THE INSTITUTIONAL AND FINANCIAL ARRANGEMENTS FOR INDUSTRIAL DECENTRALISATION

R. TOMLINSON, M. ADDLESON AND F. PRETORIUS

Respectively of the Department of Town and Regional Planning, the Graduate School of Business Administration, and the Department of Quantity Surveying, of the University of the Witwatersrand.

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Die doel van hierdie artikel is om die institusionele en finansiële veranderinge wat meegebring is deur die herformulering van die beleid vir industriële desentralisasie te boekstaaf – veral sedert die stigting van die ontwikkelingsbank van Suidelike Afrika (OBSA). Dit is veral die impak wat hierdie veranderinge op die private sektor het sowel as die mate waartoe die veranderinge sal bydra tot die bereiking van die doelwitte van Regeringsbeleid wat besondere aandag kry.

Die artikel bestaan uit vier dele. Die eerste deel beskryf kortliks die polities-ekonomiese raamwerk van die beleid vir industriële desentralisasie. In die tweede deel word 'n oorsig gegee van die institusionele en finansiële reëlings (ooreenkomste) wat getref is sedert 1981. Die derde deel gee 'n oorsig van die tipes van reëlings, en hoekom dit nodig was. Die finale deel bevat voorspellings van die effek wat die beleid van industriële desentralisasie op die private sektor gaan hê.

In a sense this paper provides a 'how to' of industrial decentralisation (ID) – the institutions which should be approached by companies interested in ID, and the interrelationships among these institutions. The goal of this paper, however, is broader. It is to chronicle the institutional and financial changes which have been brought about by the reformulation of ID policy, and especially by the formation of the Development Bank of Southern Africa (DBSA). Our object is to consider the implications of these changes. We are concerned both with the impact of the changes on the private sector, and also with the extent to which they will contribute to the attainment of the objectives of Goverment policy.

The paper consists of four sections. The first section contains a brief introduction to the political-economic framework of the ID policy. In the second we provide an overview of the institutional and financial arrangements circa 1981. The overview provides a basis both for tracing the changes which have occurred, and for suggesting why they were thought necessary. The final section contains our prognostications for the future of ID policy, especially as it affects the private sector.

A Political-Economic Introduction

Few people question that the motive of the ID policy in South Africa is political. The government has argued that the social costs of more rapid urbanization exceed the private benefits to recent migrants, and hence that a decentralisation policy is desirable (Viljoen Commission, 1958). But the literature, as illustrated by World Bank reports, rejects such a position (Linn, 1982). Another popular view is that the rural poor are better off than the urban poor, but his is definitely not the case (Mazundar, 1976). The government, via frequent public comment and also via official documents (National Physical Development Plan, 1975), has also claimed that the cities are becoming 'too large'. Here too the literature is sceptical, and the claim was refuted more than a decade ago (Alonso, 1971).

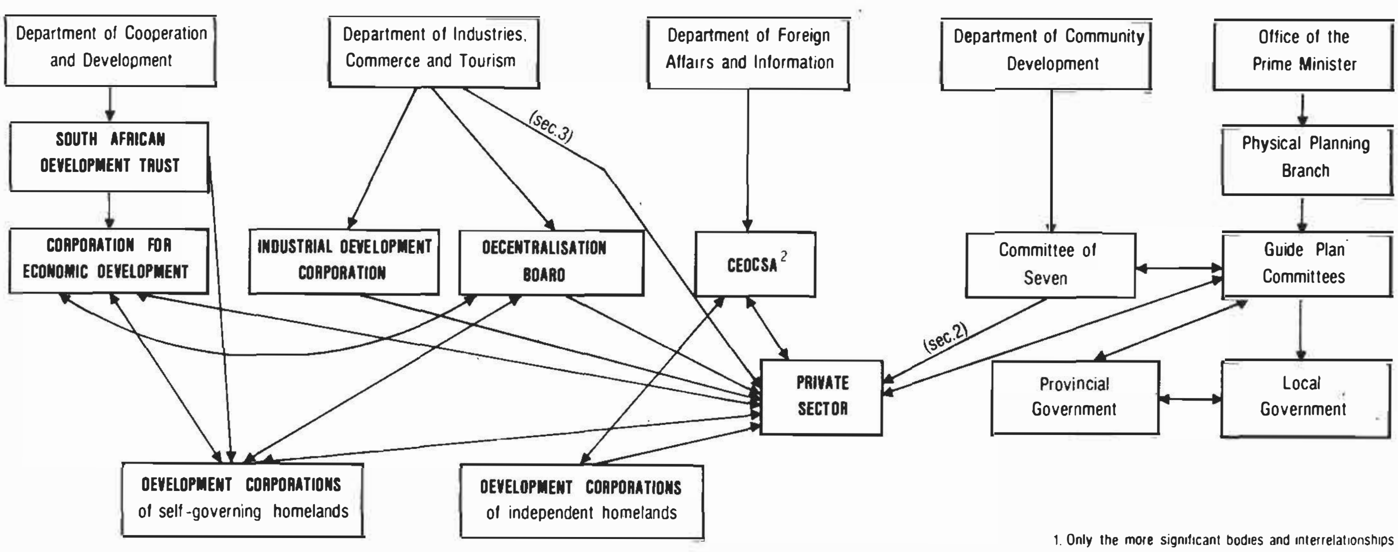
The fundamental purpose of the ID policies is to increase the proportion of the black labour force which can be resident in the homelands (Bell, 1973). The reason for keeping blacks out of the cities ties the ID policy intimately into that of 'grand' apartheid. Grand apartheid, as reflected in the ongoing constitutional initiatives, is essentially an attempt to retain white hegemony over CASA (common area of South Africa). Blacks are to be present in cities to the extent that their presence is economically necessary. (When possible, through resettlement and the creation of townships within homeland borders, blacks are to become 'commuter' labourers.) Beyond this, their physical location, and the political linkage of all blacks, is to be to the homelands. The physical isolation of surplus black labour and the political 'denationalisation' of blacks are viewed by the state as central to the continuation of white hegemony. The institutional and financial changes which have been implemented in respect to ID policy can be attributed directly to these ends. The description and interpretation of these changes occur in the third section. We now turn to an overview of the institutional and financial arrangements for implementing ID policy that existed circa 1981.

The Institutions of Industrial Decentralisation and their Financing circa 1981.

Institutions

The institutions responsible for implementing the ID policy, their interrelationships, and the financing of the policy are most easily understood by reference to diagrams and tables. Fig. 1 shows the position circa 1981. The key institutions are those in bold type. Table 1 summarizes the position of the homeland development corporations (DCs) in terms of their asset base and their debt and equity sources. Equivalent data pertaining to the other relevant corporations – the Industrial Development Corporation (IDC), the Corporation for Economic Development and the Small Business Development Corporation (SBDC) – are also presented in the Table.

Fig 1: Institutional Arrangements circa 1981.[1]



1. Only the more significant bodies and interrelationships are indicated. The major actors are indicated in bold type.
2. Committee for Economic Development and Cooperation in Southern Africa

Table 1: *The Financial Structure of the Development Corporation prior to the Formation of the Development Bank of Southern Africa.*

Development Corporation of:	*Total Net Assets (Rm)*	*Debt/Equity*[2]	*Equity Source*	*Major Debt Source*
Bophuthatswana (1982/83)[1]	260,5	0,26	Bophuthatswana Government	CED (22%), Loan Stock Issue (54%), Foreign (22%)
Ciskei (1982)	90,5	0,60	Ciskei Government	CED (99,7%)
Transkei (1981)	147,1	0,03	Transkei Government	'Internal' (93%)
Venda (1981/82)	28,9	0,18	Venda Government	Unspecified
Gazankulu (1981)	18,5	0,42	CED and SADT	CED (100%)
KaNgwane (1982)	31,5	0,73	CED and SADT	'Market'
KwaNdebele – a Development Corporation is currently being established				
KwaZulu (1982)	85,2	0,76	CED and SADT	CED (96%)
Lebowa (1982)	28,2	0,46	CED and SADT	CED (100%)
Qwa Qwa (1982)	9,2	0,07	CED and SADT	CED (100%)
Other				
Corporation for Economic Development (1983)	876,8[3]	0,78	SADT	Local Stock and Loans (56%), Investments in CED Savings Bank (25%), Minority Shareholding (18%)
Industrial Development Corporation (1983)	638,9[4]	0,57	Department of Industries	Export Finance Notes (47%), Foreign Loans (31%), Local Loan Stock (20%)
Small Business Development Corporation (1983)	139,6	0,55	Private sector (50%), S.A. Government (50%)	South African Government (96%) – interest free

Source: Annual Reports of the respective Development Corporations

1. The figure in brackets indicates to which year the data apply.
2. Long-term debt including minority shareholders' interest/equity.
3. The amount excludes CED holdings in the Development Corporations.
4. The amount represents 20,6% of the IDCs application of funds, as this was the amount allocated to industrial decentralisation.

The function of the CED depended on whether the homeland was 'independent' or 'self-governing'. In the case of self-governing homelands the CED was responsible for large industrial projects (factory size in excess of 500 m²), the construction on industrial parks, commercial agricultural projects, operating a training bureau, transport companies, and for the research function undertaken by BENSO. The DCs were responsible for small, local industrialists, commercial development, tourism, providing housing for the managerial staff of decentralising companies, and training. When a homeland became independent, its DC assumed all the functions listed above. Because CED staff were seconded to the DCs, however, and because the CED has management contracts with some of the activities falling under the DCs, in many respects the CED was stil the effective implementing and decision-making body. The dependence of the DCs on the CED will become even more apparent when we look at their financing.

When the CED was approached by an industrialist interested in decentralisation, the CED passed the application on to the Decentralisation Board (DB) (see Fig. 1). The Board decided whether to approve the project in principle, meaning whether and what level of concessions would be made available to the industrialist, but it was up to the industrialist concerned to obtain a 'soft' loan from the CED or the DC concerned. The procedure described applied to projects in the self-governing homelands.

In the case of independent homelands, when a homeland became independent, responsibility for budgetary aid and development assistance was passed on to the Department of Foreign Affairs and Information. The agency of the Department is called the Committee for Economic Development and Cooperation in Southern Africa(CEDCSA). It acted as the Foreign Affairs equivalent of the CED, and largely replaced the CED in the independent homelands. (Nevertheless, in 1983 the CED provided R8,49 million of financial aid to the independent homelands for the establishment of industries.)

The IDC has pursued the decentralisation since its inception in 1940. Its area of responsibility has been outside the homelands. The traditional role of the IDC has been that of "providing loan and other financial facilities at subsidised interest rates to industrialists establishing themselves in the decentralised areas of the Republic". (IDC Annual Report, 1982, p.7.) In 1983 21 percent or R140 million of the IDCs application of funds was for decentralisation purposes. At the time of writing (May, 1984), however, legislation was enacted to enable the IDC to operate in the independent homelands as well.

Table 2: *Sectoral Composition, Number and Private Sector Capital Contribution of Applications to the Decentralisation Board for Decentralisation Concessions, 1982/83*[1]

Sector	*Capital Rm*	*Commitment (% of Total)*	*Applicants Number*	*Applicants (% of Total)*	*Potential Job Creation*
Paper and paper products	909,5	(37)	29	(3,7)	U N A
Chemicals, and chemical, petroleum, coal, rubber and plastic products	565,4	(23)	64	(8,2)	V A
Textiles, wearing apparel and leather industries	345,1	(14)	170	(21,9)	I L
Food, beverages and tobacco	208,1	(8,5)	87	(11,2)	A B
Fabricated metal products excluding machinery and equipment	192,0	(8)	149	(19,2)	L E
Other	239,5	(9,7)	278	(35,8)	
Total	2 459,8		777	(100)	65 342
Of which, Foreign contribution	142,9	(5,8)	55	(7,1)	13 895

Source: Decentralisation Board, *Annual Report*, Annexure D and p.   , 1982/83.

1. The experience of the Decentralisation Board has been that in the case of slightly less than half the applications, subsequent investment actually takes place. The figures do not include applications for industrial establishment in the independent homelands.

As regards the nature and extent of private sector investment in the homelands, refer to Tables 2 and 3. Most industrial decentralisation into the homelands occurs in the form of branch plants and/or subsidiaries (Maasdorp, 1982). The DB has records as to the number of applicants per industrial sector, but apparently not as regards the capital investment and employment creation within those sectors. The information provided in Table 2 cannot therefore be presumed to be typical of the sectoral composition of decentralised investment. The number of applicants for decentralisation concessions in Tables 2 and 3, 777, is likewise not typical. The experience of the DB has been that slightly less than half of approved applications are subsequently implemented. Even given the scaling down of 777 by this amount to 380, the number of applicants/potential investment has increased markedly. Table 3 indicates the projects or expansions actually implemented and the employment creation which occurred between 1975 and 1981. The potential increase of decentralised activity, no doubt due to the new concession package,[1] is obvious, especially as the increase has occurred during an economic recession.

From Table 2 it can be seen that the anticipated employment creation from April 1 1982 to March 31 1983 was about 32 000 jobs, a half of 65 342. International investors will contribute about 6 500 jobs, a half of 13 895. However, to refer to employment creation in these terms is misleading. The Decentralisation Board offers a figure of 6 percent as to the number of jobs not created, but relocated. Furthermore, it is unclear how many of the jobs claimed to have been created existed in businesses which subsequently failed. Decentralisation Board officials claim that the failure rate is insignificant. However Russell (1972) queries this. The authors' current research into private sector aspects of the decentralisation programme will throw additional light on this question.

A disturbing point for employment creation is that, with respect to capital committed, the predominant sectors in 1982/83 are the relatively capital intensive paper and paper products industry, and the chemical industry. Two other factors are also relevant to a discussion of employment creation. These are sections 2 and 3 of the Environment Planning Act No. 104 of 1977, formerly known as the Physical Planning and Utilization of Resources Act No. 88 of 1967. It was throught this Act that the government restricted the zoning of industrial land and the establishment or extension of factories in 'controlled' areas. Establishment or extension was defined as the hiring of additional black labour. Section 2 deals with the zoning of land for industrial purposes, the establishment of industrial townships, the subdivision of industrial land and the granting of consent use for industrial purposes. The controls are being used to limit the supply of industrial land in the metropolitan areas, to drive up the price of such land, and hence to cause industrialists to seek non-metropolitan locations for their activities. An indication of the success of the policy as regards the price of industrial land is that apparently industrial land in Atlanta, Georgia, a city which has a similar industrial structure and size to Johannesburg, costs one-tenth that of Johannesburg.

The Section 2 restrictions are administered by the 'Committee of Seven' which has eight members: from the Departments of Constitutional Development and Planning, Community Development, Cooperation and Development, Labour, Internal Affairs, Industries, Health and Environmental Affairs. As indicated in Fig. 2, the fact that land has been zoned for industrial purposes does not mean that approval will be granted for the establishment of an industrial township. For example, if an existing industrial township is less than 70 percent occupied, then permission for the establishment of a new township is unlikely to be granted. However the 70 percent figure is not the rule. With occupancy rates above it, matters are still open to interpretation. Another example is that of Midrand Township. Township rights will not be granted for industrially zoned land unless the developer has a tenant lined up. Since township development takes 3–5 years, this is an onerous restriction. In this instance the prohibition is in order to spur the take up of land in the nearby Verwoerdburg. In the opinion of most observers, all potential restrictions are interpreted as narrowly as possible.

The Guide Plan referred to in Figure 2 is "an accepted enforceable policy document which is drafted by the parties according to prescribed procedures in which land usage of specific areas within the prescribed boundaries is indicated" (South African Yearbook, 1984, p.329). The formulation of Guide Plan goes through various stages, but with three basic divisions. In the first instance, a drafting committee with about forty members from central, local and provincial government prepares a confidential plan. In the next stage the plan is circulated for public comment. Finally, the document is published. Nevertheless, even prior to approval of the plan it is very difficult to have for example, the zoning of land changed to 'for industrial purposes'.

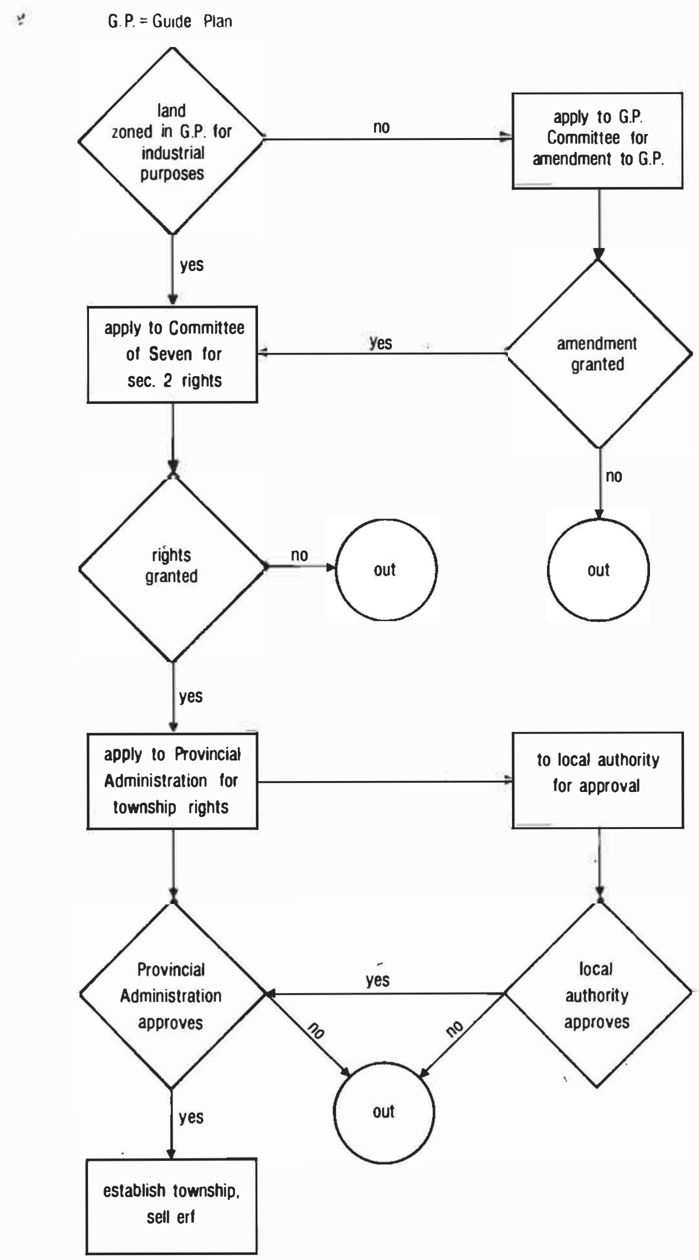
Table 3: *Projects Established, Capital Invested and Employment Created under the auspices of the Decentralisation Board, 1975–1983*[1]

Year	*Projects Established or Expanded*	*Private Sector Capital Investment (Rm)*	*Employment Creation*
1975	59	68,2	5 730
1976	91	87,9	6 738
1977	136	174	12 469
1978	123	112	8 408
1979	175	132	11 178
1980	152	140	11 421
1981	214	245	11 792
1982/83[2]	777	2 459,8	65 342
Balance of 1983	816	3 324,2	116 036

Source: Decentralisation Board, *Annual Reports 1981 and 1982/83:* and also discussions with Decentralisation Board officials.

1. The data refers to both in and outside of the homelands. Up to and including 1981, the reporting year was the relevant calendar year. Thereafter it is April 1 to March 31 of the following year, April being when the now decentralisation concession package began.
2. The figures reflect *proposed* projects. In practice, 42,8 percent of proposed projects are actually implemented.

Fig 2: The Process of Establishing an Industrial Township



The Guide Plan Committees shown in various Figures were established on the recommendation of the Niemand Commission of 1971, and have operated with statutory authority since 1975. The Committees operate under the Department of Constitutional Development and Planning (prior to this Department's formation, under the Department of Planning and also the Office of the Prime Minister.)

If the Provincial Administrator shown in Figure 2 approves the industrial township application, the occupant of the land still faces the section 3 hurdle. The section 3 restrictions are used to control the further employment of Black labour in the metropolitan areas, the 'controlled areas'. The section was phrased with regard to the establishment or extension of a factory, either of which required Ministerial approval. Establishment or extension referred to the hiring of additional Black labour. The nature of the Section 3 restrictions has varied over time (Tomlinson, 1983). The restrictions have not been rigorously applied. For example, during 1982 the restrictions were waived in the cases of 90 percent of the applications for waiver. Yet over time the number of jobs affected has added up. Between 1968 and 1980 115 000 jobs were affected, very few of which were subsequently decentralised. Job creation was even more detrimentally affected through indirect means. In 1969, for example, the Minister of Labour claimed that through controls on the zoning of industrial land and restrictions on the use of that land, the creation of a further 220 000 jobs was foregone (Beeld, 9 November, 1969; cited in Gottschalk, 1977). The periods are discontinuous and the data available is not up to date, but the obvious point is that the government has chosen to actively discourage employment creation in a country with high levels of unemployment.

More recently, the implications of such a cavalier attitude to employment creation were spelled out by the Riekert Commission (1979, par. 5.84(a)):

> In view of the political, economic and social implications of the evergrowing Black labour corps and the concomitant unemployment, any measure which like section 3, is designed to curb the creation of job opportunities in a particular area and to stop a person from working where his presence is lawful and housing is available for him, is unrealistic and indefensible.

In terms of the recommendations of the Commission, the section 3 restrictions are to be replaced by more expensive infrastructure and public services in the metropolitan areas (Van der Kooy, 1982).

Finance

As regards the financial arrangements circa 1981, the DCs of the self-governing homelands were owned by the CED and the South African Development Trust (SADT). The latter two institutions each held 50 percent of the issued shares of the DCs. The SADT falls under the Department of Cooperation and Development, as shown in Fig. 1. However, the CED was itself wholly owned by the SADT. Various transport, agricultural and other companies are under the ownership and control of the DCs. In all instances, therefore, the financing and control can be traced back to the Department of Cooperation and Development.

The DCs of independent homelands are owned by the governments of those national states. The CED and SADT shareholding in the development corporations of these homelands was handed over to the respective governments without charge.

All the DCs have low debt/equity ratios, refer Table 1. In certain instances the ratios are very low indeed. The owners of DC equity are described above. With the exception of the Bophuthatswana National Development Corporation, the debt source of each of the DCs is again the CED. The position of the Bophuthatswana DC is distinct in that the DC earns revenue from its shareholding in a number of profitable concerns, for example, Sun City. It is therefore not entirely dependent on concessionary financing and has successfully entered the domestic and international capital market.

In Table 4 the financial contributions of the Departments of Cooperation and Development and the Department of Foreign Affairs are indicated. Their expenditure on, in order, budgetary aid, land consolidation, resettlement, and development will exceed R2 billion during 1984/85. The amount includes R347 million which is a direct charge on the State Revenue Fund, but excludes other relatively minor aspects to their involvement in the homelands. In other words, the table refers to major programme expenditures. R2 billion is a not insubstantial figure. The programme order listed above indicates that the government's priority is the constitutional development of the homelands as 'nations' rather than economic development per se. With indelicate irony and consistent thinking, the section on resettlement in the Department of Cooperation and Development's annual report falls under the chapter, 'Constitutional Services'. Given that resettlement is forced on Blacks, and that at certain resettlement camps the infant mortality rate has exceeded 50 percent (Sparks, 1983), such benign interpretations of policy are Orwellian. The SADT is the Department of Cooperation and Development's agency through which the programmes described in Table 4 are implemented, and is shown as such in Fig. 1.

Table 4: *Relevant Programme Expenditures of the Department of Cooperation and Development and the Department of Foreign Affairs and Information, 1978/79 – 1984/85 (Rm)*[1]

Institution/ Purpose	*1978/79*	*1979/80*	*1980/81*	*1981/82*	*1982/83*	*1983/84*	*1984/85*
Department of Cooperation and Developement							
Development of Black areas, towards self-determination							
– consolidation of Black areas[2]	42	69	90	81	65	162	128
– development towards self-determination[3]	110[9]	132	147	198	186	218	294
Assistance to Governments of self-governing homelands[4]	122	166	247	440	488	621	786
– plus a direct charge on the State Revenue Fund[5]	177	192	204	219	196	207	227
Department of Foreign Affairs and Information[6]							
Development assistance[7]	–	28	161	257	433	506	517
– plus a direct charge on the State Revenue Fund[8]	184	136	60	45	120	121	120

Source: Republic of South Africa, *Estimate of Expenditure to be defrayed from the State Revenue Account*, relevant years.

1. Except for 1984/85, the data represent not the budgeted expenditure but the actual expenditure, obtained by looking back at the previous year's data, for example, from the 1979/80 data when looking at the 1980/81 estimate. The expenditure amounts in the table are total expenditure, not the amount to be voted.
2. Purchase of land and settlement.
3. Primarily the settlement of persons and employment and income generation. Also the infrastructure, social services, government planning and administration, development of human potential and land conservation.
4. Administrative and technical assistance, financial aid.
5. Grants made in terms of the Bantu Homelands Constitution Act No. 21 of 1971, sec. 6(2)(c).
6. The Department of Foreign Affairs and Information became involved with independent homelands, and largely replaced the Department of Cooperation and Development with respect to these homelands.
7. Technical and budgetary aid, flour subsidies, industry incentives, relief of distress, manpower provision and other aid.
8. The counterpart of 5, as applied to the independent homelands and the Acts through which they obtained financial aid. The expenditure amounts vary so greatly due to the way in which expenditure was categorized.
9. This is the amount to be voted. The actual expenditure amount, usually higher, was unavailable.

A rather glaring omission from the foregoing discussion is the absence of reference to the institutions involved in the construction of infrastructure and the financing of such activities. The various institutions which contributed in this regard include investment by the CED in infrastructure, expenditure by the relevant homeland Ministries, loans to local authorities outside the homelands by the Department of Community Development, expenditure by the IDC on industrial townships outside the homelands, and investment by the South African Transport Services, ESCOM and the SADT. Data covering all the expenditure is unavailable. The little information available to the authors is summarised below.

1. Commitments by the IDC between 1960 and March 31, 1983 were (Decentralisation Board, *Annual Report*, 1982/83):

industrial township	R696 800 000
housing for key personnel	156 851 723
Total	R850 651 723

   Apparently the provision of housing is critical since its absence is a major obstacle in retaining the personnel who are to be moved.
2. Between March 27 1962 and March 31 1983, the Department of Community Development loaned R183,4 million to local authorities for the construction of infrastructure. The type of authorities concerned were, for example, Britz, Atlantis, Roslyn and Tzaneen.
3. An official of the South African Transport Services claimed that railway connections to industrial development points are only constructed if it is an economic proposition. If the proposition is uneconomic but a decentralised

industrialist desires such a connection, then the investment will only be undertaken if the industrialist undertakes to pay for any losses incurred. The same official then stated that "You don't know what we are doing and how involved we are", and then became reticent. This involvement may well deal more with the transportation of commuter labour than industrial goods. As pointed out by Van Keyserlingk (1984), the loss by the Transport Services in 1983 of R750 million was largely due to the subsidised transport of Black labour from uneconomic residential sites.

4. CED investment in infrastructure is particularly important as it is the CED which constructed industrial townships in the self-governing homelands. However data regarding the amount spent by the CED is confusing. For example, in 1982 the CED spent R70,5 million on the acquisition of fixed assets (1983 - R94,6 million)[2]; yet in 1982 the CED acknowledges spending R0,84 million on infrastructure (1983 – R33 million) and R32,3 million (1983 – R33 million) on buildings and loans (CED, 1981, 1982 Annual Reports); but in the South African Yearbook (1984) it is claimed that the CED spent nothing on infrastructure in 1981/82 (p.251). Such data uncertainties illustrate the problem of arriving at precise numbers.
5. The DBs expenditure on concessions between 1975 and 1984 are shown in Table 5. The data reveal a steady increase in concession expenditure, from R13,19 million in 1981 to R162,2 million in 1983/84.

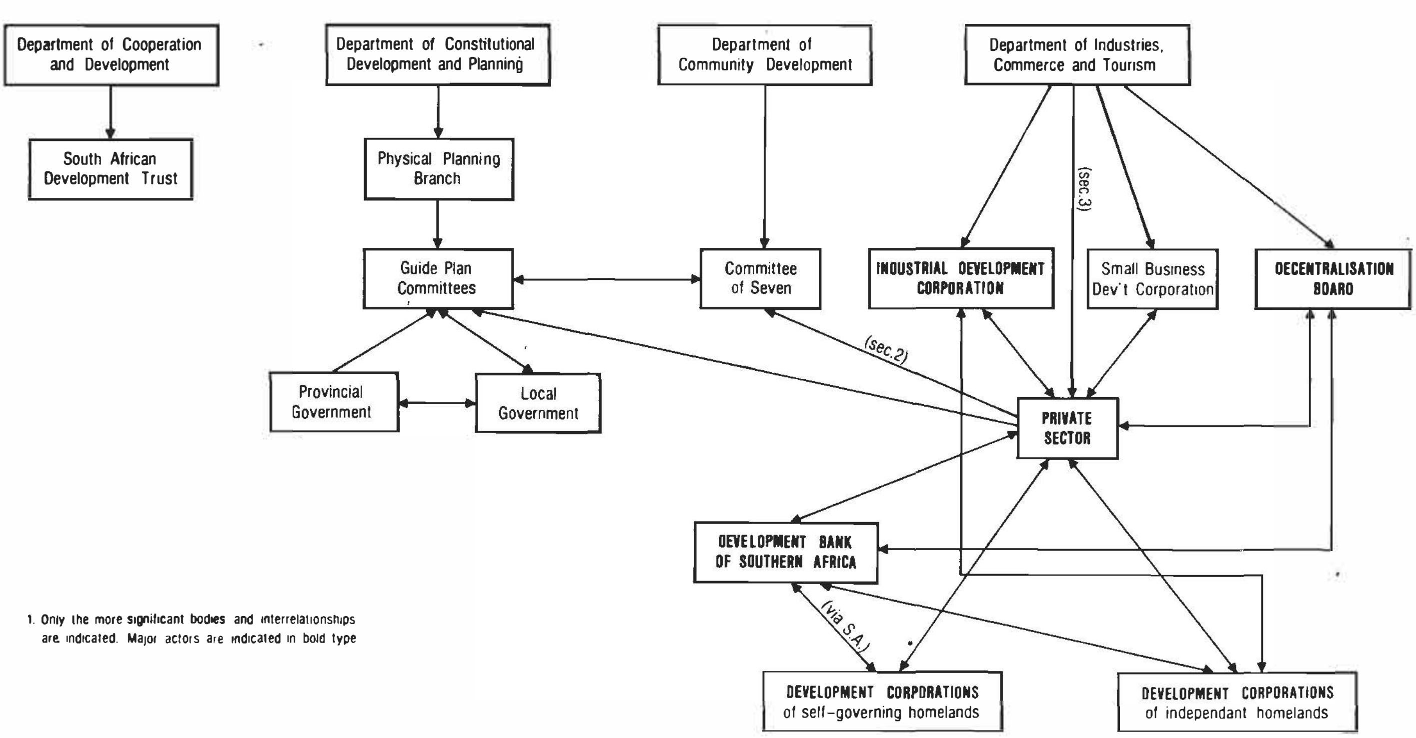
Institutional and Financial Arrangements as of 1984

Aside from the institutions created as a result of the constitutional initiatives (see Fig. 4 and 5, Policy Making Institutions), the most significant institutional change has been the 'replacement' of the CED by the DBSA (see Fig. 3). The CED was a 'top down' institution, with financial and policy making control resting in the hands of the South African government. As such, it had become an anachronism. If the government's desire for future 'confederation' was to be achieved, then a 'multi-lateral' (read multi-national) institution was necessary. The DBSA, a multi-lateral body modelled on the World Bank, constitutes the first major confederal institution. The Bank will take over most of the CED functions. In addition, it replaces the Department of Foreign Affairs and the SADT insofar as all development capital flows to the national states are to occur through the Bank.

The multilateral structure of the DBSA means that each member state contributes a share of the Bank's capital, and each state has voting power on its board largely proportionate to its capital contribution. The current contributions and voting power are shown in Table 6.

Given South Africa's voting power, the Bank remains South African controlled. The self-governing national states are represented in the Bank by the South African delegation. In many respects though, the Bank does represent a qualitatively new institution. This is symbolized by such factors as the location of the bank in Sandton rather than Pretoria, having English as an official language, and by the attempt to distance the Bank from politics and to create a business-like image.

Fig 3: Implementing Bodies, 1984[1]



1. Only the more significant bodies and interrelationships are indicated. Major actors are indicated in bold type

Table 5: *Decentralisation Board Expenditure on Decentralisation Concessions, 1975–1984*

Year	*Decentralisation Concessions (Rm)*[1]
1975	13,19
1976	22,35
1977	48,05
1978	51,05
1979	67,72
1980	70,23
1981	97,57
1982/83	110,9[2]
1983/84	162,2

Source: Decentralisation Board, *Annual Reports* 1981 (Schedule D) and 1982/83 (p.24).

1. The data include interest and rental concessions, income tax concessions, cash allowances in lieu of tax concessions, transport rebates on harbour dues, transport rebate on railage, and reimbursement of removal costs.
   The data exclude subsidised loans and housing loans. The value of a loan subsidy can range from 1,5 percent (eg. at Britz) to 8 percent (eg. at Phuthaditjhaba).
2. The data appears to be for comparable expenditure categories. The 1983/84 amount is the budgeted amount.

Table 6: *Capital Contribution to, and Voting Power in, the DBSA*

Member	*Capital Contribution (Rm)*	*Votes*
Bophuthatswana	100	500
Ciskei	70	440
South Africa	1 680	3 660
Transkei	100	500
Venda	50	400

Source: *Articles of Agreement*, Development Bank of Southern Africa.

The Bank's goals are (DBSA, Articles of Agreement, p.2):

(i) to promote economic development
(ii) to reduce regional economic balances
(iii) to promote public and private investment which will have developmental impacts in the homelands, and itself to raise capital in order to finance development expenditure
(iv) to provide soft loans to its members
(v) to provide technical assistance and training.

It is specified that the Bank will not compete with the private financial sector. It will serve needs not met by the private sector, and its

> "operations will therefore be concentrated on aspects such as infrastructural development in which the private sector cannot, or will not, become involved because of the long pay back periods and the high proportion of indirect, non-chargeable benefits that such projects entail." (Press Release, 15 June, 1983, p.4)

The DBSA has replaced the CED role of providing infrastructure, and in this regard has also assumed some of the financing functions of the SADT and the CEDCSA.

The role of the CEDCSA has been cut back considerably, with many of its personnel having joined the Bank. The future role of the CEDCSA will deal with requests for aid from, for example, the Comoros Islands. The Bank has taken over about 80 CEDCSA projects, which means in effect, that the Bank will finance these projects with funds supplied by the Department of Foreign Affairs. In this respect, therefore, the estimated expenditure of the Department for 1984/85 in Table 4 does not represent expenditure by the Department per se.

The debt owed to the CED by the DCs will be taken over by the DBSA. At this point (May, 1984), the matching assets which will serve as collateral have still to be decided on. The equity held by the CED and the SADT wil be handed over to the homeland governments free of charge, as occurred with the independent homelands when they became independent.

The initial equity issued by the Bank is shown in Table 6. The authorised ordinary capital stock is R2 000 million. In addition, the South African government intends to provide R1 500 million in interest-free loan capital over the next five years; and to raise on the Bank's behalf a sum which could also amount to R1 500 million, primarily in the domestic capital market, over the next five years (South African Digest, 4 November, 1983). The resources to be made available to the Bank are enormous.

The DB retains its old role of considering applications for concessions. The board will in future also be responsible for ensuring coordination among the various relevant institutions, and for evaluating and reporting on decentralisation progress to the various governments. In many respects, though, the DB budget of R162,2 million for the 1983/84 financial year indicates the extent to which its influence has been eclipsed by the DBSA.

The IDC will no longer provide soft loans to decentralising companies. While it will provide loans to such companies, it is up to the company concerned to negotiate the terms of the loan by applying for concession to the DB. The significance of the IDC in the decentralisation effort has been diminished due to the role of the private sector capital market in the new scheme of things. Specifically, private banks can supply capital to decentralising companies and can act on their behalf to obtain concessions from the DB.

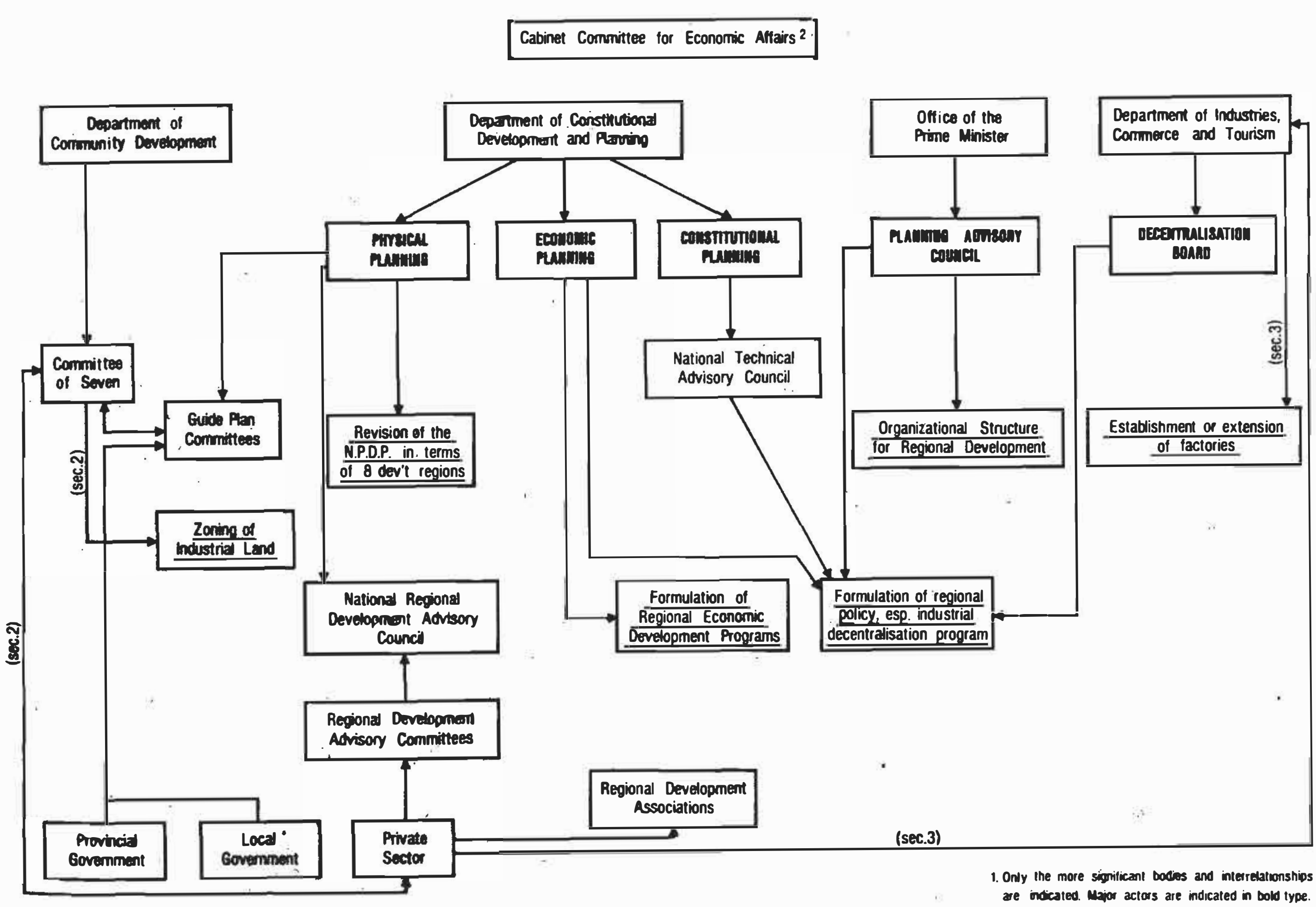
The Small Business Division of the IDC has been hived off and set up as the Small Business Development Corporation (SBDC). The Indian Industrial Development Corporation and the Development and Finance Corporation (Coloured) have been joined to the SBDC. Although the activities of the SBDC have been specified to be located in South Africa's urban areas, the SBDC has in fact done business in the homelands. Among the DCs the SBDC is unique in that its capital has, in part, been contributed by the private sector (see Table 1). The private sector contribution follows on the Carlton Centre Conference of 1979, and the call by Dr. Rupert for the government to have a proactive policy for small business development. In part, the reason for establishing the SBDC follows from a concern with unemployment, and international comparisons which consistently reveal that the majority of a country's labour force is located in small businesses, and that the growth of this sector contributes most to employment creation. A more political interpretation would also be mindful of the need expressed by public and private sector representatives to create a relatively conservative Black middle-class which is committed to capitalism.

Of equal interest to the formation of the DBSA is the formation of new policy-making bodies (see Figs. 4 and 5). Functions formerly undertaken within the Department of the Prime Minister have been moved into the Department of Constitutional Development and Planning. The latter department was created in and the Department of the Prime Minister reverted to its former name, Office of the Prime Minister. The Office of the Prime Minister retained the Planning Advisory Council. Known as the Resources and Planning Advisory Council when it was created in 1966, the Council's purpose was to advise what was then the Minister of the Department of Planning on the promotion and the effective utilization of resources on a national and a regional basis, and also on national physical planning policy. The Council consists of both public and private sector personnel. Since 1968 the agenda of the Council has been set by the Office of the Prime Minister, and is that of regional planning.

The Economics and the Physical Planning Branches of the Office of the Prime Minister have been shifted into the Department of Constitutional Development and Planning. These branches, together with the newly created branch of Constitutional Planning, and the Planning Advisory Council, are central to the formulation of regional policy, as indicated in Fig. 4. The Physical planning Branch is concerned with the revision of the National Physical Development Plan of 1975 in terms of the eight development regions defined by the 1982 White Paper. The Economic Planning Branch is involved in the formulation of Regional Economic Development Programs, essentially a spatial off-shoot of the national Economic Development Program. The Branch is obviously concerned with the formulation of regional policy, especially the ID program. The Constitutional Planning Branch and the Planning Advisory Council also contribute to regional policy formulation. The latter body contributes as well to policy on the organizational structure for regional development. Needless to say, all these policy areas are interconnected, and they are shown as such in Fig. 4.

Other relevant bodies are the Regional Development Advisory Committees, created in 1983. Their actual and potential contribution to policy-making is uncertain. Their brief is sufficiently vague and their powers so few as to leave some

Fig 4: Policy-Making Bodies, South Africa, 1984

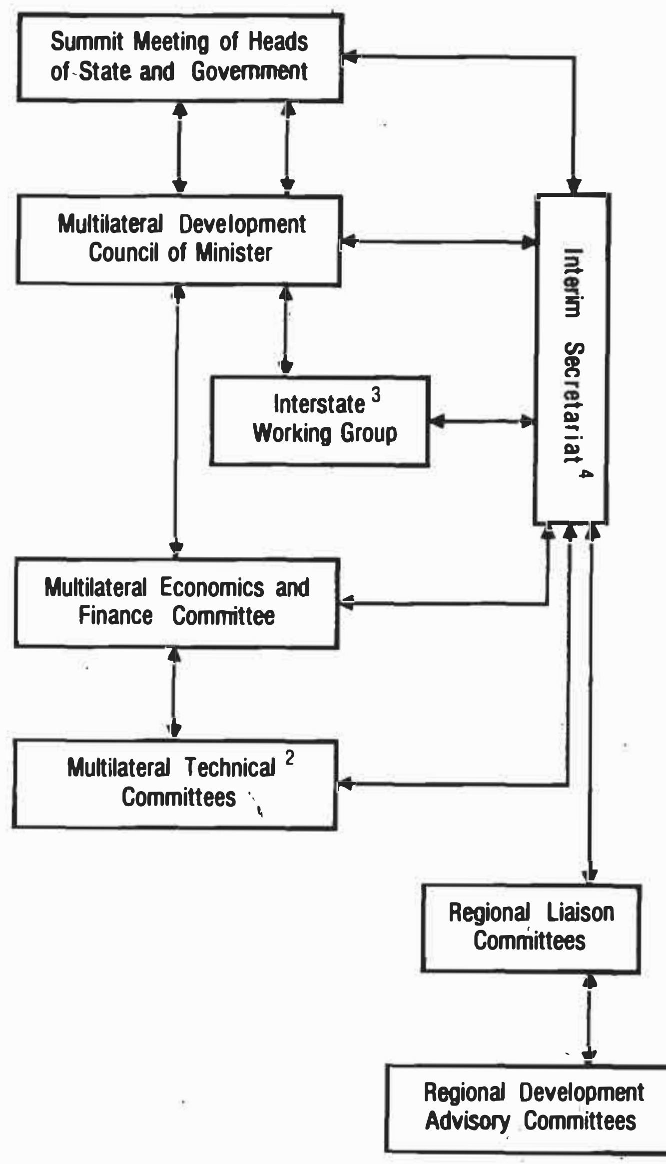


1. Only the more significant bodies and interrelationships are indicated. Major actors are indicated in bold type, and policies are underlined.
2. The Cabinet Committee influences macro issues such as overall financial arrangements.

doubt as to whether they will ever achieve any significant impact on policy formulation. As described by a Committee member, a strong personality in one of the Committees can probably use it as a vehicle to obtain advantages for, for example, a specific town or region. The purpose of the Committees is to "advise the Government on all regional development matters for which the State has to accept responsibility" (Department of Constitutional Development and Planning, 1983, p.3). Such advice should focus mainly on "the provision of infrastructure and the promotion of a development climate within which the private sector can prosper" (ibid.). The Committees are made up of members from the component Regional Development Associations which serve the economic development regions of the National Physical Development Plan, local goverment bodies of all races, provincial government, and private sector associations, for example, ASSOCOM. Provision is also made for membership by the independent homelands. The Committees operate under the Physical Planning Branch of the Department of Constitutional Development and Planning. Where the activities of the Committees do not affect the independent homelands, their acitivities are coordinated by the National Regional Development Advisory Council. When the Committees do affect the independent homelands, then they are coordinated by the Regional Liaison Committees which are described below (see Figures 4 and 5 respectively).

Sitting above the plethora of bodies just described, including the different Departments and the Office of the Prime Minister, is the Multilateral Development Council of Ministers, see Fig. 5. This Council is described as the 'supreme regional policy-making' body. Just as the DBSA is multilateral, so too this Council is multilateral. On the technical side the Council is supported by various committees, especially the Economics and Finance Committees. Regional Liaison Committees exist for each of the eight development regions, and each Committee has an equal number of representatives from the Regional Development Advisory Committees of the 'countries' concerned. In the case of self-governing homelands, their members will be a part of the South African delegation to the Council. The

Fig 5: The Multi-Lateral Policy-Making and 'Joint Action' Structure, 1984[1]



1. Source **Multilateral Co-operation in Southern Africa, 1983** Department of Foreign Affairs and Information, Pretoria
2. There are seven committees Agriculture and environment affairs; Industries, commerce and tourism; Transport; Posts and telecommunications; Health and welfare; Manpower and education; Financial Relations; plus various sub-committees and working groups.
3. The Interstate Working Group acts as a planning body, its function being to review progress made within the system and to recommend on new organizational structures.
4. The Interim Secretariat engages in administrative coordination. Its staff are provided by the Department of Foreign Affairs.

purpose of the Regional Liaison Committees is the "coordination of those development matters which transcend international boundaries" (ibid., p.7). The Committees will not, however, be able to conclude official agreements and Committee members will report back to their respective authorities.

Besides membership from the independent homelands, the Multilateral Council has members from the Departments of Constitutional Development and Planning, Foreign Affairs, Cooperation and Development, Industries and Agriculture. The Minister of Constitutional Development and Planning, Mr. Heunis, chairs the Council. Presumably, then, the regional policy decisions described above wil be formulated by South Africa's governmental departments with due regard to the views of the Multilateral Council. The extent of homeland influence in the Council is uncertain. Like the DBSA, it would seem reasonable to presume that those footing the bill will call the tune.

If the above maze of institutions seems complex, the reader should consider the adjustments due with the forthcoming constitutional dispensation.

Conclusion

As noted, the ID policy is directed to creating the semblance of an economic base in the homelands. This base is necessary if the location of surplus Black labour and the political linkage of Blacks to the homelands are to have any legitimacy. That the creation of the base is being done to the detriment of employment creation for Blacks and of the Black share of national income (Tomlinson, 1983), is of little consequence. If grand apartheid is to be implemented, then the negative welfare impacts for Blacks are a necessary consequence.

The changing institutional form of the ID policy is not so easily explained. Instead one must refer to the fact that "Repression alone was no longer regarded as a sufficient method of containing the situation. Leading representatives of both the state and capital, such as the Prime Minister and Mr. Harry Oppenheimer, warned repeatedly of the dangers of a 'revolution' unless the original apartheid formula was adapted or reformed" (Zille, 1983, p.61). It is this task which the Prime Minister is presently undertaking. His aim is to defuse the opposition through creating a complex set of alliances between the state and sections of the Black population, while at the same time keeping intact the essentials of grand apartheid, the homelands and influx control (Tomlinson and Hyslop, 1984).

The multilateral nature of the new institutions is directed to bringing about the confederal ambitions of the government. Within a confederal structure, Blacks will be denationalised. As an aspect of the confederal system, a large relatively well-off Black bureaucracy is being created. As a result of the operations of institutions such as the DCs and the SBDC, a black middle-class dependent on state support and capitalism is emerging. In sum, a Black middle-class with vested interests in the continued existence of the homelands is being created. The middle-class in turn will provide support for the rulers of these homelands, and create a buffer between the poor and the exercise of authority.

The possibility that the tail might wag the dog is obviously rather limited. The Multilateral Development Council of Ministers is unlikely to provide more than a ratification for Cabinet decisions made by the South African government. In fact, the current state of the institutional arrangements is nothing if not confusing. There are too many bodies with ill-defined powers or no power at all. The guide always is to the institutions which monopolise the control of force and the purse strings, the South African government.

The bill, however, is exorbitant. The duplication bureaucracies such as in the North-Eastern Transvaal – Venda, Lebowa, Gazankulu, KaNgwane, the provincial administration – and the retention of Black population in the rural areas creates a need for aid shown earlier to be rapidly growing, and currently exceeding R2 billion per annum. As acknowledged by the Prime Minister in Parliament, the government does not know the financial implications of South Africa's constitutional changes – a sort of budgetary wild card. The rhetoric regarding the primacy of the private sector is not to bar the way to increased public sector actions in the capital market, and an increased absorption of skilled manpower. Economic growth and controlling inflation are less of an imperative than implementing apartheid. As Verwoerd constantly warned the public, if you want apartheid you will have to pay for it.

The private sector has come to cooperate with the ID policy. Whereas in 1968 it resisted the ID legislation, now South Africa's largest corporations have promised DB officials that decentralised locations will always be considered when new investment opportunities are evaluated. The more formal involvement of the private sector in the ID process was displayed at the Carlton and Cape of Good Hope conferences, and is evident from the position of private sector representatives on the boards of the DBSA, SBDC, the Planning Advisory Council, its role in the Regional Development Advisory Committees, and so on. Needless to say, this participation has been exacted at a price. The decentralisation incentives have been officially described as the 'best in the world'. (This translates into the most expensive to the public fisc.) Greater participation in implementing the policy is expanded through, for example, the role of private sector banks. In sum, the more rewarding relationship between the government and capital reflects the Prime Minister's shift in constituencies, most obviously away from the Afrikaner right-wing. But it also appears to represent private sector involvement in and commitment to the new forms of implementing apartheid. As indicated by last year's referendum, much of the English speaking 'liberal' vote views the constitutional change as reform oriented and worth supporting. More concretely than hitherto, the private sector can no longer support a liberal facade, one distant from the politics of apartheid. It is immersed in it.

Notes

1. In a recent paper, Bell (1983) suggested that decentralising companies do so in order to make use of the cheaper labour in South Africa's homelands. Further, that this move is forced upon these companies by international competition, as reflected in the international division of labour and the move of labour intensive industries to Third World countries. Bell's well substantiated research does not bring into consideration:
   (i) the sectoral composition of the major industrial sectors which are decentralising relative to import

protection. Since South African industry enjoys substantial import protection, the onus is on Bell to demonstrate why the relevant sectors are experiencing 'excessive' competition from imports.

(ii) the sectoral composition of decentralising industries appears to be weighted to capital intensive industries, that is, industries for which labour costs are relatively less significant than the costs of capital. In this light, tax holidays appear consequential.

(iii) the sudden increase in the number of applicants and the potential capital contribution coincides with the announcement of the new concessions. While the current recession might create increased competitive pressures, the present scale of interest in decentralisation cannot support the position of its being due simply to such pressures.

2. Fixed assets, loans and investments include land and buildings, infrastructure, machinery and equipment, office and sundry equipment, motor vehicles, sundry farming assets, goodwill and share investments at cost less amounts written off and depreciation.

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