

BLACK ECONOMIC EMPOWERMENT: ADDRESSING SOCIO-ECONOMIC INEQUALITY IN SOUTH AFRICA.

Nearly ten years after the first democratic elections South Africa continues to be characterized by high levels of racial and class inequality, the exclusion from basic social necessities for the majority and increasing unemployment. Further, the racial profile of South Africa's formal business sector continues to resemble that of pre-1994. To date, the process of Black Economic Empowerment (BEE), whilst largely creating an emergent black business elite, has failed to generate far-reaching economic empowerment at the grassroots level.

The President's state-of-the-nation address in February renewed government's commitment, both in principle and financially, to fighting the continued exclusion of the black population from mainstream business. Mbeki indicated that government would now look to further facilitating BEE through legislative and policy measures. Finance Minister, Trevor Manuel, further underpinned Mbeki's commitment with a promise to spend R10 billion over the next five years to push for its realisation.

Certainly events in Zimbabwe, which are partly due to majority of its population being dependent whilst alienated from vital sectors of the economy (namely the agrarian sector), has served as a blunt reminder to democrats that stability relies on more than mere political freedoms. This message is unlikely to have passed the ANC leadership by. In addition, high levels of poverty and the slow pace of delivery in South Africa further compounds the message, highlighting the need to accelerate widespread economic upliftment.

Poverty, according to the recent Taylor Report, has been exacerbated by the unequal distribution of resources in South African society. The inability of individuals, households or entire communities to command sufficient resources to satisfy an acceptable minimum standard of living underpins poverty. The number of South Africans living in poverty is estimated to reach anywhere between 45 and 55 percent [20-28 million] and is not confined to any one race group. However, it is concentrated among blacks, particularly Africans: 61% of Africans and 38% of coloureds are poor, compared with 5% of Indians and 1% of whites.

Statistics show that poverty in South Africa is critically linked to the labour market, which has failed to deliver opportunities for a majority of black people to access employment opportunities. In 1999 38% of African households or 3.1 million people were estimated to be "worker-less" (having no employed people).

In 1994 the new ANC government attempted to respond to the apartheid legacy by aggressively inserting South Africa's economy into the global marketplace and promoting foreign investment and job creation. Whilst BEE initiatives have always welcomed within government circles, there was a simultaneous decline of both re-

distributive efforts and state intervention into the economy.

It was hoped the adoption of a macro-economic policy such as the 1996 Growth, Employment and Redistribution (GEAR) strategy would spur on the development of a rising black capitalist class, assisted by BEE initiatives, which would further contribute to the formation of a non-class based economy. The black elite as a social actor was encouraged to create a space for 'popular capitalism' to flourish through the growth of small-medium enterprises and in turn, these initiatives would lead to a greater balance between white/black business ownership. Ironically, the use of race as a tool to define the struggle against past racial inequalities and to bring economic equity among races is apparent in much of Mbeki's recent rhetoric surrounding BEE.

It is against this political and socio-economic backdrop that President Mbeki has effectively placed BEE at the centre of economic growth. Its central objectives will be to redress the imbalances of the past by transferring ownership and management of South Africa's business sector of the majority of its people. This would in turn serve to deracialise business, redistribute income and wealth and fighting systemic poverty within black communities.

As the government shifts in 2003 towards defined strategies that will spur domestic growth, the success or otherwise of BEE raises a number of hard questions regarding the proposed new legislative framework and what it should entail?

Policy Briefing

Many of the new policy initiatives and pronouncements on BEE are the direct result of the work done by the Black Economic Empowerment Commission (BEECom). The Commission was set up in 1997 to address growing concerns about the pace and results of existing BEE initiatives.

The ensuing BEECom report has offered direction to future BEE strategies and has pronounced on the formulation of public policy pertaining to BEE. Among the most important points made by the BEECom is that it is imperative that BEE be a state-driven programme. Cyril Ramaphosa, Chair of the Commission is on record as saying that markets tend to reinforce an existing distribution of incomes and assets. This continues to reflect market realities under the apartheid system, where market mechanisms were deliberately distorted to allocate incomes and assets on non-price criteria such as race.

The BEECom report also states that the private sector should be encouraged to take into account private and social returns and factor long-term and strategic considerations when making investment decisions. The national strategy as advocated by the BEECom should therefore create a co-ordinated, simplified and streamlined set of guidelines and regulations to provide targets and demarcate roles and obligations of the private sector, the public sector and civil society over a period of ten years.

Several key points underpin the logic of an integrated national BEE strategy. First,

business, labour and government should enter into an agreement that investment should be accompanied by growth. This would entail stakeholder participation and investment in areas deemed to be areas of national priority. The aim of the strategy is to encourage levels of fixed investment and economic growth simultaneously giving the economy a kick-start. To date South Africa has experienced increasing levels of portfolio investment but has not had the benefit of real economic and job growth.

Second, an integrated human resources development (HRD) strategy is required to ensure that the full domestic potential is realised within the South Africa economy. The strategy would incorporate education and training skills that meet the specific needs of South Africa's economy and to ensure global competitiveness.

The implementation of an integrated sustainable rural development strategy will also meet the need of incorporating the rural areas that are isolated from the wider formal economy and are thus currently disenfranchised.

The BEECom report, importantly, recommended that government create an enabling legislative framework that will create uniformity in policy and establish the institutional support and instruments with which to drive the BEE strategy. Further, an empowerment framework for public sector restructuring is required. The report highlighted the need for national targets to be met by stakeholders within particular sectors to ensure a level of compliance and advancement.

Lastly, to assist in the realisation of meaningful economic empowerment for the low and middle-income earners a framework aimed at improving access to finance for households and businesses should be framed. This may entail state intervention into the financial sector to ensure increased levels of support for black ownership and savings.

The strategy makes provision for a black empowerment board on which five Ministers will serve, along with two representatives of the corporate business sector, agriculture and three representatives from labour. The board will be a policy-based organisation with a secretariat, which regulate applicants of black empowerment initiatives. Provision is also made for a Competition Tribunal which will play a regulatory role, among its other functions, and a Compliance Directorate will be formed to supervise the empowerment stipulations in various pieces of legislation.

In his 2002 State-of-the-Nation-Address President Mbeki announced that government had accepted recommendations of the BEECom on two areas of legislation and a proposed institutional framework. Nonetheless actualisation of the accepted recommendations proved to be slow and no legislation was introduced in 2002. The ANC 51st national conference in Stellenbosch at the end of last year resuscitated fresh hopes for those wishing to see the co-ordinated and systematic implementation of BEE. The Conference resolutions included the adoption of a Transformation Charter and the establishment of a Non-statutory Advisory Council. Further progress was made in the 2003 State-of-the-Nation-Address, where the President outlined government's plans on BEE, which included the commitment to introduce legislation in early 2003.

BEE legislation is expected to establish broad policy parameters and to facilitate the publication of a strategy document and guidelines to facilitate good corporate governance by companies with regards to BEE. The policy parameters and the strategy documents together will make up the “Global Transformation Charter”, which is expected to form the core of enabling BEE legislation. The ‘Transformation Charter’ is an attempt by government to clarify its economic transformation objectives. Its aim is to avoid uncertainties and instability in the markets similar to those experienced when the Mining Charter document was leaked last year.

The Charter is expected to determine sector-specific targets for the transfer of equity into the hands of the previously disadvantaged; provide a broader definition of BEE and spell out actions and outcomes that are within BEE policy parameters. Minister of Trade and Industry, Alec Erwin, is soon expected to provide specifics on the individual sectoral charters. This may include the incorporation of BEE indicators adopted at the ANC conference.

Such indicators include the concept of black ownership of small-medium and large business; participation in and control of firms by black people; the transfer of skills to black people thus allowing for human development, particularly in senior positions; and contributions to job creation and new employment opportunities.

The indicators could form the basis for legislation and act as a ‘compliance guide’ for companies with sectoral progress being monitored by relevant departments. However, as the President stated, the legislation is unlikely to be prescriptive in nature; instead companies will be encouraged to embrace BEE and practise ‘good corporate governance’.

While indicators are useful benchmarks, will they pose a sufficiently strong incentive for private business to embrace empowerment principles? Without the ability to enforce BEE, the new legislation may become toothless, making it vital that government and stakeholders investigate the effectiveness of the proposed regulatory and legislative environments aimed at facilitating BEE.

Amongst the problems currently facing BEE is that there are many definitions and ambiguity regarding the definition of ‘empowerment’, making its realisation increasingly difficult to measure. The new legislation is expected to provide a definition of ‘black economic empowerment and the term, ‘black- owned enterprises’.

In an attempt to provide clarity, the Commission adopted the following definition of BEE:

It is an integrated and coherent socio-economic process;

It is located within the context of the country’s national transformation programme, namely the RDP.

It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer ownership, management and control of South Africa’s financial and economic resources to the majority of its citizens.

It seeks to ensure broader and meaningful participation in the economy by black people in order to achieve sustainable development and prosperity.

It is likely that the new legislation will define BEE in similar terminology. However, a definition will need to create harmony between the state-driven process of empowerment with the hands-off approach by the state contained in the current macro-economic policy.

The proposed legislation is likely to advocate financial incentives as a way to stimulate and encourage a wider application of BEE. Government will also be expected to ensure an excess of funds are available for black owned enterprises and those requiring finance capital to start ventures. These measures indicate that the state will require larger financial capacity to meet these promises and raises the question as to whether the funding amount of R10 billion set aside over the next 5 years will be sufficient to actively pursue with the amount of BEE initiatives required.

For BEE to be successful financial support is needed. The National Treasury and the Department of Trade and Industry are expected to provide a new mandate for the National Empowerment Fund and to review the roles of other development finance and support institutions. The National Empowerment Fund was established in terms of a 1998 Act of Parliament with an object to establish a trust for the promotion and facilitation of ownership of income-generating assets by historically disadvantaged persons.

Politics Briefing

The recommendations of the BEECom highlighted the importance that should be attached to BEE by both government and business. With the high levels of socio-economic inequality and poverty, exacerbated by the marginalisation of black people from the economy, the need for a comprehensive BEE strategy is ever increasing.

Politically, the ANC government will rely on the success of future black empowerment initiatives. With the 2004 elections looming the government needs to demonstrate to its constituency that it is serious about tackling systemic poverty, unemployment and socio-economic equality.

The concern is whether the proposed BEE policy and pursuant legislation will generate jobs at the middle and lower end of the economic spectrum where they are so sorely needed? Uncertainty is also directed at the large percentage workers who fall outside the formal sector that are unlikely to benefit from BEE initiatives. Future empowerment initiatives need to focus more on the success of small and medium businesses (SMME's) to ensure that trickle down effects of BEE initiatives improve the quality of life for the ordinary South Africans. This remains the greatest challenge, especially in light of the socio-economic inequalities and the structural deficiencies within the domestic economy.

The announcement that government will finalise a detailed plan on BEE can be seen as a positive step. However, reservations relating to the drawing up of sectoral charters in the context of the upcoming Growth and Development summit have been expressed. The

South African Communist Party (SACP) argues that there seems to be no concrete connection between the drawing up of charters and the integrated growth and development strategy.

According to the SACP the failure to link BEE charters and the Growth and Development Strategy will result in charters operating parallel to and even in contradiction to any growth and development strategy. The up-coming summit on Growth and Development provides a platform for government, business and civil society to share ideas and reach consensus on how to best deal with challenges facing the transformation of the South African economy. In this context it makes sense that issues of what constitute the content of charters should form a core task of the forth-coming summit.

The Congress of South African Trade Unions (COSATU) has expressed its concern that while BEE is defined broadly the measures proposed often tend to focus on increasing black ownership [amongst a few wealthy individuals] than a broad empowerment process. Issues raised by different role players surrounding the handling of the 'Telkom Share Offer' highlight this concern. Initially the government intended to offer discounted shares. The initial eligibility terms were stated as being for 'historically disadvantaged individuals' implying that the actual wealth of that individual was irrelevant. After pressure from trade union groups the Department of Trade and Industry changed the eligibility terms to be based on income levels. Many saw this as having a potential benefit for the poor and marginalized.

The Telkom case reflects first that there are serious reservations and differences about the manner in which empowerment projects should be implemented. Secondly it reflects an ideological battle between trade unions and government on the role of privatization and also what BEE should mean in real terms, that it should focus primarily on the empowerment of the grassroots; not only a small group of emergent black businessmen.

Overall, it appears as if the government is committed to its BEE strategy and communicating its purpose effectively. Last year's debacle around the leaked Mining Charter served to underline the importance of sending out the right message on the reasons for BEE and why South Africa has to pursue it swiftly and efficiently.

The long-awaited Global Transformation Charter attempts to take a more pragmatic and overarching approach to empowerment by focusing on empowerment across all economic sectors. This move has been welcomed as it widens the current definition and application of BEE, it increases the likelihood of benefits being spread more widely and brings clarity to an otherwise murky initiative.

It is hoped that BEE will achieve a genuine level of deracialisation and reduce inequality within the wider economy through the new legislation.

However, a realistic assessment of new empowerment initiatives highlights the need for a partnership between government and business, to ensure that BEE becomes a reality. There is a real chance for business to play a facilitative role in this regard and assist

government by taking on the burden of funding for the private sector, whilst pledging support and meeting legislative criteria over the coming years. Without the full support and commitment from the wider business community the moral and economic regenerative imperatives of BEE will be unrealizable.

Commitment from the South African business sector could also serve to stem the tide of criticism aimed at business regarding what is sometimes perceived as its obstructionist role towards BEE.

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