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Economic Empowerment

Introduction

The South African economy during apartheid colonialism was designed, through various laws and policies, to favour the white population. This chapter gives a brief overview of the various policies and laws instituted by the post-1994 governments to redress, in racial terms, the ramifications of apartheid colonialism. In addition, various institutions tasked with ensuring that the redress policies and programmes happen are discussed. There have been many policies, programmes and strategies aimed at empowering those that were previously disadvantaged (i.e. Africans or blacks in general). Among the main ones are: Black Economic Empowerment Strategy, National Youth Empowerment Strategy, Women Empowerment Strategy, the Promotion of Small, Micro- and Medium Enterprises as well as a plethora of policies and laws pertaining to racial redress. Notwithstanding the various initiatives and their positive effects, it would seem that there is still a very long way to go in empowering the previously disadvantaged people in South Africa.

As indicated in Chapter 4, the post-1994 governments led by the ANC inherited an economy that was in crisis. The South African economy had previously been shaped and influenced by apartheid capitalist policies which was characterised by a systematic exclusion of Africans from the means of production and key economic activities.

Economic Empowerment

The post-apartheid governments or the democratically elected administrations have enacted numerous legislative measures, policies and programmes aimed at overcoming the negative economic legacy of apartheid. The various legislative measures are primarily focused on broadening participation, equity and access for the previously disadvantaged people in South Africa.

In attempting to rectify the economic problems caused by both British colonial and Afrikaner apartheid regimes, the post-apartheid government has formulated strategic transformative policies and legislations. One of the more prominent policies is the Black Economic Empowerment (BEE). It is generally understood that BEE has been central to the South African government's economic transformation strategy, though many argue that BEE has only benefited a few.¹¹⁹ The formulation of policies and legislation to achieve BEE were originally spearheaded by the Presidency together with the Department of Trade and Industry.

The South African Department of Trade and Industry (DTI)¹²⁰ defines BEE as a specific government policy that is aimed at economic transformation and increased economic participation by black people in the South African economy. However, as time progressed and the original policy of BEE developed, certain problems began to exist. These included the accrual of benefits to a select few individuals, the non-responsiveness of the private sector, the inability to address the majority of poor blacks, and the likes. Due to these and other reasons, BEE was modified to become Broad-based Black Economic Empowerment (BBBEE).

Despite the initial problems linked to BEE, numerous scholars and reports have explained that the original ethos of the policy were good and had firm historical grounding. Acemoglu, Gelb and Robinson¹²¹ argue that BEE originates from the 1994 government's Reconstruction and Development Programme (RDP), which involves the transfer of equity from a white company to a black person or a company owned by blacks. It was one of the initiatives which were aimed at overcoming apartheid's legacy as well as ensuring that historically disadvantaged people are empowered. Kruger¹²² interprets BEE as being the economic empowerment of black people, which altogether includes the empowerment of women, workers, youth, people with disabilities and people living in rural areas through integrated and diverse socio-economic strategies.

In a nutshell, BEE was conceived of as an integrated and coherent socio-economic process that was geared to directly contribute to the economic transformation of South Africa and to bring about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities. In essence, BEE is about attempting to create a degree of economic equality which would not itself be a natural market outcome of the changed political environment. There are many countries that have had to pursue policies such as BEE. United States of America and Malaysia are often highlighted as specific examples.

Ertner¹²³ lists the following as the main aims of BEE, which were scheduled to be achieved by 2014:

- A significant increase in the number of black owned and managed businesses;
- A significant increase in the number of black people in top executive positions;
- A significant increase in the number of black people with capital share in companies;
- An increase in the number of black people with a share in factors of production;
- The expansion of economic activities in underdeveloped areas;
- Accelerated economic growth available equally to all segments of the population;
- A significant increase in the level of income for black people, resulting in the reduction in income differentials.

Arguments against BEE

There are many people in South Africa that argue that BEE has not succeeded. Moeletsi Mbeki,¹²⁴ the brother of the former president of South Africa, observes, as an example, that BEE has become both the core ideology of the black political elite, and it is the driving material and enrichment agenda which is to be achieved by maximising the process of reparations that accrue to the political elite. Mbeki¹²⁵ argues that BEE strikes a fatal blow against the emergence of black entrepreneurship by creating a small number of unproductive yet wealthy black crony capitalists, which is made up of ANC politicians who have become strong allies of the economic oligarchy.

Hamann, Khagram and Rohan¹²⁶ also argue that the BEE strategy has not worked well in redressing the legacies of apartheid because many of the challenges which the strategy was aimed at addressing remain or have become even more acute in terms of poverty, unemployment, housing and basic services, inequality, HIV and AIDS. Kovacevic¹²⁷ observes that the BEE programme has not really succeeded in eradicating poverty, increasing employment or fostering economic growth. Further criticisms includes: (a) rural communities, particularly black women, are denied access to affordable financial services; (b) millions of black people are unable to access any form of credit; and (c) small- and medium-sized enterprises, in particular, have not been able to secure sufficient funding from the formal financial sector.

Broad-based Black Economic Empowerment

Because of the criticisms levelled against BEE, the Broad-Based Black Economic Empowerment (B-BBEE Act) of 2003 was enacted, followed by the B-BBEE Codes of Good Practice. The Code of Good Practice includes, among other things, the indicators to measure BEE and the weighting to be attached to those indicators.¹²⁸ It formed the basis for measuring BEE 'Scorecard', which was to be used in assessing BEE compliance and performance. The Code of Good Practice takes into account critical issues such as ownership. Ownership is accorded 20 per cent of the points on the BEE Scorecard. The other elements are: management and control (10 per cent); employment equity (15 per cent); skills development (15 per cent); preferential procurement (20 per cent); enterprise development (15 per cent); and corporate social investment (5 per cent).

There are various Codes of Good Practice that have been published or gazetted by the DTI in terms of the BEE Act which deal with all of the different aspects of the scorecard. Some sectors took initiatives themselves in drafting the Codes of Good Practice for themselves.

Presidency's Twenty Year Review Report¹²⁹ outlines, in detail, the core elements that should be incorporated into sector- and enterprise-based charters, including the following:

- The BEE challenges in that sector/ enterprise;
- The sector's/enterprise's vision for achieving BEE targets and timetables;
- The specific mechanisms to be used to achieve BEE targets, including financing instruments, skills development and employment equity, preferential procurement and enterprise development, as well as any additional mechanisms appropriate to the specific sector/enterprise;
- An assessment of the financing required to fund BEE transactions;
- The institutional and management mechanisms that will coordinate, facilitate, monitor and evaluate the implementation of the charter.

Financing Economic Empowerment

The financing of the B-BBEE process is strategically important for the economy. It is understood that B-BBEE must have a credible financing component in order that set targets are met. The Presidency's Twenty Year Review Report¹³⁰ also indicates that dearth of the funding component results in two problems: the first is that the extent to which B-BBEE is implemented would be limited because of the lack of financial resources for support. Therefore, rate of economic empowerment will not be broad-based; secondly, investment funds will be diverted into asset transfers, with the danger of a flow of funds out of the economy from the sellers of assets.

In an attempt to improve funding of B-BBEE, the National Empowerment Fund was established to support and facilitate increased participation of black South Africans in the economy by providing financial and non-financial support. Other financing mechanisms include guarantees, grants, incentive schemes, loan and equity financing. However, despite the establishment of the National Empowerment Fund, the B-BBEE strategy has been confronted with serious financial constraints. It is generally agreed that one of the main challenges relating to the transfer of ownership and control to black investors is the low level of access to capital resources by black investors.¹³¹

In the first wave of economic empowerment deals, black investors relied heavily on external funding from institutional investors, and the repayment of borrowed funds depended on the growth in the equity value of the underlying investments. However, many of these ventures failed, and thus resulted in the equity ending up in the hands of the financial institutions. The current wave of BEE transactions is aimed at addressing the lack of finance as well as reducing transaction and finance costs through vendor financing mechanisms. This usually involves employing elaborate transaction structures which generally involve a combination of debt, equity and hybrid instruments (such as deferred shares, options and preference shares).

Promoting Small, Medium and Micro-Enterprises

To ensure a more broad-based economic transformation approach, there has been an increasingly stronger focus on the broad-based elements, support for small enterprises and cooperatives, and procurement from local producers, as per the B-BBEE codes. According to the Department of Trade and Industry,¹³² the promotion of entrepreneurship and small business remains an important priority of the government of South Africa. According to the 1995 White Paper on National Strategy for the Development and Promotion of Small Business in South Africa,¹³³ Small, Medium and Micro-Enterprises (SMMEs) represent an important vehicle in addressing the challenges of job creation, economic growth and equity in the South African economy.

As argued in Gumede,¹³⁴ South Africa, like many other countries, is concerned with what constitutes SMMEs and the preoccupation to address constraints. A broad definition for SMMEs includes registered businesses that consist of less than 250 employees. However in practice, SMMEs are defined in different ways, generally with reference to either the number of employees or turnover. The National Small Business Act of 1996¹³⁵ acknowledges that SMMEs include a separate and distinct business entity, which consists of co-operative enterprises and non-governmental organisations, which are managed by one owner or more.

The Act further categorised SMMEs into distinct groups. First, survivalist enterprises are enterprises with a total income that is less than the minimum income standard or the poverty line. This category is also considered as pre-entrepreneurial, and it includes hawkers, vendors and subsistence farmers. Second, micro-enterprises should have a turnover that is less than the Value Added Tax (VAT) registration limit (which is, R150,000 per year). These enterprises usually lack formality in terms of registration, therefore they include enterprises such as spaza shops, minibus taxis and household industries, which employ no more than five people. Third, very small enterprises are enterprises which employ less than ten paid employees, except for the mining, electricity, manufacturing and construction sectors. Fourth, small enterprises are enterprises that are generally more established than very small enterprises and display more complex business practices. Lastly, medium enterprises have a maximum of 200 employees and are characterised by the decentralisation of power to an additional management layer.

According to the Department of Trade and Industry,¹³⁶ based on the Integrated Small-Enterprise Strategy, the vision for SMMEs is that:

South Africa becomes an entrepreneurial nation that rewards and recognises those who recognise a business opportunity and pursue it, a South Africa with a vibrant and competitive small enterprise sector, with enterprises that grow in both size and success. Those who were once excluded from full participation in the economy will have access to support and development services and be fully integrated into the core of the South African economy, with access to local, national, African and international markets.

The Department of Trade and Industry¹³⁷ highlights the following as main objectives of the Integrated Small Enterprise Strategy:

- Increase the contributions made by small enterprises to the growth of the South African economy;
- Create an enabling environment for small enterprises, with a level playing field between big business and small enterprises that reduces the disparities between urban and rural enterprises and is conducive to entrepreneurship;
- Create sustainable long-term jobs in the small enterprise sector;
- Ensure equitable access and participation in term of race, gender, disability, age, geographical location and sector; and
- Increase the competitiveness of the small-enterprise sector and its enabling environment so that it is better able to take advantage of opportunities emerging in national, African and international markets.

Institutional Framework

There are mainly five different departments and their agencies that implement small business promotional activities:

Department of Trade and Industry

Small business development falls under the Minister of Trade and Industry and specifically under two of the Department's units, namely: the Enterprise Organisation and the Empowerment and Enterprise Development Division. The Department of Trade and Industry has various entities that operate under it, namely:

- **Small Enterprise Development Agency (Seda):** Primarily assigned to supporting small enterprises, Seda was formed out of a merger between Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (Namac) and the Community Public Private Partnership Programme (CPPP).
- **National Empowerment Fund (NEF):** This was established in 1998 and effectively began operating in the 2004. NEF aims at empowering and funding black-owned businesses (both big and small).
- **National Small Business Advisory Council (NSBAC):** This serves to advise the Minister on ways to boost support to small businesses and therefore reports to the minister of Trade and Industry.

Department of Economic Development

The Department of Economic Development (DED) was established in 2009 to coordinate the South African government's economic development programmes. The Department oversees various entities, including:

- **Khula Finance Limited:** This is government's small business finance organisation which was established in 1996 to help fund small businesses in both the public and private sector, through a network of channels which include South Africa's leading commercial banks, retail financial institutions and specialist funds.
- **Industrial Development Corporation (IDC):** This government's development finance institution was established in 1940, for the purpose of funding small businesses.
- **South African Micro-finance Apex Fund (Samaf):** This is a wholesale funding institution which is aimed at facilitating the provision of affordable access to finance by micro-, small and survivalist businesses for the purpose of growing their own income and asset base. The primary purpose of Samaf is to reduce poverty and unemployment as well as extend financial services deeper and broader to reach the rural and peri-urban areas.

Department of Science and Technology

Technology Innovation Agency (TIA): This was a new umbrella body set up in the year 2009 and launched in the year 2010 for funding innovations which include the Tshumisano Trust (which housed the technology transfer stations), the Innovation Fund, and the Council for Scientific and Industrial Research's (CSIR) Advanced Manufacturing Technology Strategy.

The Presidency of the Republic of South Africa

The National Youth Development Agency (NYDA) was established in 2009, emanating from a merger between the National Youth Commission and the Umsobomvu Youth Fund. The NYDA is aimed at assisting the youth with career skills and helping them start to their own businesses.

Department of Agriculture

Micro-Agricultural Financial Institute of South Africa (Mafisa) was established to contribute to the working poor's ability to run existing agricultural businesses; to start new ones and be able to develop these into fully commercial operations. Mafisa propels and facilitates the development of financial services intended to uplift very small and micro-level farmers, farm workers, farm tenants, small holders, landless emerging farmers and processes, and so on.

Conclusion

This chapter has discussed selected initiatives for the economic empowerment of the previously disadvantaged South Africans: (a) Broad-based Black Economic Empowerment Strategy; (b) National Youth Empowerment Strategy; (c) the Women Empowerment Strategy; and (d) the Promotion of Small, Micro- and Medium Enterprises. In the main, these selected initiatives have contributed to the economic transformation and empowerment of Africans. The various post-apartheid administrations have pursued numerous policies and programmes to economically empower black South Africans. However, there is still a long way to go.

Key Terms

Affirmative Action: Programmes and projects, as well as activities, undertaken to redress imbalances with regards to opportunities.

Broad-based Black Economic Empowerment (also called Economic Empowerment): Initiatives aimed at empowering the previously disadvantaged people, in an instance that those people are black, in order that participation of black people in an economy can be increased.