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BLACK ECONOMIC EMPOWERMENT PROJECT

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Black Economic Empowerment in the Automotive Manufacturing Industry:
A Case for Productive Capacity Development Transformation

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Introduction

The automotive manufacturing industry has received little, if any, sustained academic attention on Black Economic Empowerment (BEE) or Broad-Based Black Economic Empowerment (BBBEE). Most of the work is in the form of news capturing the reactions of industry role players, especially the lead firms in the automotive value chains, to BEE or BBBEE regulatory changes, and individual lead firms' transformation initiatives. This working paper represents a modest attempt at laying the basis for a sustained focus on BBBEE in the automotive manufacturing industry, the mainstay of South Africa's manufacturing base. We argue for a production development and industrial transformation approach, with the objectives of deepening and widening domestic value addition as part of localisation, and increasing employment with greater attention on expanding, diversifying and growing the lower tiers of the supplier base – the second and third-tiers.

We have organised the paper into six compact sections. The first briefly reflects on the economic position and contribution of the automotive industry in South Africa, while the second presents a definitional framework for BBBEE with the third evaluating the performance on BBBEE scorecards seen within the automotive manufacturing industry. The fourth section turns to a shift that occurred from BEE, seen as narrow, to BBBEE, while the fifth reflects on the development of the BBBEE equity equivalent trajectory and the context of its development in the automotive manufacturing industry. The final section looks at the Automotive Industry Transformation Fund as a synthesis that emerged from the contradictions on BBBEE in the industry. Conclusions are drawn from the preceding sections.

Economic position and contribution of the automotive industry in South Africa

The automotive industry in South Africa is regarded as an example of industrial policy success and mainstay of the country's manufacturing landscape (Automotive Industry Export Council, 2020). A modern, revitalised sector that has, in its wider construct, contributed a minimum of 5.5% (1999) and maximum of 7.5% (2005, 2006 and 2015) to the country Gross Domestic Product (GDP) between 1999 and 2019 (Mashilo, 2019), based on data from the Automotive Industry Export Council (AIEC) annual Automotive Export Manual publications and, furthermore, taking into account data from the AIEC (2020; 2019). The automotive industry's contribution to South Africa should be viewed through the lens of the country's economy having developed within a trajectory characterised Fine and Rustomjee (1996) as the 'Minerals-Energy Complex', not to mention the country having the strongest financial services sector on the continent. By the minerals-energy complex reference is made to the dominance of minerals extraction and related energy production in South Africa's economy for many years.

A regular decades-proven track record of GDP contribution between 5.5% and 7.5% in that context is significant for an industry known to be footloose across emerging centres of production, given the global nature of ownership by the large value chain drivers, the automotive Original Equipment Manufacturers (OEMs) – the vehicle manufacturing companies that assemble a range of proprietary components and sub-systems into a final vehicle. In South Africa, the OEMs producing light motor vehicles in high volumes are BMW, Ford, Isuzu, Mercedes Benz, Nissan, Toyota and VW. According to the AIEC (2020), the automotive industry contributed 6.4% to South Africa's GDP in 2019, with automotive manufacturing accounting for 27.6% of the total South African manufacturing book.

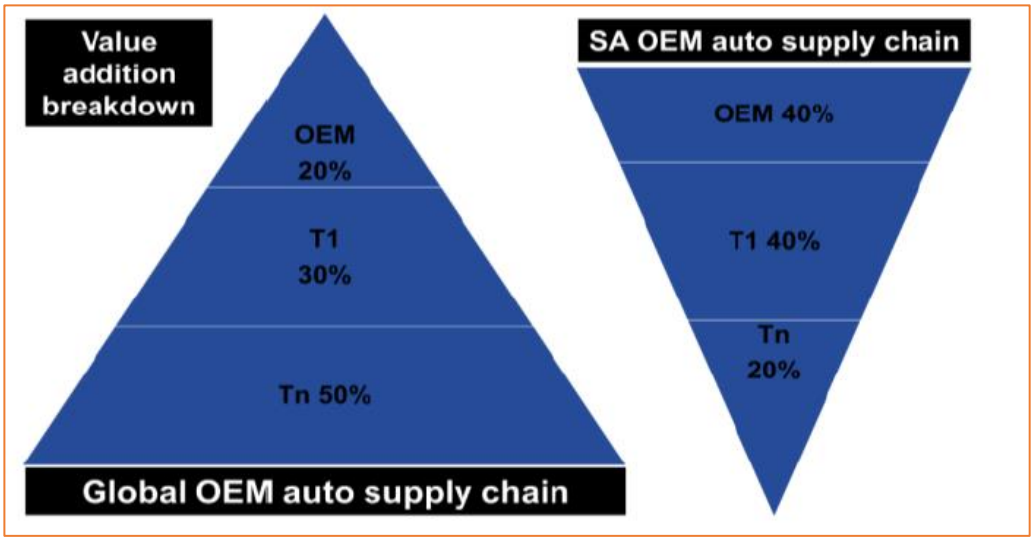
Fixed investment was recorded at R7.3 billion for the OEMs and a corresponding R3.5 billion in component manufacturing. More than 630 000 vehicles were produced in South Africa in 2019, out of which R148 billion worth of export sales was derived. Similarly, automotive component exports accounted for almost R54 billion of exported products and, of course, the all-important metric of hosting approximately 110 000 direct manufacturing jobs over the course of 2019. Most of this employment is in the automotive components manufacturing sector, at 80 000 jobs, while 30 250 jobs are in the vehicle assembly sector and related operations (AIEC, 2020). The automotive assembly sector is more capital intensive, as the capital expenditure of the seven OEMs constituting the sector indicates in relation to that of the components manufacturing sector.

When analysing this within the commonly used notions of global competitiveness and cross-cutting economic benefits that a deep base of automotive manufacturing brings to a host economy, it is easy to concur at a high level with those highlighting this sector's claim as a South African industrial policy 'darling'. Adopting a more critical analysis would unearth certain views pointing towards a lukewarm impact of the industrial policy applied to automotive manufacturing in South Africa to achieve meaningful results in key economic objectives, especially around localisation levels within the vehicle assembly sector, and the transformation imperative as captured under the BBBEE framework.

Flatters and Netshitomboni (2007) highlight the fiscal costs of hosting the sector in South Africa. While arguing for the ongoing promotion of the sector, Barnes and Black (2013) do highlight the negative impacts to component manufacturing over the Motor Industry Development Programme (MIDP) period (1995–2012). As Barnes and Black point out, the MIDP was good at restructuring and introducing a level of rationalisation and export competitiveness to a sector emerging from isolation (under sanctions against apartheid), but true local content levels as evidenced by manufacturing value addition went down to between 50% and 60% during the MIDP period. This trend was exacerbated over the past decade of the implementation of the Automotive Production Development Programme (APDP) introduced in 2013.

During the APDP, localisation levels moved from a documented 46.6% in 2012 to 38.7% in 2018 (Barnes, Black, Comrie & Hartogh, 2018). The biggest losers in this localisation regression have been the lower tiers of supply into vehicle production, with a significant hollowing out of the second- and third-tier capabilities since the mid-1990s. The dearth of this deep lower tier capability is often pointed to as a reason South Africa often struggles to attract even greater levels of vehicle assembly volumes, associated with local content gains. This is reflected in South Africa currently producing less than 0.7% of total global vehicle production and was also highlighted in a presentation made by the National Association of Automobile Manufacturers of South Africa (NAAMSA) past president, Andrew Kirby, at the association's Automotive Conference 2019 held at the Festival of Motoring in August 2019. Furthermore, as Monaco, Barnes and Black (2018) indicate, value addition in South Africa is concentrated at the top end, in terms of which it was estimated that OEMs produced 40%, first-tier components suppliers 40%, while second- and third-tier components and parts suppliers only produced 20%. This inverted scenario, which reflects a 'top heavy' triangle, goes against global trends in terms of which more value addition takes place at the bottom tiers of the value chain where the base lies (Figure 1 below), indicating a longer-term concern around deep and embedded capability and competitiveness for the value chain.

Figure 1: South Africa's inverted pyramid automotive manufacturing scenario



Source: (Monaco, Barnes & Black, 2018: 1)

We agree with Black, Barnes and Monaco (2018) who intimate that the transformation objective seen in the South African Automotive Masterplan (SAAM), produced by the Department of Trade and Industry (DTI) to replace the APDP in 2021, to increase the contribution of black-owned suppliers' gross value addition can only be achieved in tandem with the other objective of increasing the South African automotive industry localisation levels to 60% by 2035. The researchers commissioned by the DTI in developing this masterplan, Barnes, Black, Comrie and Hartogh (2018), hold, similarly, that this localisation-enabled transformation of ownership dynamic is best suited in the second- and third-tier spaces. They argue that there is 'no space for South African capital at an OEM level, and only limited space for South African capital at a tier 1 automotive component manufacturing level. At these levels, the industry's ability to contribute to the transformation of the domestic economy lies in its fiscal contributions, employment of black South Africans, enterprise development and the deepening of skills and technology spill overs' (Barnes, Black, Comrie & Hartogh, 2018: 21).

This brief reflection allows a few early observations and assertions. The first being that South African automotive industrial policy, to date, has done good work at maintaining and growing a base of automotive assembly in the country in the post-isolation period and through the economic crises of the recent past. This trajectory was not replicated lower down the value chain, where regression took place in localisation levels linked to component manufacturing. Equity focussed transformation is also inadequate when looking at the multinational giants that permeate this industry, given the relative ease of capacity shifting and disinvestment. A more adequate opportunity should lie in the use of the 60% localisation objective and its associated policy tools to increase domestic value addition contribution of lower tier suppliers, and in doing so, unlock opportunities for South African, black-owned companies to rise to the fore.

Defining the framework of BBBEE and its balanced scorecard approach

The practical measurement, implementation and monitoring of BBBEE has its roots in a targeted policy and legislative framework, as identified by Balshaw and Goldberg (2008: 61):

- The Strategy for Broad-Based Black Economic Empowerment (March 2003).
- The Broad-Based Black Economic Empowerment Act 53 0f 2003.
- The Codes of Good Practice, which came into operation from 2007.
- Business responds to these codes by implementing transformative activities and then having a balanced scorecard verified by accredited verification agencies.

The typical scorecard elements, based on the above cited legislation and regulations, are summarised in Table 1 below:

Table 1: Scorecard elements

Points to Levels Conversion		
Points	**Level**	**Compliance Category**
Above 100 points	Level 1	Maximum Compliance
95-100 Points	Level 2	
90-95 Points	Level 3	
80-90 Points	Level 4	First level of Full Compliance
75-80 Points	Level 5	
70-75 Points	Level 6	
55-70 Points	Level 7	
40-55 Points	Level 8	Minimum compliance
Less than 30 Points		Non-compliant

If BBBEE is viewed within a quasi-business or commercial sense, it could be seen as an elective participation legislation that measures a company's investment in the economic transformation strategies outlined by the BBBEE Codes of Good Practice, and rewards entities that commit to participation through the allocation of pricing, concessionary, licensing and incentive preferences as regards their commercial involvement with the South African state or state-owned companies.

The BBBEE Act was introduced to address the economic imbalance within South Africa (with greater emphasis on two elements – ownership and management control). In 2007, the BBBEE Act was revised through the implementation of the Broad-based Codes of Good Practice. These introduced seven elements to give the transformation tool a more holistic development outcome. These elements were:

1. Ownership,
2. Management Control,
3. Employment Equity,
4. Skills Development,
5. Preferential Procurement,
6. Enterprise Development,
7. Socio-economic Development.

In 2011, the Preferential Procurement Policy Framework Act was amended to include BBBEE provisions. It mandated the way the state establishments needed to administer their procurement and allocation of any licences, concessions or grants to the private sector. In 2013, an amendment to the BBBEE Act legally compelled the state to link incentive and grant awards to BBBEE compliance.

A further revision came about when the amended Codes of Good Practice were gazetted in 2013, to be implemented from 2015. This was an attempt to refocus industry to ramp up on what the government considered a level of underperformance in certain elements, and the scorecard was consolidated into five elements but three of them (Ownership, Skills Development, and Enterprise and Supplier Development) were given priority status. This priority status meant there were essential compliance elements. Furthermore, non-performance in these areas would lead to an overall discounted score, irrespective of exceptional performance in other elements.

The defining decision around having incentives and grants linked to BBBEE scorecard levels meant that the automotive sector's participants were now being compelled to meet a minimum compliance level. The first step in that direction was taken by the Department of Trade and Industry (DTI) in 2015 with the announcement that the cash incentive for investment, the Automotive Investment Scheme (AIS) was going to initially be linked to a minimum compliance level of 8. This was followed by the 2018 announcement by the Minister Rob Davies, that it was an intention to link the full sector programme of Automotive Production Development Programme (APDP) Phase 2, under the umbrella of the South African Automotive Masterplan (SAAM) 2035, to a minimum compliance level of 4, making some form of ownership transaction vital for sector participants, noting the discounting principle earlier explained. The intention was confirmed in the regulatory APDP Information Documents published in 2021. This necessitated sector participants, both multinationals and locally owned companies, to look at how ownership element criteria could be met.

A practical guide to BBBEE by the National Association of Automotive Component and Allied Manufacturers (NAACAM) in 2017 summarised these scorecard variants in Table 2 below.

Table 2: BBBEE scorecard variants

B-BBEE Element	CoGP (2007 legislation)	ACoGP (2013 legislation)
Ownership*	20	25
Management Control	10	19
Employment Equity	15	
Skills Development*	15	20 (5)
Preferential Procurement*	20	40 (4)
Enterprise Development*	15	
Socio Economic Development	5	5
Total	100	109 (9)

Source: NAACAM, 2017
* Priority Elements

As can be seen, the 2013 version combined the previous management control and employment equity segments. Similarly, this happened with Preferential Procurement and Enterprise Development.

It is beyond the scope of this paper to go into detail on each of the acceptable activities that contribute to scoring in each element, however, these activities are coded within a series of statements that firms and verification agencies use to determine appropriate scoring.

Recent scoring trajectory of firms in the South African automotive sector: high-level overview

It is an observation that a detailed academic trend analysis and associated data of balanced scorecards for the sector is not commonly available. Thus, this section relies on industry data presented to a quarterly forum known as the Motor Industry Development Council (MIDC). The MIDC has been the predominant industry consultative forum since 1996 in South Africa. It is a quarterly gathering to review industry data and discuss industry trends and issues, with the intent of informing policy and other strategic outcomes. The forum was chaired by the DTI and since 2019 has been chaired by the Department of Trade, Industry and Competition (DTIC). The MIDC includes representation of both the OEMs and components industry associations – the National Association of the Automobile Manufacturers of South Africa (NAAMSA) and NAACAM – the key industry trade union, NUMSA, and other implementation agencies such as the South African Revenue Services (SARS) and the International Trade Administration Commission (ITAC).

The synopsis below uses 2020 presentations of the most recent industry consolidated BBBEE scorecards for both the vehicle assembly and component manufacturing sectors. This, in turn, is informed by scores achieved and valid in 2019.

Original equipment manufacturers

Table 3 reflects the OEMs' B-BBEE scorecard for the months November 2019 to May 2020.

Table 3: OEMs B-BBEE scorecard

Ownership or Equity Equivalent for Multinational	25	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Management Control	19	12.63	10.60	8.89	11.47	9.41	12.54	8.42
Skills Development	25	18.72	19.74	21.54	20.18	20.56	19.46	17.87
Enterprise & Supplier Development (Incl. Preferential Procurement)	44	34.04	25.04	31.36	20.75	31.98	41.87	30.18
Socio – Economic Development	5	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Total Score	118	**70.39**	**60.48**	**66.79**	**57.40**	**66.95**	**78.87**	**61.48**
Level achieved		**7**	**8**	**8**	**8**	***7**	**6**	**8**
Scorecard expiry date		**Nov 19**	**May 2020**	**May 2020**	**Feb 2020**	**June 2020**	**May 2020**	**May 2020**

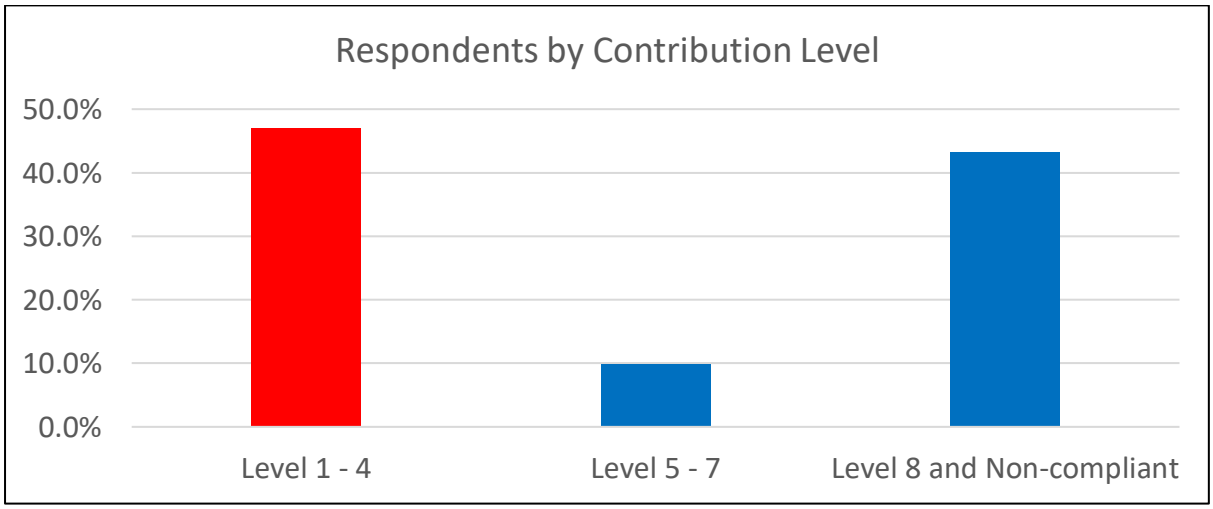
Source: NAAMSA, 2020

There are seven OEMs assembling vehicles in South Africa and, without needing to reference individual scorecard labels, one thing is obvious. As of 2019, the ownership element had not been complied with across the board. That, in turn, has the discounting impact (formerly described) and this, despite achieving the sub-minimum requirements in other priority elements (although in this case not all OEMs had met the sub-minimum in enterprise and supplier development spend as well, another priority element). It is clear that both the skills and socio-economic elements were well performing among all OEMs.

Component manufacturers

NAACAM conducts an annual BBBEE landscape survey of its members. The 2020 survey results were extracted from a sample of 80 members, of whom 40% were foreign-controlled Multinational Corporations (MNCs), with the balance being either fully South African-owned or some form of joint venture. All respondents qualified to be assessed under the generic scorecard classification. The results are summarised in Figure 2 below.

Figure 2: NAACAM 2020 B-BBEE survey results



Source: NAACAM, 2020

When looking simply at final scorecard ratings of the respondents, 47% were fully compliant with government incentive requirements by achieving no worse than a scoring level of 4. Yet, if one drills down into firms owned locally versus foreign-controlled MNCs, the analysis duplicated results seen in the OEM space.

Table 4: Automotive components sector BBBEE scorecard: foreign-controlled MNCs versus South African-owned and joint ventures

Contribution Level	Multinational (MNC)	SA Owned	Joint-Venture (JV)
Level 1	0,0%	8,8%	10,0%
Level 2	3,3%	14,7%	10,0%
Level 3	0,0%	8,8%	10,0%
Level 4	6,7%	35,3%	30%
Compliant with incentive requirements	**10,0%**	**67,6%**	**60,0%**
Level 5	6,7%	5,9%	0,0%
Level 6	0,0%	5,9%	0,0%
Level 7	6,7%	0,0%	0,0%
Level 8	50,0%	5,9%	20%
Compliant	**73,3%**	**85,3%**	**80,0%**
Non-complaint	**26,7%**	**14,7%**	**20,0%**

Source: NAACAM, 2020

Only 10% of multinational component suppliers were compliant with incentive requirements at level 4 or better compared to a 67,6% compliance for South African owned firms and 60% for joint ventures at the same assessment levels.

Table 5 below reflects the survey results by quartile.

Table 5: Automotive components B-BBEE scorecard by quartile

Element	Weighting Point	Average	Lower Quartile	Results (%)	Median	Results (%)	Upper Quartile	Results (%)
Ownership	25.0	13.1	0.0	0.0	13.76	55.0	23.0	92.0
Management Control	19.0	8.6	5.9	31.1	7.5	39.5	11.4	60.0
Skills Development	20.0	18.0	16.4	82.0	18.8	94.0	19.4	97.0
Enterprise and Supplier Development	40.0	33.2	28.6	71.5	34.3	85.8	38.9	97.3
Socio-Economic Development	5.0	4.9	5.0	100.0	5.0	100.0	5.0	100
Total	109.0	77.6	61.0	56.0	81.1	74.4	86.2	79.1

Source: NAACAM, 2020

As seen with the OEMs, the biggest issue, especially for those found in the lowest quartile of overall scorecard performance, was no compliance whatsoever in the ownership element, weak compliance in terms of management control and strong performance across the board in skills and socio-economic development. Where companies did perform well in ownership these were mainly South African-owned companies.

Thus, it can be deduced that the biggest area for scorecard improvement, at both OEM and supplier levels, is in the ownership element. Since some form of recognition in this element will become crucial under the SAAM Framework post-2020, a solution to this needed to be found for the sector.

Shift from BEE, seen as narrow, to BBBEE

The way BEE was introduced, although for different reasons, with a focus on equity, was viewed as benefitting a few and described as often belonging to a politically connected elite, hence it was perceived as "narrow". The

criticism came from different angles, including from within the governing party's alliance partners[3]. It excluded workers and the magnitudes of historically disadvantaged, who remained left out of the ownership structures that remained essentially untransformed, except in certain cases only in terms of appearance – the complexion of the boardroom. The model was also criticised as being prone to fronting, needless to mention corruption, and to the detriment of employment as some of those so empowered took part in undermining national production development through import schemes.

A question could therefore be posed whether, in the case of the automotive industry, it would have been wise to choose a path that was seen to be in the interest of a narrow elite and compromise the wider South African population in the face of global developments, such as possibilities of production relocations (the next section highlights some of these). The answer is obvious. That would have been unwise. The shift to a sector specific type of BBBEE, although still nascent with room for improvement, was in part a response to the criticisms against what became widely referred to as a narrow ownership or equity only focussed BEE model.

Equity equivalent BBBEE empowerment trajectory and its context in the automotive manufacturing industry

President Cyril Ramaphosa announced the Automotive Industry Transformation Fund (AITF) at the second South Africa Investment Conference on 6 November 2019, as part of the investment commitment made by investors. A statement on behalf of the seven vehicle manufacturers confirmed the commitment the same day (NAAMSA, 2019). The creation of the AITF followed more than a decade-long extensive engagement between the automotive industry, led by the Original Equipment Manufacturers (OEMs), the lead firms in the industry's Global Value Chains (GVCs) and the DTI (DTIC since 2019). The consultative process was held against the background of the first enactment of the Broad-Based Black Economic Empowerment (BBBEE) Codes of Good Practice in July 2007.

The central question in engagements was implementation of compliance with the BBBEE Codes of Good Practice's requirement for all entities operating in South Africa to sell a part of their equity stake to black South Africans as part of contributing to BBBEE objectives, on the one hand. On the other hand, all the OEMs with manufacturing operations in South Africa are subsidiaries of foreign-controlled MNCs not allowing them to sell an equity stake, thus preventing them from complying with the ownership element of the BBBEE Codes of Good Practice. In the same vein, although to a lesser extent, subsidiaries of foreign-controlled MNCs occupied most of the first-tier automotive components manufacturing landscape in the country. In 2019, for instance, South Africa had in the order of 180 first-tier automotive components manufacturers, of which an approximate 75% were subsidiaries of foreign-controlled MNCs (Automotive Industry Export Council, 2020).

An interesting observation of global trends gives succour to such a holistic development shift over ownership-focussed issues, especially in an automotive context. Policy directions of well-established developing economy automotive industries, such as in Thailand in the Global South and Turkey, appear to be less focused on attracting investments from entirely new foreign companies and more focused on deepening existing automotive activities (Barnes, Black, Comrie & Hartogh, 2018). In the Global South China[4], the often-cited example of foreign ownership restrictions, whereby automotive multinationals could own not more than 50% of their companies based in China, in 2018 announced the lifting of that restriction to allow fully foreign-owned MNCs entities to operate within its borders (PwC, 2018). Joint ventures played a crucial role in China as a key component of its automotive industrial policy years before (Barnes, 2017).

The move by China was preceded by a similar policy direction by another major automotive manufacturer in the Global South, India. Joint ventures also played a central role in India's automotive industrial policy, with the Indian government in the 1980s encouraging investment in the joint ventures model through a range of incentives and, in

[3] See, for example, South African Communist Party (2014)
[4] The world's largest automotive manufacturer (International Organization of Motor Vehicle Manufacturers, 2021)

1993, allowing automatic approval for all foreign investments in joint ventures up to 51% (Barnes, 2017). This model unravelled after 2000, however. The Indian government allowed automatic approval for 100% foreign ownership (Badri & Pankaj, 2008)[5], thenceforth. The joint ventures that remained were increasingly foreign dominated, leaving many in practice becoming joint ventures by name only, and leading to more automotive production operations in India being fully foreign owned (Barnes, 2017).

The South African question then, considering everything, was what the alternative was to build an empowering ownership for black South Africans in the automotive manufacturing industry. The answer to this question, we would argue, requires grasping an appreciation of the power relations that shape the direction of developments in the automotive GVCs controlled by the multinational OEMs as lead firms, value chain drivers and investors. To a lesser extent, a similar categorisation would apply to the large tier 1 multinational suppliers, but they too remain to some extent reliant on direction from the OEM customer.

The balance of power in the automotive Global Production Networks (GPNs) between the actors involved, for example, between OEMs and their components suppliers, capital and labour, and capital and the state, plays a key role in shaping the overall direction of change, in terms of which the position of OEMs as lead firms is crucial (Mashilo, 2019b). BBBEE became a hot button in the automotive industry's power relations during the review of the Automotive Production Development Programme (APDP), for example, between 2017 and 2019. The review was destined for a successor to the APDP, the South African Automotive Masterplan (SAAM).

Thomas Schaefer, then VW South Africa chairperson and managing director, warned that automotive production in South Africa could halt if the review of the APDP and its incentives were to be linked to extremely stringent BBBEE ratings. There was no rationale to produce automotive vehicles in South Africa without the automotive industrial policy, whose incentives could be affected if access to them was linked to BBBEE ratings that had no feasible alternative to the ownership conundrum. Consequently, automotive vehicle production in the country would stop 'tomorrow' if none of the automotive manufacturers met BBBEE ratings tied to industrial policy incentives, he told journalist Roy Cokayne of the *Business Report* (28 August 2017).[6] In the same vein, Oliver Zipse, BMW board member responsible for production and chairperson of BMW South Africa, warned from Munich, Germany that there would be no reason for the OEM to continue its production operations in South Africa, a country far away from any big vehicle market, should the review of the APDP remove export credit incentives from the SAAM (Cokayne, 23 March 2018).[7]

What Schaefer said, furthermore, considering the issue raised by Zipse of South Africa's distant location to any big vehicle markets, was neither a mere utterance nor an empty threat. Although for different reasons, essentially the MNC's global restructuring involving vehicle manufacturing plants shutdowns in several countries, General Motors exited manufacturing in South Africa in 2017, with its manufacturing facility acquired by Isuzu Motors. Similar to this, the same year in October, Australia saw a complete shutdown of automotive manufacturing. The last OEM with manufacturing operations left in that country then, Holden, formerly General Motors-Holden, shut down its manufacturing after a century of vehicle production and switched to imports (Helven, 2018).

Toyota, Ford and Mitsubishi, with the latter having been the first to shut down its operation in 2004, exited automotive manufacturing in Australia before Holden. Clibborn, Lansbury and Wright (2020) identify, regarding the last three OEMs that exited automotive manufacturing in Australia, factors that are closely related to the concerns raised by Schaefer and Zipse about policy implications for automotive manufacturing in South Africa. The 'decline in the effective rate of protection accompanied by ultimately unsuccessful government assistance packages… and the difficulties of domestic producers to maintain profitability were the most important factors in the decisions of Ford, GM Holden and Toyota to close their local manufacturing operations in Australia (Clibborn,

[5] As also cited in Barnes, T. (2017: 225)
[6] Cited in Mashilo (2019: 241).
[7] Referenced in Mashilo (2019: 242).

Lansbury, & Wright, 2020: 256-257). In other words, and this is what Schaefer's warning regarding BBBEE policy choices drew attention to, OEMs could close automotive production in South Africa should any of these or other factors that they considered to be unfavourable to profitability occur as a result of, but not exclusively, the government's policy choices and its handling of those choices.

What the vehicle manufacturing plant closures highlighted above underline (and most probably also others that occurred elsewhere in the world) is that automotive manufacturing is as mobile, thus movable, as the automobiles it produces. Our use of the concepts GVCs and GPNs also serves to highlight their analytical contribution to the development of an appreciation of the global (in terms of scale) and globalised (in terms of functional integration) character of automotive manufacturing. In this scenario, multinational OEMs and other MNCs, such as first-tier components manufacturers, follow their respective global production systems, common in their globally dispersed production facilities. Decision-making on certain aspects of governance, management and production is centralised at their respective global headquarters (Mashilo, 2010). From this perspective it is safe to assume that when engagements took place on BBBEE, it was not merely between the government and the subsidiaries of multinational OEMs in South Africa. The multinational OEMs determine the terms of business and engagements and they guide their respective subsidiaries under the overall strategic direction that they set from their headquarters.

Most MNCs' globally dispersed production facilities are essentially the same, reflecting their globalised feature of functional integration, despite certain differences in some features. In this framework, other manufacturing facilities produce the same vehicle models, with certain plants augmenting others, which play the role of a global mainstay. This makes it possible to shift production volumes from one manufacturing facility or global region to another. Conditions of global excess capacity make that decision-making relatively easy. The mobility of automotive production distinguishes it, for example, from mining activity. In the latter, the minerals being mined are not movable, unless they are mined first. This fixes mining activity where natural processes located those mineral resources.

An iteration of the BBBEE Codes of Good Practices, recognising contributions in lieu of a direct sale of an equity stake, produced a settlement – the way forward in the automotive industry on the hot button. For this purpose, MNCs are, however, required to prove that they do not enter into partnerships involving selling an equity stake in other countries globally (DTIC, n.d.). The contributions in lieu of a direct sale of an equity stake count towards the BBBEE ownership element, in terms of which the value of those contributions may be measured against 25% of the South African operations of the respective MNCs or 4% of their total revenue from their South African operations. This is typically known in the regulatory framework as an equity equivalent investment programme (EEIP). However, in a South African context, first this was to be a single, collective application by the seven OEMs and assessed on sector affordability and impact.

Thus, the creation of the AITF cemented the BBBEE trajectory, excluding a direct sale of an equity stake by foreign-controlled MNCs in the automotive manufacturing industry and use of a sector-wide equity equivalent model, as opposed to each company looking to do an EEIP of its own.

Automotive Industry Transformation Fund (ATIF)

The AITF took the form of an equity equivalent programme for foreign-controlled MNCs in the automotive manufacturing industry. An equity equivalent empowerment is defined as entailing a public or private programme or scheme designed to achieve BBBEE ownership requirements and which may also target investment or promote socio-economic advancement or development in South Africa (DTIC, n.d.). For it to stand, it should be approved by the minister of Trade, Industry and Competition. Examples of individual MNCs that have embarked on equity equivalent models in South Africa in other sectors include Microsoft (information technology), Caterpillar ('yellow metals') and Samsung (electronics), reflecting on the cross sectoral nature of how this concept has been taken up by subsidiaries restricted by their multinational parent policies on 'diluting' equity in the host country.

The establishment of the R6 billion AITF was hailed as unique and, by implication, demonstrated an unprecedented BBBEE transformation model and a creative solution which gave both joint benefit and joint responsibility to participants (NAAMSA, 2019). It offered benefit from an ownership element performance perspective, but responsibility to grow a base of black industrialists in the automotive sector. Designed to seed, develop and grow black-owned companies within the automotive supply chains, the unique feature of the AITF is that it is powered, supported and funded equally by the seven OEMs involved in automotive manufacturing in South Africa. Not only do their cash contributions to the fund provide a source of capital, but, more importantly, the OEMs will directly grant black South African-owned businesses market access and direct procurement opportunities, otherwise known as local content opportunities. That is, they will procure components from the beneficiaries of the AITF to grow and deepen transformation across the entire automotive value chain. The collective nature of this singular EEIP gives scale and co-ordination to the sector's black industrialist development objective.

Industry has reported that the AITF is imperative to support the development of black South African participation in ownership in the automotive manufacturing value chains. It is also imperative in its establishment as having marked 'the start of a sector-wide initiative to transform the automotive industry by broadening and deepening the participation of black and historically disadvantaged entrepreneurs in the sustainable growth and development of the industry' (AIEC, 2020: 81). For the first time, the major multinational OEMs with manufacturing operations in South Africa - BMW, Ford, Isuzu, Mercedes-Benz, Nissan, Toyota and VW – will meaningfully take part in a consolidated manner and comply with all five elements of the generic BBBEE scorecard. This includes the ownership element, in terms of which the AITF represents an equity equivalent programme in lieu of the BBBEE scorecard ownership points (AIEC, 2020).

The AITF's 'mission will be to accelerate the empowerment of black South Africans within the automotive sector; the upskilling of black employees and aspirant automotive entrepreneurs; the expansion of black-owned dealerships, authorised repair facilities and workshops; a substantial increase in the contribution of black-owned automotive component manufacturers within the automotive supply chain; and creating sustainable employment opportunities for young and female black South Africans' (AIEC, 2020: 81).

The hot button on linking the SAAM to BBBEE was also resolved by the equity equivalent empowerment trajectory represented by the AITF, in terms of which access to the automotive industrial policy incentives would not be conditional on sale of an equity stake to black South Africans. In this regard, the AITF was envisioned to play a key role in the achievement of the SAAM objectives, especially localisation and transformation in terms of building non-racial ownership patterns in line with South Africa's constitutional principles of redress. As one of the SAAM objectives, a 14-year (2021–2035) ownership development target was set in the order of 500 second- and third-tier suppliers, of which 25% or 130 should be black South African-owned by 2035, off a very low base, remarked the AIEC.

Contributing to the achievement of the other SAAM objectives is also crucial for the AITF and is part of its overall strategy. The AIEC (2020: 32–33) summarises the objectives of the SAAM, whose vision is to achieve 'a globally competitive and transformed industry that actively contributes to the sustainable development of South Africa's productive economy, creating prosperity for industry stakeholders and broader society' (2020: 32). The objectives are as follows.

1. Achieve the growth of vehicle production in South Africa to 1% of global production by 2035;
2. Increase local content in South African manufactured vehicles to 60%;
3. Double automotive employment in the supply chain;
4. Improve automotive industry competitiveness levels to that of leading international competitors;
5. Transform the South African automotive value chain;
6. Deepen value-addition in the South African automotive value chains.

To achieve these six SAAM objectives, six industry development pillars were identified as crucial, namely (i) local market optimisation, (ii) regional market development, (iii) localisation, (iv) infrastructure development, (v) industry

transformation and (vi) the development of industry-required technologies and skills. The AIEC emphasises that transformation (BBBEE) goes hand in hand with localisation – that is, the development of domestic productive capacity in the automotive industry.

Jabulani Selumane (2020), the AITF CEO competently summarised its workings for us in a session held to build more insight into the Fund. In strategic terms, the purpose of the AITF is to contribute towards transformation in the automotive value chain through providing development finance, capacity building, creating market access, and increasing local content production through developing local suppliers and commercialising local innovation, research and development (IRD) solutions and opportunities. Funding by the AITF is geared towards assisting businesses that are 51% black South African-owned in the automotive value chain.

AITF development finance covers loans and equity transactions, providing black South African-owned businesses in the automotive value chain with a combination of varying debt structures and assistance with funding for black South African ownership equity transactions. Its other aim is to source additional funding through crowd funding and other partnerships to provide developmental rates. In terms of beneficiary capacity development, the AITF assists with training and development, sponsors IRD destined for increasing domestic automotive industry production and consumption, and provides grant contributions to black South African-owned enterprises (at least 50%) in the category below an annual turnover of less than R10 million, referred to as Exempted Micro Enterprises (EMEs), those with an annual turnover of less than R50 million, referred to as Qualifying Small Enterprises (QMEs), and those with an annual turnover of over R50 million, referred to as Generic Enterprises (GEs).

The enterprises should be in the automotive value chain, defined as the third-tier – raw materials and parts, second-tier – components and sub-components suppliers, and first-tier – systems, modules, subassemblies suppliers. Added to this would be automotive vehicle assembly, vehicle distribution and retail, including logistics, and the vehicle aftermarket or after-sale market. However, adjacent industries, defined as those that support value adding functions in the automotive industry, support services, Information Technology, finance, and other services that can further enable the unlocking of local content, may also be eligible for AITF assistance, funding and investment. To achieve its objectives, the AITF is pursuing co-funding arrangements and partnerships with other institutions and investors.

The capital investments made by the OEMs to the AITF will not go back to the OEMs in the form of returns on investment, but will be used to self-sustain the Fund and its operations. This holds the view that having black South African-owned enterprises in the automotive value chain is the best return on transformation investment the OEMs could ask for (NAAMSA, 2019)

Conclusion

The collective equity equivalent BBBEE trajectory that emerged in the automotive industry is a result of an extensive process of engagement between the government and multinational lead firms, as NAAMSA stated. This process was underpinned by power relations that tend to be seen in all countries hosting the globalised automotive sector. Thus, its outcome was shaped by the balance of power, with multinational OEMs playing a key role from their primary position as lead investors with global reach and capacity to determine or at least influence the direction of developments in the automotive GVCs. Given the sector's powerful economic position, a contribution of approximately 7% to South Africa's GDP for most years post-apartheid, it is not unreasonable to conclude that there is room for growth in the coverage of the R6 billion AITF, besides the effort to establish co-funding arrangements and other financial partnerships to augment its capacity.

A key development feature of the BBBEE transformation trajectory as represented by the AITF and its objectives, including the aim to contribute to the achievement of the SAAM 2035 targets, is that it seeks to develop automotive productive capacity in South Africa, as opposed to merely allocating fractions of equity stakes to a few black South Africans without any contribution to the development of productive capacity. The AITF correctly positions itself to support the SAAM targets on transformation as well as contribute to those around expanding and deepening

localisation and doubling employment by 2035. This goes hand in hand with support for automotive IRD and transfer of know-how and skills through supporting training for the historically disadvantaged, including young people and female black South Africans.

The automotive industrial transformation process is an opportunity to intensify efforts to deepen and widen domestic value addition, with emphasis on the second- and third-tier supplier development, although not the only emphasis. Widely opening and expanding access to OEMs and first-tier suppliers as destination markets for domestic second- and third-tier supplies is essential to employment creation and more automotive industrialisation in South Africa, including the development of both component exports as well as the vehicle aftermarket or replacement parts productive capacity. The collective industry EEIP known as AITF reflects a new step in unlocking procurement opportunities as a direct swop for narrow equity positions.

There is current work on opening the fund to participation of multinational component suppliers and, should that happen, the added direct procurement opportunities for smaller black-owned companies will increase. With that, the quantum of AITF funding will be available to support them.

It appears to be a virtuous circle of economic development, especially in terms of using the country's predominant transformation legislation to drive a stagnant and even regressing localisation level, with the hope of not only increasing black-owned participation, but also bringing the competitiveness element into having deep, dynamic bases of supply to support the local OEM assembly plants. The evolving story of the AITF, within the context of the SAAM 2035 objectives, is one that merits future academic analysis. The authors of this paper are hopeful of it being a catalyst for such.

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