomerates has been “de-linked from effective disciplines on exploitation of market dominance”. This argument is supported by Goga and Avenyo (2022) who illustrate how South African steel manufacturing giant AMSA was able to utilise its market power to inflate the price of inputs in key value chains such as metals-to-machinery. Despite securing access to cheap iron ore inputs as a result of active lobbying, there were no conditional requirements for AMSA to pass these benefits onto downstream users (Goga & Avenyo, 2022). However, monopolistic pricing has severe implications for the competitiveness and growth of downstream manufacturers. This is supported by a 2010 DTIC study which found that a 10% reduction in steel prices could lead to a 44% increase in output and a 22% rise in employment (DTIC, 2010 as cited in Zalk, 2014a).

Even when the government *has* supported increasing return to scale activities, its ability to enforce effective disciplining mechanisms has been poor. Pons-Vignon (2022) illustrates this through the Competitive Supplier Development Programme (CSDP), a public procurement instrument for supporting local industrial development. In this programme, South African SOEs Eskom and Transnet collaborated with foreign multinationals, who acted as prime contractors for major infrastructure projects. These multinationals were mandated via RCMs to utilise and develop the capacities of local subcontractors (who were required to have 25%

black ownership). However, the South African government did not impose any credible compulsions for these multinationals to uphold their end of the bargain. Instead, multinationals were able to delay projects by claiming difficulty in finding local black partners, which ultimately allowed them to revert to their preferred suppliers (Pons-Vignon, 2022). To meet political expectations, contracts were often awarded via BEE-certified intermediaries, or what Zalk (2016, p. 15) calls “empowered importers”. While these intermediaries complied with B-BBEE regulations, they contributed very little to domestic production and employment. The CSDP is a thus story of the state conceding on its objectives to generate local value, experience and employment, in order to pander to multinational interests.

Masondo (2018) shares a similar story through the Motor Industry Development Programme (MIDP), which showcases the government’s tendency to assume the role of a “nanny state” when carrying out industrial policy. The MIDP encouraged growth in the automotive sector through providing local manufacturers with export rebates and investment incentives (Masondo, 2018). However, alongside these business-friendly concessions, the state encouraged the takeover of local auto-manufacturing firms by large multinational companies. The MIDP’s disciplining mechanism involved a joint agreement between the state and private sector over where and how much to invest. However, the power afforded to these multinationals ended up rendering the state irrelevant in coordinating investment decisions, and instead resulted in even more policy concessions to boost the industry’s falling profit levels. The South African government was essentially injecting funds into firms that had not only failed to generate local employment and industrial growth, but were unable to maintain profitability. Masondo (2018) uses the metaphor of the nanny state to demonstrate the government’s consistent pattern of providing firms with handouts without imposing any credible compulsions for reciprocation.

If the BIP is to contribute to structural change, as T. Vilakazi and Bosiu (2021) suggest, the state has to develop effective disciplining mechanisms, *as well as* the capacity to enforce them. This is needed to ensure that firms benefiting from government support are held accountable for contributing to the industrial objectives they have committed to. Rather than cushioning firms with concessions, the state has to tie policy support to tangible learning outcomes. Success would be marked by factors such as a diversified manufacturing sector, reduced dependency on imported goods, increased competitiveness of downstream industries, and a tangible rise in employment levels within the sector. If policy objectives are consistently not

being met, there have to be consequences. For the BIP to serve as a catalyst for industrialisation, rather than sustaining a system of concessions without reciprocation, it has to move beyond the confines of the South African nanny state.

2.4. THE BIP: REPEATING MISTAKES OR LEARNING LESSONS?

2.4.1. A departure in design

As opposed to previous waves of BEE, the BIP targets policy support specifically to black *industrialists*, where an industrialist is defined as someone who “creates and owns value-adding industrial capacity and provides long-term strategic and operational leadership to a business” (DTIC, n.d.-b, p. 4). To qualify, BIs must be “directly involved in the day-to-day running of the operation and have requisite expertise in the field”, “take personal risk in the business and exercise control over the business” and, “be aligned to the productive sectors of the economy within the identified sectors” outlined in the Industrial Policy Action Plan (IPAP) (DTIC, 2015, pp. 4–5, 2019, pp. 9–11). In addition, the specified project requires a minimum investment of R30 million and must contribute to the economy in line with the programme’s eight economic benefit criteria. These criteria include: employment, market share, quality improvement, green technology and resource efficiency improvements, localisation, regional spread, personal risk, and empowerment.

The BI qualifying criteria are an obvious response to the limitations of earlier waves of BEE, where many black shareholders were not engaged in the operational aspects of their businesses (T. Vilakazi & Bosiu, 2021). Yet, it still seems odd to set criteria requiring industrialists to possess requisite expertise in their fields and be involved in the running of their firms, as such characteristics should be inherent to any entrepreneur. These criteria, which appear to be some kind of attempt at preventing BIP support from going toward Zalk’s (2016, p. 15) “empowered importers”, provide telling insights into the government’s assumptions about the grouping they intend to support. Nevertheless, T. Vilakazi and Bosiu (2021, p. 202) recognise both the required sector alignment with IPAP and the introduction of the economic benefit criteria as a notable shift from B-BBEE policy, by linking policy support to economic growth rather than

to a “generic code system”. Consequently, they assert that “the design of the BIS programme points to an important shift in the understanding of barriers and what it takes to build challenger firms beyond the scorecard parameters of BBEE” (T. Vilakazi & Bosiu, 2021, p. 202).

The BIP represents a clear departure in design from previous BEE policies, where the former has positioned itself as a policy intervention with its own distinct focus. However, the most critical factor in distinguishing the BIP from previous waves of BEE is whether it differs in implementation.

2.4.2. Carrots

The BIP provides three key levers of policy support: access to funding, markets, and non-financial support. Access to funding comes in the form of a cost-sharing grant for investments above R30 million. The grant predominantly covers capital investment costs (to a maximum of 50% total costs), with additional eligibility for feasibility studies (maximum of 3%), post-investment support (maximum of R500 000), and business development services (maximum of R2 million) (DTIC, 2015; Goga et al., 2019). BIs secure funding from a co-funder (a DFI or commercial entity) in the form of a loan, and the DTIC reimburses up to 50 percent of the investment through a grant (DTIC, n.d.-b). Access to markets is provided through both preferential procurement opportunities and facilitating private sector partnerships between BIs and established firms. Lastly, non-financial support is offered training, mentorship guidance, business development services etc (DTIC, 2015).

Recent literature on the BIP (Bosiu et al., 2020; Bosiu et al., 2019, 2023; M. Vilakazi & Moore, 2023; T. Vilakazi & Bosiu, 2021, p. 201) argues that the programme’s focus on funding and market access is well-grounded, as these represent the “key determinants of effective participation of black-owned businesses”. The BIP’s funding scheme aims to rectify the bias in industrial finance against downstream manufacturers, particularly black players. The provision of market access seeks to support these new players within a highly concentrated manufacturing space, where incumbents have a history of exploiting their market dominance (Bosiu et al., 2019). Non-financial support mechanisms are then meant to aid these firms in the crucial process of learning and capability building. However, despite the BIP’s offering non-financial support, M. Vilakazi and Moore (2023) believe that it is somewhat of an afterthought

compared to the other two policy levers. In fact, the qualifying criteria, particularly the R30 million investment requirement, “implies a focus on firms that have already overcome the initial stages of testing and learning involved in the building of organization capabilities” (T. Vilakazi & Bosiu, 2021, p. 204). This can be perceived as either strategically selective or exclusionary, depending on one's perspective. Focusing support on better capitalised firms could enhance the programme's industrial impact, as these firms are better equipped to scale up operations and overcome hurdles that smaller firms may struggle with. However, this strategy will not work if a well-established grouping black industrialists does not exist in the first place ². In such a scenario, the 30 million capital requirement would represent a significant and counterproductive barrier to participation in the programme.

Bosiu et al (2020) point to further barriers preventing firms from accessing BIP support, including complex application procedures, blanket eligibility requirements imposed on firms, delays in accessing funds, and lack of awareness for non-financial support mechanisms. If sufficient efforts are made to address these challenges, the authors argue that the BIP's levers of policy support have great potential to address the needs of aspirant black industrialists. Yet, even well-targeted policy support will not realise the programme's industrial objectives without RCMs.

2.4.3. Sticks

According to the BIS guidelines (2015, p. 11), the programme employs several monitoring and evaluation protocols:

- All approved black industrialists will be monitored to assess how the BIS is contributing towards the strategic objectives of the policy and its intended outcomes. Approved applicants will be monitored for at least three years after final disbursement.
- The DTIC will conduct site inspections with all the approved applicants at each claim stage before disbursements. A site inspection report will be completed as part of this process.

² Participant interviews in section 4.4.2 suggest that this is unlikely.

- A factual findings report by an external auditor/accredited person will be conducted by the DTIC as part of the claims process.

Yet, the details behind these protocols remain unclear. For example, what are the specific mechanisms employed to assess the BI's contribution toward the policy's strategic objectives and intended outcomes? What are these intended outcomes? How comprehensive and rigorous are the site inspections? What information is included within the inspections and factual findings reports, and what is the relation between the two? How are these reports compiled? What are the repercussions for a BI's failure to achieve the programme's intended outcomes?

Although the existing literature does not provide clear answers to these questions, it does generate some insights around the how the programme ties policy support to industrial outcomes. Both the initial grant amount and subsequent disbursements depend on the level of black ownership and control within the firm and the economic benefit of the project (DTIC, 2015). A project's economic benefit score is evaluated based on the eight equally weighted economic benefit criteria listed in section 2.4.1. To qualify for approval, a BI needs at least 50% black ownership, and to meet a minimum of four economic benefit criteria. The grant percentage increases in accordance with higher economic benefit scores and greater black ownership, and is capped at a maximum of fifty percent. Table 2.4.3 outlines the calculation of the grant percentage.

Table 2.4.3. Calculation of the BIS grant percentage

Points on the Economic Benefit Criteria	Percentage Black Ownership		
	50% - 75% black ownership	>75% - 90% black ownership	>90% - 100% black ownership
4 to 6 points	30% grant	35% grant	40% grant
7 points	40% grant	45% grant	50% grant

Source: DTIC (2015)

Since a BI's economic benefit score plays a key role in determining their grant percentage, this serves as a mechanism to reward behaviours aligned with the programme's industrial

objectives. However, “it is a significant concern that these criteria have only been applied at the pre-qualification stage, and firms are not required to report on their performance against them, once they are on the programme” (T. Vilakazi & Bosiu, 2021, p. 303). This suggests that firms face no repercussions for failing to achieve the industrial milestones committed to at application. These insights resonate with Bosiu et al.’s (2020) observation that the BIP lacks effective post-investment monitoring systems as well as M. Vilakazi and Moore’s (2023) critique of the programme’s lack of punitive measures for transgressors.

T. Vilakazi and Bosiu (2021) assert that the risk of grant money being misused is partly mitigated by the BIP’s claims-based system, which requires BIs to make their investments before claiming back from the scheme. The reimbursive element of the grant can thus be seen as a kind of disciplinary mechanism. However, this mechanism seems more geared toward preventing blatant forms of theft than promoting learning. Furthermore, this strategy will not work if firms are able to find creative ways of bypassing the system, or if the state’s threat of withholding support is not credible. These are genuine concerns, considering the government’s poor track record of disciplining capital and the fact that the programme’s intended beneficiaries are likely prone to satisficing (judging from the BI qualifying criteria). This points to a clear need to interrogate the robustness of the BIP’s monitoring systems and their capability to detect and prevent policy abuse.

This is the aim of this study, which investigates the following research questions:

1. Is BIP policy support tied to criteria that represent genuine learning outcomes?
2. Does the state possess the capacity to monitor the proper fulfilment of the programme’s criteria?
3. Does the state possess the capacity to act on threats of removing policy support?

2.5. SYNTHESIS

This conceptual framework is premised on the notion that effective industrial policy requires RCMs that (1) attach policy support to criteria indicative of industrial learning, (2) establish robust systems to monitor the fulfillment of these criteria, and (3) withdraw support from non-performing policy recipients. For RCMs to fulfil these metrics, they must be designed and implemented in alignment with the policy objectives in question, and the political economy context in which they operate. In the context of the BIP, this entails taking into account the challenges posed by South Africa's unique industrial policy landscape. The remaining question is whether the BIP employs such RCMs. While the existing literature offers valuable insights into the BIP's mechanisms of support, it lacks a comprehensive evaluation of its mechanisms of monitoring and adjustment. This research aims to bridge this gap by interrogating the effectiveness of the RCMs employed by the BIP.

3: RESEARCH METHODS

3.1. INTRODUCTION

This chapter justifies my use of a qualitative, inductive research approach grounded in phenomenology to develop and answer the research questions. It examines the use of semi-structured interviews for primary data collection and desktop research for secondary data collection. Finally, the chapter provides insights into the study's methods of data analysis, limitations, and ethical considerations.

3.2. QUALITATIVE APPROACH AND METHODS

This paper serves as an empirical interrogation into the configuration of the RCMs employed by the BIP, with the aim of ascertaining their effectiveness in promoting industrialisation. An investigation of this nature is inherently political (Pons-Vignon, 2022), focusing on matters concerning the capacity/competence of the state and BIs, as well as the power dynamics between them. A qualitative approach is deemed most suitable for this task for two reasons:

Firstly, quantitative data concerning RCMs was simply not accessible to me. There is no publicly available aggregated or firm-level data on the BIs' performance against key industrial objectives (i.e. the BIP's economic benefit criteria). There is also no publicly available information to address many of the questions posed in the first paragraph of section 2.4.3. When conducting interviews with policy officials and BIs, I sometimes requested access to this data. However, none of the participants I approached for this information were willing to provide it. This alludes to a general sense of secrecy surrounding the programme, which is reinforced by the many difficulties I faced in securing interviews with key stakeholders (discussed more in section 3.4.1). These challenges are by no means surprising, since information concerning matters of capacity and power is often hidden intentionally. Therefore, my choice to adopt a qualitative approach not a solution of ease, but a response to several difficulties surrounding secrecy and accessibility.

Secondly, the political nature of my research questions means that these questions cannot be comprehensively addressed using quantitative data. Matters concerning power and capacity are nuanced and cannot be classified as objective truths. A qualitative approach that views meaning as both a subjective and social construct allowed me to explore the multidimensional perspectives of BIP stakeholders regarding these issues (Saunders et al., 2009). This enabled me to approach the research questions with nuance, while taking into account critical historical and political context.

3.3. RESEARCH METHODS: AN INDUCTIVE, PHENOMENOLOGICAL ANALYSIS

This paper employs an inductive research approach, based on phenomenology. Developing metrics to gauge the efficacy of the BIP's RCMs requires the researcher to understand the problems and limitations that are associated with these RCMs in the first place. Put differently, both the quality and context-specificity of these metrics depend on what the researcher knows *before* she constructs them. The need to be inductive therefore stems from the issues raised in section 3.2 regarding the challenges in accessing reliable information. An inductive analysis has allowed me to formulate these metrics (embodied by the ancillary research questions) in a more exploratory manner.

Phenomenological research methods were employed to collect the primary data that were used to inform and address my research questions. Phenomenology is centred around gaining an in-depth understanding of certain phenomena, through exploring the perceptions and experiences of individuals. Primary data were therefore collected through semi-structured interviews, which enabled participants to provide open-ended responses. The advantage of this method lies in its capacity to generate rich, diverse, and context-specific insights into the topic at hand (Leedy & Omrod, 2010).

However, my metrics for assessing RCMs were not developed without a strong conceptual framework. Instead, they were grounded in key structuralist literature from scholars like Alice Amsden, Mushtaq Khan, Robert Wade, Peter Evans, and Vivek Chibber. Unlike many mainstream economic frameworks, these works offer insights into the underlying political economy structures that shape industrial policy and state-business relations, which are crucial for understanding RCMs. Yet, to ensure that my research questions and their corresponding

answers were relevant to the BIP's specific policy context, my conceptual framework had to be refined through an iterative process of consulting and re-consulting the empirical data. This process entailed a continual examination of how my conceptual framework shaped the lens through which I collected and analysed the empirical data, and in turn, how my empirical data informed the perspective through which I developed my conceptual framework. This allowed me to identify patterns within the primary dataset to expand upon existing theories identified in the literature, while still drawing unique and context-specific conclusions (Leedy & Omrod, 2010).

Table 3.3 illustrates how these methods allowed me to identify recurring themes from the literature and empirical data which, in turn, guided me in developing and addressing my research questions.

Table 3.3. Table linking the research questions to common themes derived from the literature and empirical data

Research question	Key insights from the literature	Key insights from the empirical data	Common themes
Is policy support tied to criteria that represent genuine learning outcomes?	Amsden (1989, 2001) and Khan's (2000, 2019) approach to analysing the processes and challenges related to learning and its measurement.	Interview data from policy officials and experts in the field. Secondary data from the DTIC's factual findings report template (see appendix A). Secondary data from the B-BBEE Empowerment Act (B-BBEE Commission, 2016).	Learning as a tacit, rather than a formal process. The difficulties associated with measuring learning, and the need for context-specificity. The juxtaposition between 'check-box' criteria and genuine learning outcomes.
Does the state possess the capacity to monitor the proper fulfilment of the programme's criteria?	Khan's (2019) analysis on satisficing behaviour. Wade's (1990) examination of the monitoring systems employed in East Asian developmental states.	Interview data from policy officials, experts in the field, and BIs.	The significance of hands-on monitoring systems in preventing satisficing. The importance of strong state capacity to carry out these monitoring processes.
Does the state possess the capacity to act on threats of removing policy support?	Evan's (1995) work on the relationship between state-business relations and industrial policy. Chibber's (2003) comparison of the state-business relations in South Korea versus India.	Interview data from policy officials and experts in the field, and BIs.	The importance of the state's disciplinary capacity in industrial policy. The significance of power relations in determining the state's disciplinary capacity.

3.4. DATA COLLECTION METHODS

3.4.1. Primary data sources: semi-structured interviews

The primary data for this study were collected from interviews conducted with key stakeholders of the BIP. A total of fourteen interviews were conducted, all following a semi-structured approach to allow for open ended responses. Each interview lasted approximately one hour. The selection of interview participants was based on a combination of stratified purposive sampling and initial snowballing. The study collected interview data from three main groups of stakeholders. The first group comprised officials and policymakers within the Department of Trade, Industry and Competition (DTIC) and Development Finance Institutions (DFIs), the second group included experts in fields relating to the research topic, and the third group involved the BIs themselves (see table 3.4.1). Due to the limited sample size, the participant views captured cannot comprehensively represent the majority of perspectives in the field. Nevertheless, the participants were able to offer a diverse spectrum of original insights regarding the degree to which the BIP employs RCMs that are conducive toward industrialisation.

Category 1: BIP officials and policymakers

A total of five interviews were conducted within the first category, namely officials and policymakers involved in the BIP. All participants within this category were representatives of either the DTIC or DFIs, and were chosen based on their direct involvement in the construction and/or implementation of the BIP. As my research focus shifted toward the topic of RCMs, I tried to target participants involved in the area of disbursement and/or monitoring. Obtaining interviews with individuals in this category proved challenging for a number of reasons. Firstly, I had to undergo a rigorous vetting process conducted by the DTIC in order to obtain permission to conduct research within the department. During this process, I was required to sign a “declaration of secrecy”, as well as an “agreement to submit a copy of the research report to the DTIC”. Once I had been vetted, it was very difficult to identify suitable interview participants within the department, and even more challenging to obtain their contact details. The DTIC requires researchers to pre-identify their target participant group. Yet, it is difficult to understand how researchers are expected to do this, when information on the officials

working within each unit is not readily accessible. Following my special request for assistance, there were some efforts made to help me source contacts. However, there was a lack of follow-through in this endeavour.

I, therefore, had to rely entirely on initial snowballing to source contacts within this category. Initial contacts were sourced through professional networks, as facilitated by my supervisors and other lecturers at the university. Following interviews with initial participants, I requested to be referred to other officials engaged in the programme. Certain members of the DTIC and DFIs were exceptionally helpful and generous in referring me to the relevant contacts. However, others outright declined my requests to be connected with their colleagues. When attempting to reach out to officials and policymakers, my interview requests were often met with non-response.

These challenges likely stem from the sensitive and political nature of this research topic, resulting in a general sense of secrecy and reluctance to be questioned on the programme. The hesitancy to participate in these discussions undoubtedly limited this category's sample size. The widespread reluctance to participate in interviews and share data casts doubt on the programme's success in achieving its industrial objectives. If the BIP were truly fulfilling its mandates, it would stand to reason that government agencies would be enthusiastic about showcasing their achievements through engaging in discussions and making performance data public. This lack of openness not only undermines trust in the programme but also hinders any meaningful assessment of its impact.

This culture of secrecy also raises questions about the reliability of the information provided by those who did agree to be interviewed. To minimise the risk of fabrication, I cross-verified the data obtained from these interviews with multiple other sources. This involved triangulating the information with official documents as well as interview data from other the other two participant categories.

Category 2: Experts in the field

Seven interviews were conducted with within the second category, namely, experts in fields relevant to the research topic. Participants within this category were selected based on their expertise and knowledge on issues relating to the BIP and/or industrial policymaking in South

Africa. They were chosen for their ability to provide insights into the conditions required for a programme like the BIP to be successful, and particularly for their ability to offer challenging or contrasting perspectives to those presented by the policy agencies.

Some of these participants are current or former members of industrial policy agencies such as the DTIC, although they have never been directly involved in the BIP itself. Others are successful black industrialists who, while not recipients of the BIP, offered valuable perspectives from the standpoint of a black industrialist operating in South Africa. Others are white industrialists who provided insights into the positioning of the BIP within the broader industrial ecosystem.

I, once again, used initial snowballing to source participants within this category. In contrast to my experience with the first category, individuals in this group were very open to being interviewed and were consistently willing to connect me with their networks. Of all three categories, this group proved to be the most accessible, resulting in the largest sample size. This could be attributed to participants not being directly engaged with the BIP itself, and therefore, feeling more comfortable in participating in discussions around the programme. This may have allowed them to share their perspectives more freely, without concerns about the potential repercussions that participants in other categories may have faced.

The information obtained from these interviews was corroborated with official documents and data from the other two participant categories. This was not so much due to concerns about fabrication, but because the participants in this category were less familiar with the intricacies of the BIP, as they were not directly involved. Consequently, their perspectives could be incomplete or based on second-hand information.

Category 3: BIP recipients

Finally, I conducted two interviews with the BIs themselves. The firms in this category were selected based on a range of criteria, including their scope for industrial learning and upgrading, as well as their potential to form economic linkages. Contacts were identified by reviewing committee presentations on the BIP, which included case studies of the BIs that had received support. Due to the limited information contained within the committee presentations, I obtained contact details from company websites, and requested interviews through email or

phone calls. The difficulties in contacting the BIs made the process of securing interviews very challenging. Even when I was successful in contacting the relevant BIs, most were unwilling participate in interviews with me. This reluctance is not just a logistical hurdle, but raises serious concerns about what the BIs may be concealing. The unwillingness to engage suggests that the BIs might be avoiding scrutiny, possibly because they have not fully met the programme's objectives or have encountered other issues that they prefer to keep hidden. To mitigate the risk of fabrication, the information provided was cross-verified with official documents and corroborated with data from the other two participant categories.

Table 3.4.1 List of interview participants by category

PARTICIPANT CATEGORY	PARTICIPANT CODE
Category 1: BIP officials and policymakers	
DTIC official	1A
DTIC official	1B
DTIC official	1C
DTIC official	1D
DFI official	1E
Category 2: Experts in the field	
Former DTIC official (not involved in the BIP)	2A
DTIC official (not involved in the BIP)	2B
Black Industrialist (not BIP recipient)	2C
Black Industrialist (not BIP recipient)	2D
Black Industrialist (not BIP recipient)	2E
Black Industrialist (not BIP recipient)	2F
White Industrialist	2G
Category 3: BIP recipients	
Black Industrialist	3A
Black Industrialist	3B

3.4.2. Secondary data sources

This study utilised various sources of secondary data, including government policy documents, government committee presentations, and journal articles. I used the internet, as well as electronic searches of academic databases to identify books and scholarly journals containing information on the BIP, BEE, and industrial policy. Journal articles were reviewed to acquire insights into the theory surrounding industrial policy and BEE from both global and South African perspectives. Government policy documents and committee presentations were reviewed to gain insights into the mandates, objectives, performance, concerns, and challenges of the BIP. Scholarly articles were identified through electronic searches, using Google as the

primary search engine, while newspaper articles, policy documents, and committee presentations were accessed through South African government websites.

3.5. DATA ANALYSIS

Analysing the primary data involved identifying common themes in respondents' experiences (Leedy & Omrod, 2010). This process included organising statements related to the issue at hand, grouping them into 'meaning units,' exploring similarities and differences among respondents' experiences, and constructing an overall understanding of their perceptions of the BIP's mechanisms of monitoring and adjustment (Leedy & Omrod, 2010). In light of the qualitative paradigm in which this research is situated, this process was not aimed at finding a singular or objective truth. Rather than treating the data as objective facts, the analysis sought to embrace the varied meanings embedded in respondents' perceptions. Given the limited sample size, the use of a data coding software such as Nvivo was unnecessary. Such softwares would have restricted my ability to pick up themes discursively, in any case.

The inductive nature of my research approach meant that the analysis and interpretation of the empirical data informed not only the core themes emphasised in my discussion and results section, but my conceptual framework, the focus of subsequent interviews, and the research questions themselves. Rather than being predetermined prior to conducting my research, all these aspects evolved during the research process itself, based on insights that emerged from the data. For instance, this paper initially focused on all three of the BIP's policy levers, i.e. access to funding, markets, and non-financial support. However, as my research progressed, I realised that including all three levers would be impossible due to word restrictions, as well as the limited availability of information on RCMs within the latter two areas. This informed my decision to focus solely on the BIP's grant funding scheme.

Despite the inductive nature of this approach, this research remains firmly rooted in structuralist theory. The themes extracted from the primary data were developed around and in conjunction with specific arguments and topics presented in the theoretical framework. This approach strengthened the quality of my research by ensuring that the insights derived from the primary data were not only influential in shaping the research, but were themselves, supported by a strong theoretical foundation.

3.6. LIMITATIONS

The primary limitation of this study relates to challenges in data collection, particularly in accessing interviews within the first and third participant categories. These challenges affected the study's sample size, limiting its ability to fully represent the broader population of stakeholders involved in the programme. The secrecy and sensitivity surrounding the research topic likely constrained participants from freely expressing their views or sharing complete information.

This study has concentrated on the mechanisms of monitoring and adjustment within BIP's grant funding scheme. However, the BIP encompasses much broader support mechanisms, including access to markets and non-financial support. These areas were not explored due to the word limit imposed on this report and the scarcity of available data. Further research is needed to evaluate the existence and efficacy of RCMs within these areas.

The failure to conduct an actual impact assessment of the BIP may be considered another limitation of this paper. However, the study's focus on the existence and nature of RCMs remains important for guiding future policymaking and implementation. Recognising the crucial role of RCMs has the potential to improve programme efficacy and foster a culture of learning within both the BIs and policy-making entities. Nevertheless, further research is needed to assess the BIP's actual performance as an industrial policy.

3.7. ETHICAL CONSIDERATIONS

This study secured ethical clearance from the University of the Witwatersrand. In addition, I underwent a thorough vetting process to obtain permission to conduct research at the DTIC. Given the sensitive nature of the topic, interview participants were guaranteed anonymity, where their names and any identifiable information would not be disclosed in the report. All interview materials, including notes, transcripts, and recordings, were handled with strict confidentiality.

CHAPTER 4: DISCUSSION AND ANALYSIS

4.1. INTRODUCTION

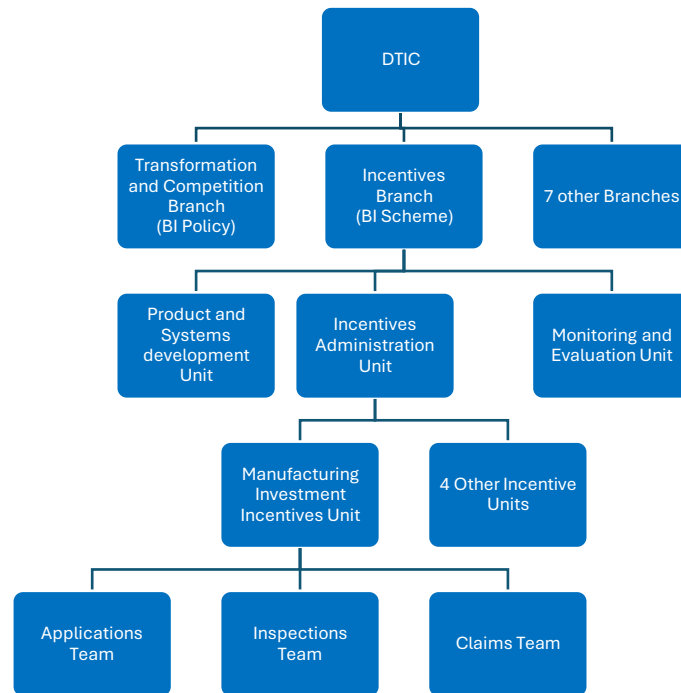
Throughout this paper, I have argued that for the BIP to promote industrialisation, it must have RCMs in place. However, the term ‘RCM’ cannot be casually interchanged with the term ‘monitoring’. Rather than being a generic mechanism of monitoring, an RCM is a specific tool used to compel capital to engage in various kinds of learning based on the policy objectives and political economy dynamics at hand. This chapter analyses the extent to which the BIP’s mechanisms of monitoring and adjustment qualify as RCMs capable of promoting industrialisation. Section 4.2 justifies the paper’s focus on the BI grant scheme, due to its greatest apparent potential to serve as an RCM. Section 4.3 examines whether BIP policy support is attached to criteria that represent genuine learning outcomes. Section 4.4 explores the extent to which the state has the capacity to monitor the proper fulfilment of the programme’s criteria. Lastly, section 4.5 analyses whether the state possesses the capacity to act on its threats of removing policy support from underperforming firms.

4.2. THE BIP’S MECHANISMS OF MONITORING AND ADJUSTMENT

4.2.1. The search for RCMs

Although the BIP is managed by various policy entities, the DTIC serves as the programme’s custodian. Figure 4.2.1. provides a visual representation of the BIP’s organisational structure within the DTIC based on explanations provided by participants 1C and 1B, which was supplemented by information from DTIC policy documents and web pages (DTIC, n.d.-a, 2024).

Figure 4.2.1. The organisational structure of the BIP within the DTIC



Source: DTIC (n.d.-a, 2024) and own elaboration based on interview data

The DTIC is made up of nine main branches. Of these branches, the Transformation and Competition Branch and the Incentives Branch are specifically engaged with the BIP (DTIC, n.d.-a). The first thing to note is the distinction between the BI Policy under the Transformation and Competition Branch, which involves the overarching BI strategy, and the BI Scheme (BIS) under the Incentives Branch, which involves the administration of the BI grant (participant 1C). Due to the focus on RCMs, this paper concentrates on the BIS.

The Incentives Branch comprises three main units. The Product and Systems Development Unit designs the various incentive schemes, the Monitoring and Evaluation Unit oversees the overall performance of each scheme, and the Incentives Administration Unit administers the incentives for each scheme (participant 1C). The Incentives Administration Unit itself comprises five main units, which together oversee twenty one different incentive schemes (DTIC, 2024). These five units include Manufacturing Investment Incentives, Innovations Incentives, Export Promotion Incentives, Services Incentives, and Infrastructure Investment Incentives (DTIC, 2024). The BIS falls under the Manufacturing Investment Incentives unit,

alongside other incentive schemes such as the Automotive Incentive Scheme, the Agro-Processing Support Scheme, and the Clothing and Textile Competitiveness Improvement Programme (participant 1C).

The Manufacturing Investment Incentives unit consists of an applications team responsible for approving participants, an inspections team tasked with conducting on-site inspections, and a claims team responsible for disbursing the grants (participant 1C). This paper focuses on the mechanisms of monitoring and adjustment employed within the BI grant scheme under the Manufacturing Investment Incentives unit. As I will demonstrate in the following sections, these mechanisms serve as *de facto* RCMs.

4.2.2. Zooming in on the BI grant scheme

As argued throughout this paper, learning is unlikely to occur in the absence of RCMs that align policy support with specific policy objectives. The BI grant scheme does, in fact, employ such mechanisms. As explained in section 2.4.3, the scheme's mechanisms of monitoring and adjustment center around a reimbursive grant that increases in percentage in accordance with a participant's economic benefit score and black ownership level. The grant is disbursed through multiple tranches, where the amount of each disbursement depends on the BI's ability to uphold their economic benefit score. As per the BIS guidelines, "claims for disbursements should be submitted as per the approved milestones, and payments will be based on actual costs incurred and performance criteria being met." (DTIC, 2015, p. 11). Essentially, if a BI falls short of any targets committed to during application, their grant percentage should be recalculated and reduced before the next tranche is disbursed.

In theory, these mechanisms should align the BI grant to the programme's intended industrial outcomes, namely, the economic benefit criteria. However, this does not prove the existence of effective RCMs. Insights from both the literature and interviews emphasise how RCMs capable of promoting industrialisation must fulfil certain metrics. Firstly, support must be attached to criteria that are indicative of learning. Secondly, the recipients' performance against these criteria must be properly monitored. Lastly, the state must possess the capacity to remove policy support in cases of poor performance. The following discussion assesses the extent to

which the BIP's economic benefit criteria qualify as RCMs capable of promoting industrialisation.

4.3. THE GREAT BOX CHECKING EXERCISE

Grant funding on its own will not translate to industrialisation. To compel BIs to invest in the complex and costly process of learning, this funding needs to be conditional upon the fulfilment of certain policy criteria. In chapter two, I argued that poorly defined criteria can increase the likelihood of satisficing, and illustrated how this has transpired within the B-BBEE framework. The unfavourable narratives surrounding the B-BBEE scorecard are reinforced by the interview data. Participant 2C asserts that the B-BBEE scorecard system is highly “vulnerable to manipulation”, resulting in scorecards that are “very far from the truth”. According to participant 2A, the scorecard is a “checkbox exercise” to create the *appearance* of transformation, rather than serving as a measure of actual transformation. These insights offer important lessons for the BIP, which makes use of an economic benefit scorecard which appears strikingly similar to the B-BBEE approach. While the B-BBEE and economic benefit scorecards clearly measure different things, they are both still mechanisms for monitoring the degree to which firms fulfil the criteria and objectives of their respective policies. If BIs can check off policy criteria without developing their industrial capabilities, there is a high probability that the grant will not translate to positive industrial outcomes.

4.3.1. Essential for disbursement, irrelevant for learning

When a BI applies to make a claim, the DTIC verifies whether they have fulfilled both their economic benefit criteria, and their essential disbursement criteria. Participant 1C explains that although the economic benefit criteria impact a BI's grant percentage, the fulfilment of these criteria is “not a prerequisite to pay a claim”. The essential prerequisites for disbursement are: the purchase and acquisition of the specified capital equipment, the achievement of employment targets, B-BBEE compliance, audited annual financial statements, and tax clearance (participant 1C). Besides the employment targets, these criteria are rather regulatory obligations than indicators of learning. It is therefore concerning that these criteria hold more weight in disbursement decisions than the economic benefit criteria. The essential

disbursement criteria serve as the first indication of the BIP's prioritisation of formalities over capacity building.

4.3.2. The economic benefit criteria: falling into old traps

4.3.1.1. Introducing the economic benefit criteria

Although the economic benefit criteria are not prerequisites for disbursement, they serve as disciplinary mechanisms due to their influence on the grant percentage. The BIS's eight economic benefit criteria are outlined in the economic benefit scorecard presented in table 4.3.1.1. I have highlighted six of these in grey, indicating their potential to serve as indicators of learning. These criteria include: employment, market share, quality improvement, green technology and resource efficiency improvements, localisation, and empowerment. Criteria A, B, C, D and E are included due to their potential to indicate in-firm capacity building. For instance, a firm's ability to expand its workforce or capture new market share could very well stem from improvements in organisational capabilities. Criteria H is assessed based the B-BBEE scorecard, which incorporates a 'skills development' element. The potential for the this element to measure learning is what justified my inclusion of the empowerment criterion as a whole. However, while criteria F and G may indicate social impact and entrepreneurial characteristics, they do not appear to have much potential for measuring learning.

Table 4.3.1.1 The BIS Economic Benefit Scorecard

Criteria	Description	Points
A. Employment	Securing/retaining or increasing direct employment	1
B. Market Share	New business/operations: Securing market share for the entity; or	1
	Existing business/operations: Increase market share for the entity	
C. Quality Improvement	Reduction of relative prices and/or increasing the quality of products to consumers	1
D. Green Technology and Resource Efficiency Improvements	Savings or better use of energy or materials and/or cleaner production improvement and/or waste management improvement and/or water usage improvement and/or use of renewable energy	1
E. Localisation	Increasing the localisation of production activities (diversification and exports)	1
F. Regional Spread	Projects should be located in rural areas or areas with unemployment higher than 25%	1
G. Personal Risk	Demonstrate own financial and/or non-financial contribution to the business	1
H. Empowerment	Achieve at least a level four B-BBEE contributor status as per revised B-BBEE Codes of Good Practice published in October 2013 (as amended)	1

Source: DTIC (2015)

The fact that these criteria are equally weighted seems somewhat odd. If the scorecard was really approached as a tool for promoting industrialisation, it would make sense for criteria with greater learning impact to carry more weight. However, the brief descriptions in table 4.3.1.1 do provide any indication of which criteria these are. What is equally concerning is the striking resemblance of this scorecard approach to that of the B-BBEE scorecard. The concern is not that the BIP is borrowing the scorecard aspect itself, but rather whether it is perpetuating the compliance mentality so heavily associated with the B-BBEE scorecard. Whether the economic benefit scorecard goes beyond B-BBEE's tick-box approach ultimately depends on how the economic benefit criteria are assessed.

4.3.1.2. The criteria too soft to measure

Although employment is fairly straightforward to measure, criteria B to E in table 4.3.1.1 are more challenging to assess due to their complexity and subjective nature. Localisation can encompass a variety of aspects, including local content requirements, the use of local suppliers, the formation of local partnerships, and local workforce engagement. Measuring green technology and resource efficiency can be a subjective exercise, as “better use of energy” and “cleaner production improvement” may mean many things. Lastly, metrics and standards for quality improvement and markets share often vary across industries. This raises questions surrounding how these criteria are evaluated by the DTIC. Participant 1C reveals that the DTIC has “difficulty in trying to measure the softer items under the economic benefit criteria”, since these criteria “have not been clearly defined in the [BIS] guideline”. But if this is the case, how does the DTIC calculate the grant percentage at both the application and disbursement stages?

According to Participant 1C, the applications team does not appear to have a very “favourable method” for assessing the economic benefit criteria. Although the participant is not exactly sure how the economic benefit score is calculated at the applications stage, they doubt that this process is very robust.³ At the disbursement stage, the claims team relies on a ‘factual findings report’ to re-assess the grant percentage. “The factual findings report is an agreed upon procedure performed by external auditors”, that must be submitted to the DTIC before each claim. The report is essentially a private auditor’s assessment of the BI’s performance against the criteria that the DTIC is “typically not equipped to measure”, which include the ‘softer’ economic benefit criteria (participant 1C).

This approach is problematic for several reasons. Firstly, the auditors tasked with compiling the factual findings reports are appointed by the BIs themselves, since the DTIC “[does] not have the financial resources to appoint auditors” (participant 1C). This has obvious implications for the integrity of the monitoring process, especially considering the role that “unscrupulous verification agencies” have played in manipulating B-BBEE scorecards (Lindsay, 2015, p. 184). Secondly, the auditors do not evaluate the economic benefit criteria according to a methodology defined by the DTIC. As demonstrated in page 8 of the DTIC’s factual findings report template (see appendix A), the auditor’s task is simply to tick ‘yes’ or ‘no’ to confirm whether the BI has fulfilled each of the economic benefit criteria (although they

³ Since I was unable to secure interviews with the relevant department personnel, I do not have a clear understanding of how the economic benefit score is calculated upon application.

are required to provide an explanation for their decision if they tick ‘no’). According to participant 1C, there is “no method from the department side” to ascertain how the auditors reach their conclusions.

Essentially, the DTIC cannot say anything about whether the economic benefit criteria effectively measure learning outcomes, since it does not know how these criteria are measured in the first place. Participant 1C argues that employing independent parties to conduct the factual findings reports only enhances the impartiality and robustness of the monitoring process. Yet, it is difficult to argue that the impartiality of assessment is not impacted by the payment structure in question. Moreover, it is overly simplistic to assume a private sector audit to be more robust, *solely* because it is conducted by the private sector. While private sector expertise may be leveraged to provide the state with technical support, this should not translate to offloading core state responsibilities to consultants. A heavy reliance on private entities without a corresponding skills transfer is not conducive to enhancing state capacity over time (Mazzucato et al., 2022).

The reliance on private auditors to assess the economic benefit criteria not only compromises the reliability of these criteria, but creates a dependency syndrome which undermines the development of the DTIC’s internal monitoring capabilities. The factual findings report serves as a *literal* tick-box approach towards monitoring, where procedural compliance is prioritised over a nuanced understanding of learning outcomes. In fact, there seems to be a blatant disregard for understanding learning at all, evident from the equal weighting of the economic benefit criteria.

4.3.1.3. Skills development or SETA spending?

Although there is no specific economic benefit criterion for skills development, the empowerment criterion (measured by the B-BBEE scorecard) includes a skills development element. Participant 1B asserts that since the skills development scorecard holds significant weight in the overall B-BBEE scorecard, a BI’s skills development score has a discernible impact on their economic benefit score. However, this only holds significance if the skills development scorecard effectively measures skills development. As outlined in table 4.3.1.3, the B-BBEE skills development scorecard assesses (1) the monetary spending on training black

people through approved learning programmes, and (2) the number of black individuals enrolled in approved learnerships, apprenticeships, and internship programmes (B-BBEE Commission, 2016). These people do not have to be employed within the firm to contribute to criteria 1.1 and 2.1, although there are ‘bonus points’ for the number of black people absorbed by the firm at the end of a programme.

Table 4.3.1.3. Criteria for the B-BBEE Skills Development Scorecard

Category	Skills Development Element	Weighting points
1. Skills Development Expenditure on any programme specified in the Learning Programme Matrix for black people as a percentage of the Leviable Amount		
1.1. Skills Development Expenditure on Learning Programmes specified in the Learning Programme Matrix for black people as a percentage of Leviable Amount.		8
1.2. Skills Development Expenditure on Learning Programmes specified in the Learning Programme Matrix for black employees with disabilities as a percentage of Leviable Amount.		4
2. Learnerships, Apprenticeships, and Internships		
2.1. Number of black people participating in Learnerships, Apprenticeships and internships as a percentage of total employees		4
2.2. Number of unemployed black people participating in training specified in the learning programme matrix as a percentage of number of employees		4
Bonus points		
Number of black people absorbed by the Measured and Industry Entity at the end of the Learnerships programme		5

Source: B-BBEE Commission (2016)

This approach is a simplistic means of incorporating skills development into the BIP's economic benefit criteria. Evaluating the extent of learning is a complex task, which involves assessing variables such as a firm's domestic project execution capacity, the quality of its training and skills formation programmes, the degree to which it promotes in-firm technological capabilities; and the knowledge acquired and experienced gained through learning initiatives (Nkunzi, 2021). However, rather than even attempting to conduct a nuanced assessment of learning, the scorecard assesses skills development solely based on a firm's spending and participation in training and learnership programmes. These programmes primarily manifest as short courses provided by SETAs or other approved vocational and educational training authorities. However, Allais (2022, 2023) demonstrates the limitations of a curriculum-based learning strategy:

Any educational process that involves development of a qualification and curriculum will never be responsive to the immediate needs of workplaces, because qualifications and curricula take time to develop, let alone to be offered to students (Allais, 2023, p. 2). The ways in which skills are both developed and deployed are dependent on the organisation of work and are learnt socially (Allais, 2022, p. 68).

This suggests that the B-BBEE scorecard is a poor indicator of skills development for two reasons. Firstly, it is centred around qualification and curriculum-based learnerships, which align poorly with the immediate and dynamic needs of the workplace. Secondly, these programmes fail to account for the nature of the organisation of work and the social aspects of learning inherent within a given firm (Allais, 2022, 2023). Skills formation cannot be divorced from the social and economic context in which it takes place. Skills are not merely products of an educational process, but are intimately tied to the organisation of work and the interactions within it. This is especially true for tacit and organisational knowledge, which are arguably the most critical components for successful industrial performance (Khan, 2019). As Allais (2022, 2023) emphasises, these kinds of knowledge are acquired through socialisation and hands-on experience in the workplace, rather than through a STEA-style qualifications and curriculum-based system. The BIP's use of this system illustrates not only a compliance-based approach to assessing learning, but a commitment to the *very same* compliance-based approach known for being "vulnerable to manipulation" (participant 2C).

The DTIC's entire approach to assessing the economic benefit criteria reveals its tendency to treat the BIP as an earlier version BEE rather than as an industrial policy. This is a clear illustration of how, although the BIP departs from previous BEE policies in design and focus, it has failed to do so in implementation. The BIP and its BEE predecessors are united by a shared tickbox mentality, where superficial compliance has been prioritised over the genuine achievement of policy objectives.

4.4. HANDS-OFF MONITORING

4.4.1. Setting the scene: insufficient capacity; insufficient intensity

Even if policy support is tied to proper learning criteria, these criteria are meaningless in the absence of effective hands-on monitoring systems (participant 2A). According to participant 2F, "the way that [the BIP] is currently being implemented is not going to deliver black industrialists". For the BIP to move beyond previous policy failures "the monitoring and evaluation needs to take a different format...It has to be much more intensive so that you can actually measure [policy objectives] against proper outcomes". However, "to get to the level of monitoring is difficult, because it requires a lot of capacity by the state" (participant 2A).

There is a widespread perception that the DTIC lacks the capacity to conduct robust monitoring (participant 1B, 1E, 2A). According to participant 2A, a former DTIC official, "the capacity to do the level of monitoring required is really not there". Participant 1E explains that although there are monitoring systems in place, they are simply "not adequate enough". In participant 1B's opinion, post-investment monitoring is largely "overlooked". The participants all attribute these problems to "serious capacity and resource issues". For instance, participant 1E admits that "there was a time when [the DTIC] didn't have enough vehicles to conduct the site visits, or even inspectors and sheriffs for that matter".

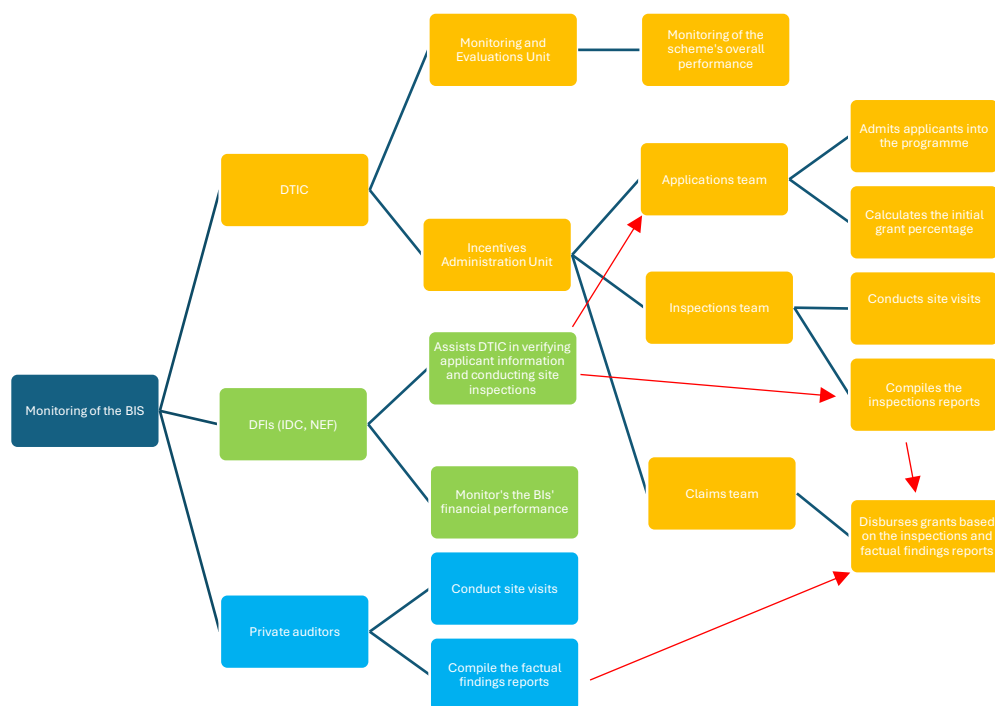
Participant 1E claims that to work around the capacity constraints, the DTIC often relies on the BIs themselves to "cooperate" and be "forthcoming with information". In other words, the DTIC's monitoring approach relies on the hope that the BIs will *not* engage in satisficing behaviour. This lax approach to monitoring stands in stark contrast to the rigorous monitoring systems in East Asia, explored in *section 2.2.2.2* (Amsden, 1989; Wade, 1990). The question

then becomes whether the state is developing the capacity to achieve the required level of monitoring.

4.4.2. All bark, no bite: the monitoring of the BI grant scheme

The BI grant scheme is monitored through a multi-layered process involving various state and private actors, who each perform distinct functions. Figure 4.4.2. maps out this monitoring process.

Figure 4.4.2. The monitoring of the BI grant scheme



Source: own elaboration based on interview data

The applications stage:

Once a BI has been admitted into the programme, the initial grant percentage is determined based on their economic benefit score and their level of black ownership and control. The calculation of the economic benefit score is based on information and documentation submitted by the BIs themselves. However, according to participant 1E, both the DTIC applications team

and the DFI cofunder undertake a “proper verification of any information that is provided”. “Especially any information that is pre-investment”. This includes both “site inspections and [engaging] with the clients”.

Whether this verification process is implemented in practice is another question. Participant 1B claims that due to capacity constraints, the monitoring conducted by the applications team does not appear to have “depth”. Although no one I interviewed seems to know how the applications team verifies its information, there is a prevailing suspicion that whatever procedures are in place are not very robust (participant 1B, 1C). In fact, it is not clear how the DTIC is able to conduct these purported site visits when there are such strong perceptions that it lacks the resources required to do so. Participant 1E admits that “due to constrained resources, the monitoring [often involves] looking at financial reports”, before site inspections are conducted. However, due to the lag between the financial reporting and the actual inspections, “it is inevitable” for there to be “some aspect of leaking”. In other words, this retrospective approach to monitoring tends to result in gaps or inaccuracies in the information being assessed. These insights cast doubt on the robustness of the monitoring at the application stage.

The inspections stage:

Following application, the BI is required to undertake a minimum R30 million capital investment, which is secured through a loan from their co-funder (usually a DFI). After making the investment and securing the equipment, the BI becomes eligible to claim from the grant, provided they meet the requisite criteria. Participant 1B insists that before *any* claim is made, a site visit is conducted by the inspections team, who compiles an inspections report based on the information gathered from the visit. However, this is a bold claim, given participant 1E’s earlier comments on the DTIC’s lack of vehicles and inspectors for conducting site visits. In fact, participant 1E asserts that the DTIC often “[relies] on the cofunder, whether it is a DFI or another commercial entity, to gather information”. This observation is consistent with the factual findings report template (see appendix A), which indicates a heavy reliance on external auditors to perform site inspections. Worse still, both the BIs that I interviewed claim that no site inspection has ever been conducted on their firms. Participant 3A explains that his firm “just had to send the reports [to the cofunder]”, and that while he knows that the government “does carry out site visits...there has not been one for [his firm]”.

The even greater concern is that these site inspections are not even targeted toward monitoring the economic benefit criteria, or any learning outcomes for that matter. In participant 1C's words: "an inspector is not there to, for example, evaluate skills development." Instead, inspectors verify details such as the type of equipment purchased, that the equipment aligns with the agreed upon items from the application, and that it is not second hand (participant 1B, participant 1C). These may be good requirements for ensuring that BIs spend their grants on capital equipment rather than new Ferraris. However, the value of capital equipment is severely limited without the necessary industrial capabilities to utilise it productively.

One could argue that providing firms with capital equipment is valuable in its own right. If BIs are relatively well-established and only seek state support to grow further, advance their capabilities, acquire the latest machinery, and increase production, then the BIP could achieve its industrial objectives by helping these firms expand their productive capabilities, even if this does not entail providing direct support for other learning activities. Yet this argument assumes that the majority of BIs seeking support are established industrialists who already possess foundational industrial capabilities, and are ready to leverage new equipment for growth.

Insights from interviews challenge this assumption. Participant 2A highlights the "need for black people that want to participate in [manufacturing] to have the necessary know-how". Participant 2E further argues that targeting support to established BIs is counterproductive, due to the scarcity of such firms to begin with. In the participant's words: "Now we create the Black Industrialist Programme. Why? Because we have no black industrialists... But if you've got no black industrialists, how can you say you want somebody with experience?". Given these skills deficits, Participant 2A argues that the BIP's focus on securing capital equipment represents a "corporate finance approach to black industrialisation." "[Government agencies] are used to funding capital equipment, it's an easy model for them. They can securitise the equipment, and it's just easy for them to structure." However, the participant views this approach as "disingenuous", arguing that it is an insufficient means for developing the tacit and organisational capabilities essential for industrialisation. As the participant puts it, the DTIC's "corporate finance approach" has meant that "the gap where they're building up credentials in the sector, building up experience, building up a knowledge base, is not being addressed."

Given the political economy of state-business relations in South Africa, particularly regarding the capture and misuse of state funds, one could argue that there is some merit to the DTIC's monitoring approach. While the BIP may not be targeted toward promoting learning, at least it is preventing blatant theft. Put differently - at least this approach ensures that the BIs are purchasing machines rather than new Ferraris. As demonstrated in *section 2.2.3*, Mushtaq Khan argues that industrial policy should be tailored to the specific political economy environment, rather than relying on an idealistic view of what a good industrial policy should look like. Perhaps this is exactly what the BIP's monitoring approach is attempting to achieve.

However, this argument overlooks the fact that the *entire purpose* of industrial policy to promote learning (Amsden, 2001; Khan, 2019). Khan himself has consistently argued that an industrial policy that fails to compel firms to develop both tacit and organisational capabilities will not succeed in promoting industrialisation (Khan, 2019). Designing industrial policy according to one's environment requires finding innovative ways to promote learning, even in challenging contexts, rather than abandoning the idea of learning altogether under the pretext that the context makes it too difficult. A clear example of such an approach was demonstrated in *section 2.2.3* through the example of the Bangladeshi garment industry.

These insights suggests that the DTIC's emphasis on monitoring the acquisition of capital equipment rather than assessing learning outcomes is misaligned with the core needs of the sector. Given the critical importance of learning in industrial policy, a challenging political economy context cannot justify the DTIC's "corporate finance approach to black industrialisation"

The claims stage:

The DTIC's claims team disburses grants based on the information provided in the inspections report compiled by the inspections team, and the factual findings report compiled by the external auditor (participant 1C). Once the essential disbursement prerequisites have been met (see *section 4.3.2*), the grant percentage is re-calculated before each claim according to the BI's new economic benefit score. In participant 1B's words: "if you go under [from your original score], you cannot now expect to get the same grant amount". The claims team relies entirely on the factual findings report to assess the BI's economic benefit score. However, as explained earlier, this report is compiled by a set of auditors selected and appointed by the same BI under

examination. In fact, the auditors themselves are responsible for recalculating the approved grant amount (see procedure 14 on page 4 of the factual findings report template in Appendix A).

Once again, given the specific emphasis placed on avoiding the capture and misuse of state funds in South Africa, one could argue that employing private sector auditors is a necessary evil. Indeed, participant 1C insists that “it does not matter who employs the auditor, whether it's the department or the applicant”. The emphasis is on fact that the “factual findings report is an independent report” conducted by auditors who are obligated to “comply to their fiduciary duties”. The idea here is that private sectors are more objective and unbiased, as their primary allegiance is to professional standards and the integrity of their audit process, rather than to political pressures or conflicts of interests.

However, the objectivity and reliability of an audit cannot be taken as given *solely* because it is compiled by external auditors. These auditors are chosen and remunerated by firms with a vested interest in producing favourable factual findings reports. The idea that private auditors are somehow exempt from corruption is also questionable. Firstly, considering the role played by “unscrupulous verification agencies” in manipulating B-BBEE scorecards (Lindsay, 2015, p. 185). Secondly, given the role played by private consultancies such as McKinsey and Bain and Company, among others, in state capture, as per the Judicial Inquiry into State Capture Commission Reports (Commission of Inquiry into State Capture, 2022a, 2022b, 2022c). Instead of trying to establish robust evaluation systems internally, the DTIC chooses to rely on external parties to perform the monitoring function for them. This only undermines the potential for the DTIC to develop its own monitoring capacities through a process of learning-by-doing. Using objectivity and anti-corruption as a pretext for not developing these internal capabilities is not a plausible excuse.

Post-disbursement:

The Claims Team's monitoring role concludes after the full disbursement of the grant, which typically takes between two to five years (participant 1C, participant 1D). The responsibility of post-investment monitoring then falls onto the Monitoring and Evaluation Team and persists for a duration of three years. Post-disbursement monitoring involves an overall assessment of the BIS, which includes monitoring the BIs' contribution to policy objectives through surveys,

site visits, and record-keeping requirements. It also provides BIs with support to help them overcome key operational challenges. However, the quality of this support appears to be poor. Participant 3B explains how the DTIC monitoring officials that he dealt with were “not clued up about what they were following up on”. He places emphasis on the officials’ lack of understanding of his market, requiring *him* to tell *them* “this is our market, this is what we do”.

The greater concern is that even though post-disbursement monitoring involves assessing the BI’s contribution to policy objectives, there are no disciplinary mechanisms tied to the grant, or any other policy incentive. This implies that there are no repercussions for failure to achieve the economic benefit criteria post-disbursement. This is concerning, as learning is a complex process that requires significant amounts of time and compulsion. The two to five year disbursement period during which policy support may still be withdrawn is likely insufficient to compel firms to undergo a complete learning process.

4.4.3. The self-perpetuating capacity problem

There is a recurring argument that the DTIC’s poor monitoring capacity stems from a lack of resources and/or funding (participant 2A, participant 1E, participant 1C, participant 1B). However, this is an oversimplistic portrayal of the issue at hand. According to participant 2D, it is “easy” for government officials to claim to have insufficient resources. However, in his opinion, the lack of monitoring capacity is “a question of skill”, rather than a question of money. Put differently, developing a robust state apparatus for monitoring requires more than pumping money into the relevant department. According to Alice Amsden, developing state capacity is nothing but a political decision to put learning at the forefront of policymaking and implementation. In other words, the only way for the state to develop its monitoring capacity is through learning from its mistakes over time. However, it cannot do this if it is afraid of designing and implementing its own policies in the first place. This sentiment is echoed by the interview participants, who believe that the government’s skills shortages are exacerbated by its tendency to offload its responsibilities to the private sector (participant 2D, 2E). This over-reliance on the private sector has created a dependency syndrome which has undermined the state’s ability to think and act autonomously. In participant 2E’s words: “we have hired people who are not qualified... They then come to office and hire McKinsey, KPMG and Bain to come and do the thinking for them”.

Participant 1B attributes the capacity and skills shortages to growing turnover rates within the DTIC, where “a lot of people have exited the department due to greener pastures, general retirements, or just personal reasons”. These high turnover rates could very well be attributed to employees working within an environment with significant capacity constraints, making any alternative pastures appear greener. Participant 1B insists that resolving the department’s capacity issues requires addressing these high turnover rates. However, they admit that this does not seem likely, due to the current “embargo on filling up posts”. The DTIC appears caught in a vicious cycle of capacity constraints, high turnover rates, embargoes on filling up posts, growing skills deficits, reliance on the private sector, a lack of internal learning-by-doing, and consequently, even greater capacity constraints.

4.5. TIT WITHOUT TAT

4.5.1. The legacy of South Africa’s nanny state

According to participant 2B, who has academic expertise in the field of industrial policy: “any RCM in Amsden’s terms has to be accompanied by the capability to monitor, but *also* the capability to act on any threats of the removal of policy support”. The state’s ability to act on such threats allows policy to go beyond creating favourable conditions for capital, enabling it to steer firm behaviour in line with developmental objectives. However, participant 2B does not believe that the South African state possesses the capacity to act on such threats, as it “has never been geared for that kind of compact”. In other words, the state has never presented policy support as a conditional commitment that requires “certain expectations be met, behaviourally and performance-wise”. Participant 2B also does not think that “industry has taken the threat of the removal of support seriously”, considering that there has been no strong precedent of the state withdrawing support. This lack of precedent is demonstrated in section 2.3.2, through the examples of AMSA, the CSDP and the MIDP (Goga & Avenyo, 2022; Masondo, 2018; Pons-Vignon, 2022). These examples showcase the state’s tendency to provide firms with handouts without imposing any credible compulsions for them to uphold their end of the bargain. This supports Masondo’s (2018) characterisation of the South African government as a “nanny state”, rather than a disciplinary entity. However, if the state has “never

been geared” toward disciplining (participant 2B), it is difficult to believe that it would have suddenly acquired this capacity for the BIP.

4.5.2. Who holds the power?

4.5.2.1. Has the plug ever been pulled?

The DTIC is supposed to reduce the BIS grant percentage if a recipient fails to meet their economic benefit criteria, and withhold disbursement entirely if a recipient fails to meet the essential disbursement criteria. The frequency with which the DTIC follows through on these threats is an indicator of its capacity to exert disciplinary authority over the BIs. While there is no publicly available information on this issue, participant 1D claims that the reduction of the grant percentage is “not something that happens often”. This is confirmed by participant 1C, who states that the department “might get one project in maybe a year where the grant percentage has to reduce”. This aligns with the statements of the BIs, who both assert that their grant has never been reduced.⁴ Participant 1D reveals that reductions in the economic benefit score are “most commonly [due to decreases in] the triple BEE compliance level”. This suggests that the DTIC’s monitoring systems are geared far more toward assessing formalities like B-BBEE certification, rather than detecting changes in ‘soft’ indicators of learning. In other words, because the DTIC is so far removed from assessing the softer economic benefit criteria (to the point where it does not know how they are measured), failures to adhere to these criteria can easily escape notice. The only issues that the DTIC seems capable of picking up are formalistic.

The fact that the DTIC rarely reduces the grant percentage implies three potential scenarios. Firstly, it could indicate that the overwhelming majority of BIs are fully achieving the economic benefit criteria. Secondly, it could imply that it is very easy to manipulate the economic benefit scorecard, either through ticking the correct boxes or hiring the correct set of auditors. Thirdly, it could suggest an aversion to and/or lack of capacity for removing policy support. While the first scenario is mutually exclusive from the last two scenarios, the second and third scenarios are by no means mutually exclusive from each other. Both the preceding

⁴ Keeping in mind that my sample size was only two.

and subsequent discussions underscore the unlikelihood of the first scenario, and the corresponding likelihood of some combination of the second and third options. Essentially, while this paper cannot definitively conclude whether the BIs are engaged in industrial learning, it suggests that this is highly unlikely due to the absence of effective RCMs within the programme.

4.5.2.2. Retaliation and pushback

Khan (2019) suggests that the state's ability to withdraw policy support hinges on the distribution of power between capital and the state. In other words, even with well-designed RCMs, it is possible for firms with strong political leverage to organise against the state's disciplinary attempts. Participant 1A characterises the BIs as no-name brand entrepreneurs who are unlikely to pose any threat to the state. However, insights from other participants paint a different picture. Participant 1E explains that since the BIP caters to a specific grouping of people, there are certain "questions that need to be understood" before policy support can be withdrawn. These are questions such as "do you want to punish them if they fail? What repercussion does this have? How strong are they in the political sentiment of the country? What type of constituency are they?" The questions that participant 1E raises suggests that the BIs may very well belong to a political constituency with the power to push back against the state's disciplining attempts.

Although it is uncommon for the BI grant to be reduced or withheld, participant 1B, 1C and 1D admit that when this does happen, it is "natural" to get pushback from the BIs. According to participant 1C, "it is common for any grant recipient, when their grant has fallen, to write to [the team's] superiors". Participant 1B reveals more serious cases where recipients have gone "to the extent of litigation". In one instance, the DTIC had tried to terminate support from a recipient who had falsified their B-BBEE certificate. In response, "that company took the department to court, and was [actually] awarded the case". Participant 1B also mentions instances where BIs who have gotten "frustrated" with the DTIC, "have the muscle" to exert influence through their political connections. All three participants insist that despite these instances, the government's disciplinary systems remain uncompromised. However, these insights indicate that at the very least, the BIs have significant capacity to pushback against these systems. Rather than being the "no name brand entrepreneurs" suggested by participant

1A, the BIs hold influential positions in the political economy, have the “muscle” to leverage connections within government, and the ability to legally challenge the DTIC.

This discussion raises concerns over the BIP’s potential to fall into a BEE-like trap of supporting the growth of a powerful elite who lack the incentive to contribute positively to development, and cannot easily be disciplined (Lindsay, 2015; Zalk, 2016). Addressing these concerns requires investing time and effort into understanding the class structure and power dynamics at play within the programme’s target policy recipients. The ability of BIs to resist state disciplinary measures—whether through direct political influence or legal challenges—offers a peak into the kind of power dynamics at play within the programme. These scenarios cast doubt into the common narrative of the BIs as ‘no-name brand entrepreneurs’, subordinate to state oversight. The questions raised by Participant 1E—such as whether the state truly wishes to punish the BIs, the potential repercussions of doing so, and the political strength of these entities—underscore the delicate balance the state must navigate. The fact that these considerations even arise indicates that the BIs are not merely passive recipients of state support but are actively shaping the parameters of their engagement with the state. If not managed effectively, this could escalate into a broader issue where the state’s regulatory capacity is undermined by the very power structures it seeks to control.

Addressing these concerns requires a deep understanding of the power dynamics at play. The state must recognise that its ability to enforce disciplinary measures is contingent on more than just policy design; and also depends on its capacity to navigate and, where necessary, disrupt these entrenched power networks. This, once again, involves cultivating a culture of learning within the state itself, enabling it to be innovative in its approach to enforcing disciplinary measures amid current political economy dynamics.

4.5.3. A lack of capacity or a lack of desire?

In section 4.4.3, participant 1E explains how the DTIC often leans on the DFIs to perform a monitoring function. According to participant 1B, this is because the DFIs are significantly better capacitated for monitoring than the DTIC. These disparities in monitoring capacity are attributed to differences in "the nature of assistance provided" by each entity. In participant 1B’s words, the DTIC “funds through grants, which are non-repayable, unlike the IDC and

NEF who give out loans.” Due to the “risk attached” to providing loans, the DFIs have “massive and capacitated post investment divisions”, and so “much of the reliance is placed there”. The logic is that since a DTIC grant is non-repayable, there is no reason for the DTIC to monitor the recipients of these grants. This responsibility may as well be delegated to the DFIs, who are invested in making sure that their clients do not default on their loans. However, the entire rationale behind RCMs is to treat *all* policy support as a ‘loan’ of sorts, in that this support should be both conditional and time-bound. The DTIC’s mentality, once again, reveals its preference for disbursing grants according to a formalistic set of rules, rather than implementing *reciprocal* control mechanisms.

Although the DFIs are better incentivised and capacitated to perform a monitoring function, they too, do not seem interested in implementing ‘RCMs’ in the Amsdenian sense. The reasoning for this is fairly obvious, due to their institutional focus as banks. Participant 1B reveals that a notable aspect of the DFIs’ post-investment monitoring function involves placing underperforming BIs under business rescue. If a BI is placed under business rescue, it implies that “the DFI is looking into liquidating [them]”. When this happens, “the company is now owned by the business rescue practitioner”. “In terms of the interventions that you can come up with as a department to resuscitate and mitigate those rescues? You *can’t*. Your hands are tied”. Not only does this reflect a glaring lack of policy coordination between the DFIs and DTIC, but underscores the low priority given to learning within the DFIs’ monitoring and adjustment process.

The DFIs’ approach seems overly punitive, as struggling firms may simply be navigating through the loss-making period associated with the teething stages of learning (Khan, 2000). However, participant 1B admits that in the majority of business rescue cases “the clients were at fault”. This may have been due to firms not repaying their loans, or "capacity problems in terms of financial management" and "other business running skills". However, this simply points to deficiencies in the previous monitoring stages. If a BI is on the verge of liquidation, it indicates a critical stage of distress that has developed over a long period of time. Why then, do the DFIs’ “massive and capacitated” monitoring departments not pick up on these issues? According to participant 1E, the DFIs tend to adopt an “outputs”-centred approach to monitoring, which typically involves reviewing “monthly management accounts and reports” submitted by the BIs. However, this approach often results in important “red flags” being

overlooked. This means that the DFIs only become aware of certain issues “once they have already reached quite a serious stage” and leads to them becoming “quite reactive”.

The problem with the DFIs’ monitoring approach lies not only in its lack of intensity, but in its focus on the wrong objectives. In participant 2B’s words: “when you speak to the IDC or the NEF, they are monitoring the burn rates on the money they gave you” and the “degree to which you have been able to pay back the money”, as opposed to implementing “in the Amsdenian sense, reciprocal control mechanisms”. While the DFIs appear to have no issue with liquidating BIs for not repaying their loans, they show far less enthusiasm in enforcing disciplinary measures for their failure to achieve learning objectives. In participant 1E’s words, once a BI has secured their loan and completed their capital investment, the funding partner is “already in the water by 70 percent”, and “could maybe save only 30 percent of the expense” through applying disciplinary measures. They “will never recover that kind of investment”. The core issue appears to be an excessive focus on loan recovery at the expense of promoting learning.

4.6. SYNTHESIS

This chapter has opened up the BIP’s black box through unveiling the hidden elements of its monitoring and adjustment mechanisms. In doing so, it has shed light on the different coordinating roles of the network actors involved in the programme, helping to map out who does what and to what level of efficacy. It has pieced together empirical evidence regarding how BIs respond to the opportunities and challenges of the programme. It has also interrogated the adaptability of the programme in response to the interplay between firm and state interactions.

The BIP’s ability to promote industrial learning is clearly compromised by the quality of its RCMs. These mechanisms fall short in all three metrics developed in the conceptual framework. Firstly, the evaluation of the programme’s economic benefit criteria either relies on check-box measures, or is outsourced entirely to private auditors – both borrowed elements from the B-BBEE scorecard approach. Secondly, the DTIC lacks the capacity and resources to conduct site-inspections, monitor the economic benefit criteria, and even appoint the auditors tasked with compiling the factual findings reports. Thirdly, both the DTIC and DFIs lack the capacity and/or willingness to enforce disciplinary measures in response to firms’ failure to

meet learning objectives. The mechanisms of implementation and adjustment employed by the BIP clearly lack the rigour required to be considered effective RCMs. The way in which the DTIC has approached the economic benefit criteria showcases its continued preference for treating the BIP as an earlier version BEE rather than as an industrial policy.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

Through a focus on the BIP, this study has unveiled the inner workings behind many of South Africa's industrial policy failures. Much of South Africa's industrial policy literature centres around the efficacy of policy design. Yet, Amsden suggests that an industrial policy (even if well-designed) is not an industrial policy at all without RCMs. Instead, it becomes an exercise of doling out policy support without a strategic goal in mind. This suggests that the crux of South Africa's policy failures lies not in their design, but in their mechanisms of monitoring and adjustment. However, there is little empirical analysis on such mechanisms within South African industrial policy in general, and particularly within the BIP. This research fills an important knowledge gap by advancing an understanding of the RCMs employed by the BIP. In doing so, it has also advanced an understanding of the broader challenges of implementing RCMs within South Africa's political economy landscape.

A review of the industrial policy literature has laid the foundation for this research through emphasising the importance of RCMs, the central focus of this study. RCMs have been characterised as the linchpin of industrial policy due to their ability to translate policy support provided by the state into tangible learning outcomes. However, the ability of an RCM to nudge firms toward achieving certain policy objectives depends on a multitude of factors, including the nature of the policy criteria, the strength of regulatory enforcement, and the power dynamics between the state and firms. An examination of previous BEE and industrial policies reveals that the BIP operates within a policy landscape defined by the presence of a rentierist capitalist class and inadequate disciplinary measures for holding it accountable. Because of this, well-designed and implemented RCMs are paramount to the BIP's success.

The principal question addressed by this study is: Is the Black Industrialist Programme equipped with reciprocal control mechanisms that enable it to promote industrialisation? This paper has employed a combination of inductive reasoning and insights from the structuralist literature to generate a context-specific conceptual framework outlining the necessary metrics for effective RCMs. These metrics stipulate that: (1) policy support must be tied to criteria that represent learning outcomes, (2) firms' performance against these criteria must be robustly monitored, and (3) the state must possess the capacity to remove policy support in response to

non-performance. However, as illustrated throughout this discussion, the BIP's mechanisms of monitoring and adjustment fall short on all three counts.

The empirical findings are summarised as follows:

Firstly, when it comes to the essential disbursement criteria, formalistic specifications have clearly taken precedence over learning. However, the trend of prioritising formalities over learning does not stop here. The DTIC does not have a defined method for assessing several economic benefit criteria, including quality improvement, market share, localisation, and green technology and resource improvement. The department's justification for this is that these criteria are simply too challenging to measure. Rather than developing its own internal assessment capabilities, the DTIC has outsourced these responsibilities to private auditors, who are employed by the measured entities themselves. On the other hand, the programme uses the 'empowerment' criterion, assessed through the B-BBEE scorecard, as a proxy for skills development. Yet, the scorecard approach lacks the depth required to assess skills development as a genuine learning outcome, rendering it inadequate and superficial. The DTIC's approach to assessing the economic benefit criteria showcases its inability to move beyond the tick-box approach of BEE.

Secondly, while the DTIC's multilayered monitoring structure may create the impression of intensive monitoring, this is far from the case. The DTIC lacks the capacity and resources to conduct site-inspections, monitor the economic benefit criteria, and even appoint the auditors tasked with compiling the factual findings reports. The fact that these auditors are employed by the measured entities raises obvious concerns around the objectivity of the monitoring process. This is yet another failure to heed lessons from past BEE failures.

Lastly, even if the first two conditions were met, it is unlikely that the DTIC possesses the capacity to remove support from underperforming firms. Not only have there been scarce instances of the BI grant being reduced, but when such attempts were made, they have been met with significant resistance from firms. This suggests that the power distribution between the state and the BIs is not conducive toward state disciplining. Regardless, it is unclear whether the government is even inclined to enforce RCMs in the first place. The DTIC seems to prefer disbursing grants according to formalistic rules, while the DFIs appear more concerned with monitoring the burn rates on their loans.

The mechanisms of monitoring and adjustment employed by the BIP thus cannot be considered RCMs capable of promoting industrialisation. These mechanisms, themselves, appear to be boxes that the government can check to create the appearance of performing a monitoring function. In doing so, the DTIC has continued the legacy of the South African nanny state.

This leaves the question of ‘so what?’ For Alice Amsden, this question circles back to the issue of learning, which does not stop at the level of the firm. The ability to design and implement effective RCMs is a skill that by no means comes automatically. The only way for the state to develop this skill is through learning from its mistakes over time, and “the equation is disarmingly simple: no implementation, no learning” (Pons-Vignon, 2022, p. 96). My core policy recommendation is thus straightforward. If the government is serious about developing a competent bureaucracy, it has to cultivate a culture of learning. This, in turn, implies that it has to reduce its reliance on the private sector. South Africa’s potential to go beyond Masondo’s ‘nanny state’ ultimately hinges on the government’s ability to overcome its fear of implementing policies autonomously.

While this paper has advanced an understanding of the RCMs within the BI grant scheme, there are several other areas recommended for further research. Firstly, there is a need to evaluate the existence and effectiveness of RCMs within the BIP’s other key support mechanisms, namely, access to markets and non-financial support. Research in these areas is important, since capacity building cannot occur through financial support alone. Secondly, there is a need to evaluate the BIP’s actual performance in achieving its industrial objectives. Conducting an impact assessment of this nature is crucial to understanding the BIP’s efficacy as an industrial policy. Lastly, key information and documentation surrounding the programme should be made accessible to the public, including performance data and reports. This will not only enhance transparency within the BIP, but advance an understanding of the relationships between the state and BIs, as well as the extent to which both parties are engaged in learning.

While the BIP’s ultimate potential to promote industrialisation hinges on addressing critical deficiencies in its RCMs, these deficiencies cannot be addressed without placing learning at the forefront of policy reform efforts.

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APPENDICES

APPENDIX A: THE BIS CLAIMS FACTUAL FINDINGS REPORT

BIS Claims Factual Findings Report_2021/02/25

<On firm's letterhead>

Report of Factual Findings to meet the requirements specified in the BIS Incentive Programme Guidelines

The Programme Manager: Black Industrial Scheme (BIS)
Industrial Financing Branch
Department of Trade and Industry and Commission
Private Bag X84,
Pretoria
0001

Dear Sir/ Madam

Factual Findings Report of the Independent Registered Auditor <or Independent External Accounting Professional>¹ of <insert name of Entity> to the Department of Trade and Industry and Commission in respect of the <BIS> Grant Claim for the <insert stage of claim> for the claim period from <insert date> to <insert date>

To the directors of [Full name of company]

We have performed certain procedures of an audit nature, as set out in **Annexure A**, on the performance and financial information reported for the Black Industrial Scheme (BIS) by [Full name of company] [Registration number] (the company), as set out in the accompanying Claim Form of the Department of Trade and Industry and Commission (**the dtic**). The purpose of our engagement is to issue a report that assists the Directors in evaluating whether the information contained in the quarterly report complies with the Programme Guidelines and Regulations dated [insert date] as well as the Funding Agreement.

Directors' responsibility for completion of the accompanying Claim Form

The Directors are responsible for the preparation of the accompanying Claim Form in compliance with the Programme Guidelines, the provision of all accompanying documents required and for such internal control as the Directors determine is necessary so that the information contained in the Claim Form and on all accompanying documents is complete, accurate and not misleading.

Auditor's Responsibility

Our responsibility is to report our findings based on our procedures performed and from information provided by management. Our procedures were those requested by **the dtic** as set out in **Annexure A** and such additional procedures as we considered necessary in the circumstances. Our responsibility also includes the professional competencies necessary to perform this engagement in accordance with **the dtic** guidelines.

Findings

Based on our work performed, nothing came to our attention that causes us to believe that the accompanying Claim Form is not complete and accurate and is not in compliance with the Programme Guidelines.

OR

Based on our work performed, certain matters came to our attention that cause us to believe that the Claim Form is not complete and accurate and is not in compliance with the Programme Guidelines. These matters are listed below.

☐ [Insert detailed matters]

Restriction on Use and Distribution

The purpose of our engagement is indicated in the introductory paragraph and, as a result our report may not be suitable for another purpose. Our report is intended for the Directors and should not be distributed to any party other than **the dtic**.

Auditor's Signature

Name of individual registered auditor:
Capacity if not a sole practitioner: e.g. Director or Partner
Registered Auditor
Date of auditor's report
Auditor's address

An Independent External Accounting Professional (the "Accounting Professional") who is a member in good standing of any of the following professional bodies: the South African Institute of Chartered Accountants (SAICA); the South African Institute of Professional Accountants (SAIPA) and the Association of Certified Chartered Accountants (ACCA).

Annexure A – Report by the Independent Auditor on the Application for Payment for the Black Industrialist Scheme (hereinafter referred as “the BIS”)

1. Introduction

The objective of the BI scheme is to :

- ☐ Accelerate the quantitative and qualitative increase and participation of Black Industrialists in the national economy, selected industrial 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 industrial sectors and value chains

These will be achieved through the **three key components** of the programme which include:

- ☐ **Capital Investment** (applicable to this Factual Findings Report)
 - Machinery and equipment
 - Owned and leased (capitalised lease) factory building at cost
 - Commercial Vehicles
- ☐ **Investment Support**
 - Project Feasibility Studies
 - Post Investment Support
- ☐ **Business Development Services**
 - Product Development
 - Conformity Assessment Certification
 - Information Technology Systems
 - Procurement Process Improvement
 - Patent Costs

The BIS is available to South African registered entities engaged in strategic and targeted manufacturing sectors and value chains [Standard Industrial Classification (SIC 3), engineering services that support manufacturing and conformity assessment bodies (SIC 88220) servicing the manufacturing sector.]

the dti has issued guidelines on the administration and implementation of the BIS which clarifies the application and claim process including the qualification criteria. The BIS Guideline is available at www.thedti.gov.za and it is recommended that the audit team familiarise themselves with the content thereof prior to the start of the review.

2. The role of the Independent Auditor

During the claim process, the successful applicant has to submit a fully completed Claim Form, Asset List and Activity and Training Schedule (Labour stats). Prior to submission, the Independent Auditor has to perform certain procedures of an audit nature to provide the dti with the required assurance that the information contained in the Claim Form complies with the BIS Guidelines.

3. Performing the audit procedures

The Independent Auditor should take note that the audit procedures proposed in this document are generic and based on the information that one would expect to find at the Operator. In cases where the proposed audit procedures cannot be performed, the Independent Auditor is required to define and undertake the additional procedures necessary to achieve the stated audit objectives.

4. Procedures and Findings

Our procedures performed and corresponding findings thereon are set out in the table below:

Below is the list of documents to perform procedures under A,B,C,D and E

- ☐ Application Form, Claim Form, Grant Approval Letter, Companies and Intellectual Property Commission (CIPC) registration, Audited Annual Financial Statements/ Certified set of Management Accounts, Asset List, B-BBEE Certificates, Tax Clearance Certificate (TCC), Proof of third party funding, Schedule of base year employees, PAYE, UIF and SDL registration information, Schedule of total number of full-time and seasonal employees, Payroll information indicating the total hours worked by employees and all applicable deductions, Bank statements, Employee turnover information since application for incentive, Cost sharing grant information. Pre-feasibility study report, feasibility study report, accreditation of consultants by DFI, activity schedule with completed milestone as per asset register, supporting documents for costs incurred, Product Development category applied for and being claimed, conformity assessment certificates, Information Technology systems adopted, Procurement Process adopted, Patents acquired, Production records.
- ☐ The above information to be reviewed is not limited to this list and any documents deemed necessary to perform procedure, may be requested by the auditor or by the dti.

A	General Procedures	
	Audit Objective:	
	To evaluate accuracy, validity and completeness of information submitted to the dti in accordance with the BIS guidelines.	
	Procedures	Findings
	1. Inspect Grant Approval Letter, compare to the name of the entity submitting the claim.	The name of the entity reflected in the Grant Approval letter is the same as that inspected. Yes or No. If no, explain the details
	2. Inspect Grant Approval Letter, compare approved activity to activity of the entity, confirm that the entity has started production and the date of production.	Activities undertaken by the entity are the same as the activities as per the approval letter. Yes or No If no, explain the details: The entity has started production and the start of production date is ____/____/____
	3. Inspect the Companies and Intellectual Property Commission (CIPC) registration certificate and verify whether it falls within the approved productive sectors.	The company falls within the correct productive sector Yes or No If no, the qualifying criteria as per the BIS guidelines have been met Yes or No If no, explain the details:
	4. Inspect the Certified set of management accounts and verify if they are the same as the ones submitted at application stage (for Expansions only)	Are the submitted management accounts the same as when the client applied? Yes or No If no, explain the details
	5. Where there are no prior year amounts on the Annual Financial Statements or Management accounts: 5.1. Check whether the management accounts have been approved by an accredited external verifier.	The management accounts have been approved by an accredited external verifier: Yes. or No If no, explain the details
	6. Inspect the prior year Audit report where applicable and verify that the opinion given does not impact the project.	The Audit report exists: Yes. or No If no, explain the details The audit report has an impact on the project: Yes. or No If yes, explain the details
	7. Inspect company's certificate of incorporation and verify the company registration number to the B-BBEE certificate/sworn affidavit and the SARS tax clearance certificate.	The company's registration number per the tax clearance and the B-BBEE certificate correspond: Yes. or No If no, explain the details:

8.	Inspect B-BBEE Certificates issued by accredited service provider or a sworn affidavit ensuring that : 8.1. The certificate/sworn affidavit is still valid and it's in the name of the applicant. 8.2. Check that the applicant is at a minimum level four contributor	The certificate is still valid and it is in the name of the applicant: Yes. or No If no, explain the details The applicant has achieved at least BEE level 4 Yes. or No If no, explain the details
9.	Inspect the tax clearance certificates submitted and check if they are in the name of the applying company and still valid.	A tax clearance Certificate documents exist and are in the name of the company: Yes. or No If no, explain the details: The tax clearance Certificate were valid at the date of submission: Yes. or No If no, explain the details
10.	Verify the shareholders' certificate against the shareholder's reflected on the application form	The shareholders' certificates of all shareholders correspond to the shareholders on the application form Yes. or No If no, explain the details
11.	Verify whether evidence was submitted in cases where third party funding was sourced by the applicant.	Evidence was submitted in cases where third party funding was sourced by the applicant: Yes. or No If no, explain the details:
12.	Verify the term sheet with the co-funder and the equity structure	The term sheet and the equity structure correspond with the application form (or approval letter), and the equity structure Yes. or No If no, explain the details
13.	Verify if there is any pending litigation against the applicant that might have an impact on the project. If there was litigation during the time of application, verify whether the dtic was duly informed. This can be done through performing a forensic check with the approval from the applicant or obtaining an affidavit by the company CEO submitted to the dtic declaring no pending litigation against the applicant.	There is pending litigation against the applicant that might have an impact on the entity: Yes. or No If yes, explain the details and check if the dti was duly informed:
14.	Recalculate the approved grant amount and verify whether the approved grant amount is in accordance with the grant calculation and capped amount as detailed in the approved Programme Guidelines and as per the approval letter, issued by the dtic .	The total grant approved per project is R..... The total approved amount is in accordance with the grant calculation. Yes. or No If no, explain the details
15.	Verify whether the total amount claimed per project has not exceeded the approved grant amount.	The total amount claimed per entity has not exceeded the approved budget per the approval letter. Yes. or No If yes, explain the details
16.	Obtain the payroll information indicating the number of full-time and seasonal employees, gender of the employees, ID numbers and the total hours worked by the employees during the applicable claim period and compare to the information reflected in the claim form for accuracy.	The total number of employees differentiating between full-time vs. seasonal employees and total hours worked for the claim period for the entity agrees to the underlying wage and payroll records: Yes. Or No If no, explain the details
17.	Agree the base employees in the application form to the client's payroll head count at time of application to ensure accuracy of base year employees. <i>"Base employees" refers to the number of employees of the applicant during 12 month period before submission of application to the dtic.</i>	The payroll head count and the base employee correspond at the time of application: Yes. or No If no, explain the details

	18. At current year compare the applicant's payroll head count to the base year employees, follow up with management if current year is below that of the base year. <i>(Claim year could be the same as base year)</i>	The current payroll head count decreased from the base year employees: Yes. or No If yes, explain the details:
	19. Assess whether the employment levels used in the application process have been maintained during the incentive scheme. If not, inspect correspondence to the dti for reasons provided.	The employment levels used in the application process have been maintained: Yes. or No If no, is there correspondence with the dti indicating the reasons: Yes. or No If no, explain the details
	20. Inspect evidence that employees engaged in the legal entity have been registered for PAYE, UIF and SDL.	There is evidence of registration: Yes. or No If no, explain the details
	21. Verify if the entity meets the minimum sectoral wage	The entity meets the sectoral wage Yes. or No If no, explain the details
	22. Inspect the payment records to confirm that UIF deductions relating to employees who qualify for UIF have been paid over to the authorities.	UIF deductions for employees that qualify for UIF have been paid to the authorities: Yes, or No If no, explain the details:
B Capital Investment		
Audit Objective:		
To evaluate accuracy, validity and completeness of information submitted to the dti regarding capital investment.		
Procedures		Findings
Obtain the detailed list of Claim Assets reflecting the additions of qualifying assets acquired during the Claim Period and perform the following procedures:		
	23. Re-perform the casts and cross casts of the Asset List and compare the cost and details of additions during the Claim Period to the underlying accounting records for the Claim Period	The amounts on the Asset List agree to the cost and details of assets acquired during the Claim Period and no casting errors were identified Yes, or No If no, explain the details
	24. Check that the costs related to professional fees are directly related to the qualifying machinery and equipment and/or buildings claimed for and is for the approved project i.e. such costs relate to the actual work for commissioning, installation, construction etc. which will result in the asset being put into use.	The costs related to professional fees are directly related to the qualifying machinery and equipment and/or buildings claimed for by the approved project and will result in the asset being put into use. Yes, or No If no, explain the details
	25. Inspect supporting documentation is for evidence that the assets actually have been acquired e.g.: invoices, contracts, proof of delivery and evidence of payment to the supplier.	Inspected supporting documentation there is evidence that assets have actually been acquired. Yes, or No If no, explain the details
	26. Inspect the list of assets purchased during the claim period from the asset register/s and physically verify these assets. <i>(Refer to the assets template as completed for the dti submission).</i>	The assets bought during the claim period were physically verified: Yes. or No If no, explain the details:
	27. Verify that all assets included in the claim form are "qualifying assets" as per the dti guidelines and that "non-qualifying" assets have been excluded for grant payment purposes.	All assets are "qualifying assets" in terms of the dti BIS guidelines and no "non-qualifying" assets have been included: Yes. or No If no, explain the details:
	28. Inspect the commencement date when the assets were placed into commercial use and verify if it was after the approval date of application.	The commencement date on which the assets were placed into commercial use is _____ It is after the approval date of the application.

		Yes. or No. If no, explain the details
36	Check the Capital Investment Amount variation from application stage to bankable feasibility stage	There is a variance in the Capital Investment amount Yes. Or No. If yes, explain the details
37	Recalculate the cost sharing grant as per the dtic guidelines and the approval letter. Verify that the maximum grant for feasibility studies was 3% of the total project cost, with a cost-sharing calculated	The grant amount corresponds with the approval letter and the guidelines Yes or No If no, explain the details
38	Verify if the project is receiving government incentives for feasibility studies.	The project is receiving government incentives for feasibility studies: Yes or No For yes, explain the details
39	Verify if the feasibility studies includes licenses, quality assurance, conformity assessments and standards	The feasibility study includes licences, quality assurance, conformity assessments and standards Yes or No If no, explain the details
40	Confirm the existence of deliverables as per the skills transfer plan and the dtic approved Activity and Training Schedule and determine whether the deliverables agree to was specified and approved during the application process.	The deliverables per the Activity and Training Schedule agree to what was specified and approved during the application process: Yes. or No If no, explain the details
41	Verify which components of post investment were approved / recommended and determine whether deliverables were met	The deliverables were met as agreed Yes. or No If no, explain the details
D BUSINESS DEVELOPMENT		
Audit Objective:		
To evaluate accuracy, validity and completeness of information submitted to the dtic regarding Business Development Components.		
Procedures		Findings
42	Confirm the existence of deliverables as per the dtic approved Activity and Training Schedule and determine whether the deliverables agreed to, was specified and approved during the application process.	The deliverables per the Activity and Training Schedule agreed to, what was specified and approved during the application process: Yes. or No If no, explain the details
43	Inspect evidence of improvement as detailed in the application form. Verify whether this is in line with the reasons given on the application form submitted to the dtic .	There is evidence of improvement (<i>Describe details of any improvements</i>): Yes. or No If no, explain the details
44	Verify the items and costs as per the claim assets list against relevant supporting evidence, eg: Invoices, bank statement	Items and costs on the claim asset list are as per the supporting evidence Yes. or No If no, explain the details
45	Verify if the Business Development services categories on the claim asset list is per qualifying investment cost categories as the guidelines	Categories of the Business Development costs is qualifying as per the guidelines Yes. or No If no, explain the details
46	Recalculate the cost sharing grant as per the dtic guidelines and approval letter	The grant amount corresponds with the approval letter and the guidelines. Yes or No If yes, explain the details

E ECONOMIC BENEFIT CRITERIA (EBC)	
Audit Objectives	
To evaluate accuracy, validity and completeness of information submitted to the dtic regarding the Economic Benefit Criteria	
Procedures	Findings
47 Confirm the number of Economic Benefit Criteria requirements achieved by the project and check if it complies with the guidelines	The project has achieved _____ Economic Benefit Criteria requirements and complies to the minimum requirements for the guidelines Yes or No If no, explain the details
48 Verify whether the jobs were secured/retained or increased	Number Jobs secured/retained or increased is as approved Yes. or No If no, explain the details
49 Verify/confirm if the market share was secured (new business/operation) or market share was increased (existing business/operations). Check the evidence of such in the form of signed supplier agreements, etc.	Market share was secured Yes. or No If no, explain the details Has the market share increased? Yes. or No If no, explain the details
50 Confirm quality improvement initiatives that have been implemented and has resulted in the reduction of the relative prices and/or including the quantity of the products	Relative prices of products were reduced Yes. or No If no, explain the details Has the quality of products to consumers increased? Yes. or No If no, explain the details
51 Verify whether any Green Technology and resources efficiency improvements have been implemented.	Green Technology and resources efficiency improvements have been implemented. Yes. or No If no, explain the details List all the improvements that have been implemented.
52 Verify if the localisation of production activities have been increased (diversification and exports)	Localisation of production activities have been increased Yes or No If no, explain the details
53 Confirm whether the entity is located in a rural area or an area with an unemployment rate higher than 25%	The entity is located in a rural area Yes or No If no, explain the details The entity is located in an area with an unemployment rate higher than 25% Yes or No If no, explain the details
54 Confirm if shareholders have made financial/non-financial contribution to the business	The shareholders have made financial contribution to the business Yes or No If no, explain the details The shareholders have made non-financial contribution to the business Yes or No If no, explain the details
55 Confirm whether the entity has achieved at least a level 4 B-BBEE contributor status	The entity has achieved at least level 4 B-BBEE contributor status Yes or No

