



CORRECTING THE PAST – LOSING THE FUTURE?

Black Economic Empowerment in South Africa

When in 1994 the African National Congress took over the new government of South Africa after centuries of colonialism and decades of apartheid discrimination its main task was to uplift the majority of the neglected and discriminated population. Since then, policies promoting black economic empowerment (BEE) have been put in place trying to correct past injustices. After 20 years of BEE, these policies are coming under increasing criticism concerning their effectiveness to reduce inequality in South Africa.

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When in 1994 the ANC (African National Congress) took over the new government of South Africa after centuries of colonialism and decades of apartheid discrimination its main task was to uplift the majority of the neglected and discriminated population of blacks, coloureds and Indians.¹ During the struggle against apartheid the direction seemed to be clear: one would go the socialist way with nationalisation of key industries and redistribution of land from white to black farmers². A turn around point was Nelson Mandela's attendance of the World Economic Forum in Davos in 1992 when he returned with the conviction that the South African economy must stay in the mainframe of the economic world order of liberal capitalism. And that is what happened.

But the discussion on the right choice continues until today, recently between Joel Netshitenzhe who directed the economic policy of former President Thabo Mbeki and Jeremy Cronin, member of the SACP (South African Communist Party) and Deputy Minister of Public Works in the cabinet of President Jacob Zuma. Cronin claims that South Africa is at the periphery of the global imperialist system as a primary commodity exporter based on cheap labour. The profit maximising agenda of monopoly capital is the root of all South Africa's problems and that there could be no social pacts between capital and labour.

Netshitenzhe represents the pragmatic social democratic policy which was started by Mandela and continued by Mbeki. He criticises the SACP's rejection of economic growth (so called GDP myth) and reminds that during Mbeki's government the country achieved high growth rates of 5% and that unemployment was reduced significantly.

When Zuma defeated Mbeki at the 2007 Polokwane conference of the ANC he was the candidate of the left and he claimed that he would regain the progressive momentum which allegedly had been lost under the Mbeki administration. The irony of the situation is that Zuma does not have an economic vision and that his laissez-faire approach basically meant to continue Mbeki's economic policy despite revolutionary claims like those from his cabinet colleague Cronin.

The reconstruction of the economy and society in favour of the formerly disadvantaged population groups, therefore, had to take place within the existing liberal capitalist system. But this system creates in countries all over the world a widening gap between the rich and the poor. This means that South Africa not only had to work against such a widening gap but at the same time had to correct the backlog of inequality from the apartheid past.

It was obvious that the racially segregated economy had to go and that black ownership of the means of production had to be increased. White capital - both English and Afrikaner businesspeople - realized much earlier than apartheid politicians that blacks had to be integrated into the class of business leaders if the existing market economy was to survive

¹ In the following I am referring only to "blacks". To elaborate on the particular situation of "coloureds" or "Indians" would exceed the structure of this article.

² Concerning land reform I refer to my paper: "Demystify Land Reform in Southern Africa", www.fepe-europe.eu/en/publications/details/236

after the apartheid regime is gone. As early as 1984 businesspeople contacted the ANC publicly in exile and even before the ANC took over the government Sanlam for example sold 10% of its holdings to a black empowerment consortium. Within the first 4 years of ANC rule the black owned shares on the JSE (Johannesburg Stock Exchange) was estimated to have increased from 0.5% to 20%.³

In a reply to questions about his State of the Nation address President Zuma in parliament in March 2015 claimed that black ownership of the JSE only stood at 3%. This prompted a statement by the JSE that blacks own 23% of the 100 top companies at the end of 2013, white foreign investors own 39% and a further 16% is owned by a mix of shareholders including black South Africans.⁴ The debate is missing the point. In order to have an indication of the level of transformation in the country not only the ratio of shareholding is important but the level of black direct representation as directors on the boards of listed companies. And this representation is lower than the percentage of black shareholder ownership.

The Broad Based Black Economic Empowerment (BBBEE) Act of 2003 and several codes of good practice provide a regulatory framework for empowerment deals. These regulations focus not only on black ownership but also on appointment of blacks to managerial positions or on the commitment of the company to skills transfer. The issues are monitored on BEE scorecards, which are important if a company wants to be considered and rated for government tenders. This has led to a booming consulting industry on BEE criteria and a class of “tenderpreneurs”, politicians who influence tender processes in favour of companies partly or fully owned by them through strawmen or relatives.

In order to win government contracts companies had to get blacks on board, if possible influential politicians, and often the companies also had to provide for them the necessary investment funds on loan if shares were bought. After 20 years of BEE deals a small class of black entrepreneurs has emerged which is well connected to the higher echelons of the ANC. Of the top four one is Deputy President (Cyril Ramaphosa), one is a former Minister of Human Settlement (Tokyo Sexwale), one is a former member of the National Executive Committee of the ANC (Saki Makozoma) and the fourth (Patrice Motsepe) has his sister married to Ramaphosa. They have so much money that they can distribute for free shares to powerful players in politics, the media and judiciary⁵ therewith creating a network of dependencies that today dominates South Africa’s politics.

BEE the way it developed in South Africa did not contribute to counter the growing inequality. Among the BRICS countries Brazil, Russia, India and China, South Africa has the highest GINI coefficient with 0.65.⁶ This bad standing certainly must be attributed to the legacy of apartheid but it also means that no significant inroads could be made to alleviate the situation. A small group of well-connected blacks has now joined white riches at the top

³ Martin Plaut and Paul Holden: *Who rules South Africa?*, Johannesburg and Cape Town 2012, page 217

⁴ Wiseman Khuzwayo: *Debate on black JSE ratio heats up* in Business Report, 09.03.2015

⁵ Martin Plaut and Paul Holden, 2012, page 229

⁶ World Bank Estimate 2011, 0= total equality, 1= total inequality

of the society. This does not mean that nothing has been achieved. The improvement of public services like water and electricity supply, new roads and educational facilities to rural and poor urban areas and the disbursement of social welfare on a large scale has improved the situation of the poorer sections of the society significantly. Such improvements are not considered in monetary terms which form the base of the GINI coefficient.

South Africa's experience with BEE discredited the idea that black entrepreneurs would act more ethically and patriotic than white capitalists. A famous case involving the grandson of Nelson Mandela, Zondwa Mandela, and a nephew of Jacob Zuma, Khulubuse Zuma, illustrates this. Their company, Aurora Empowerment Systems, bought two mines which failed leaving 5300 miners jobless and unpaid. During the collapse of the mines equipment was sold for scrap and gold almost to the value of US \$ 10 million was missing. A high court judge in a civil claim case ordered them to pay up Rand 1.7 billion (130 million Euro) in damages and the prosecution is now investigating for fraud.

Deputy President Ramaphosa was a non-executive director of the Lonmin mine when the Marikana massacre took place in 2012. 36 miners on strike were killed by the police. Ramaphosa allegedly encouraged the mine management to remain tough during negotiations with the workers and allegedly asked the police to intervene. The Farlam Commission report on the massacre did not confirm this but the public perception is that powerful ANC businesspeople protect the interest of big business at all costs. In this case this is particular interesting because Ramaphosa is a former Secretary General of the Mineworkers Union (NUM) and one would expect his role in such a situation to be a mediating one.

Affirmative Action has extensively been applied in the public sector which increased since 1994 by 25%. This increase was partly necessary because of the broadened tasks of the public sector in the former homelands and growing urban areas as well as by the newly established provincial governments. But a large part of the unnecessary expansion was caused by the influence of the ANC through so called cadre deployment. Such development remained unchecked by for example a powerful Public Service Commission or similar institution. The political dependency on the party makes it difficult to create a professional and independent class of public servants or a black middle class that would articulate demands outside the ANC. From dependency during apartheid the new middle class of blacks grows into a new culture of dependency from the ANC. Critics therefore demand that affirmative action must be tied to a strict deadline⁷. Such sun set clauses are not discussed within the ANC because that would destroy the essence of Zuma's paternalistic rule.

Critics of BEE believe that this policy scheme is "an invention of South Africa's monopoly capitalists" in order to leave the "structures of the economy ... intact thus maintaining the status quo".⁸ Such criticism is based on the conviction that the nationalisation of key industries is necessary to achieve a fully independent South Africa in which the racial

⁷ Dirk Hermann: *Is empowerment benefitting SA?* In Sunday Independent 24.11.2013 quotes Terence Gomez's book: *Affirmative Action, Ethnicity and Conflict*

⁸ Eugene King: *BEE: South Africa's great injustice* in www.news24.com, 06.11.2013

injustices of the past can be overcome. The rhetoric of the party Economic Freedom Fighters (EFF) of the former ANC youth league leader Julius Malema is based on the same dogma; a rhetoric which according to the last election results is convincing for a large part of the South African electorate. The experience since 1994, however, is different. State owned enterprises like the power utility ESKOM and South African Airlines are run at a loss and need financial support from the government instead of contributing to the state budget.

Whether one sees BEE as success or not depends on one's ideological conviction and may be a matter of academic contemplation. The fact is that South Africa remained part of the global capitalist market system and that today an influential black elite and growing black middle class would prevent any radical changes if those changes were to threaten their status and income. It is unlikely that this would have happened without quotas on ownership and employment.