



BEE Economics and its influence on growth of the new South Africa

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Introduction: Why Black Economic Empowerment?

- Some objectives of BEE and, in particular, BBBEE are to:
 - Transform the South African economy to allow meaningful participation by HDSAs
 - Substantially change the racial profile of companies ownership, management and skilled professionals
 - Increase the ownership and management of companies by black women, communities, workers, cooperatives and others, and help them access more economic opportunities
 - Meaningfully promote investment that leads to broad-based and meaningful participation in the economy by black people
 - Help rural and local communities break the barriers of poverty through access to economic opportunities
 - Facilitate and promote access to finance for black economic empowerment
- This implies dismantling the legacy of past inequalities to the extent that economic success is shared by all South African citizens.

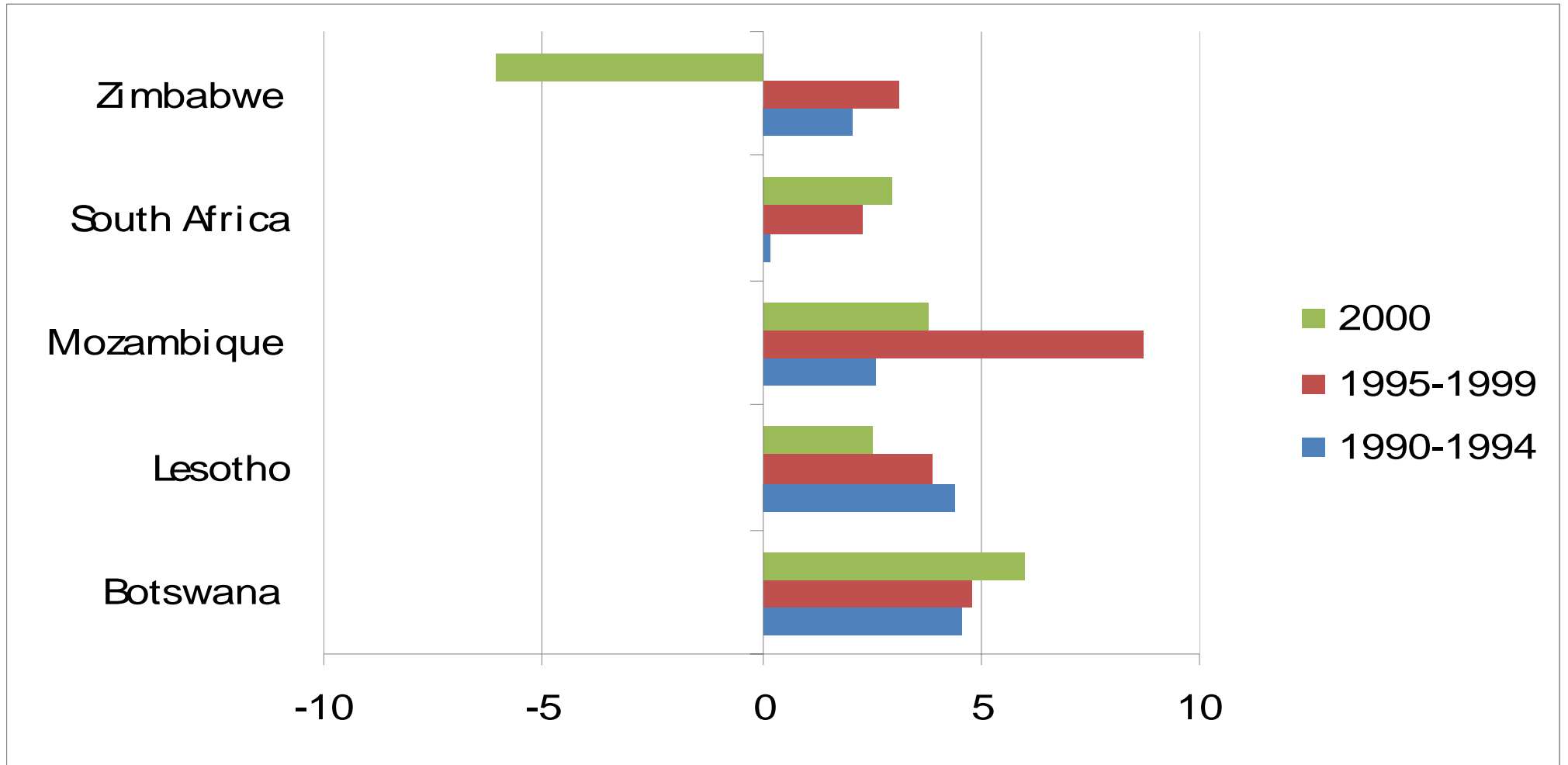


Selective Economic Advancement

- Legislated and targeted advancement of a specific section of the population of a country is not unique to the new South Africa. It has occurred elsewhere in the world:
 - **Northern Ireland:** Catholics and Protestants
 - **South Africa:** Apartheid legislation
 - Job Reservation Act
 - Land Act 1913; Targeted Advancement of Afrikaners
 - **USA:** Affirmative Action
- Selective advancement (in each case) resulted in gross disparity in the income level of people.
- **Is this sustainable?**



South Africa's economic growth pre-1994 and post-1994 (GDP)



How was South Africa's economic and political climate prior and during the initial years of democracy?

- **South Africa was characterised by;**
 - Inadequate investment
 - Low level of economic growth
 - Huge development backlogs
 - Income inequalities
 - Rising unemployment
 - Rising poverty levels
 - Rising political instability
 - Poor Black education (Bantu education)
- **Laws to redress the economic inequalities of the past were enacted**



BEE Initiatives to Redress the Inequalities of the Past

Initiative	Freedom Charter	BBBEE Act	Mining Charter	ASGISA
Year	1955	2003	2004	2004
Objective/ Supporting Statement	<ul style="list-style-type: none"> • The people of the land shall share in the country's wealth • The land shall be shared among those who work it 	See next slide	<ul style="list-style-type: none"> • To create an industry that will proudly reflect the promise of a non racial South Africa 	<ul style="list-style-type: none"> • To halve unemployment by 2012



Wealth redistribution initiatives are not unique to the new South Africa

BBBEE Legislation

- **Definition**

The Broad-Based Black Economic Empowerment Act of 2003 defines "black people" as a generic term that includes "Africans, Coloureds and Indians".

According to the Act, "broad-based black economic empowerment" – with an emphasis on "broad-based" refers to the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas.

- **Rationale**

BEE is a necessary intervention by Government to address the systematic exclusion of the majority of (Black) South Africans from full participation in the economy. It aims to eradicate social ills such as:
Unemployment

- Poverty
- Crime

In a nutshell it could be said that BEE's goal is central to the transformation of the socio-economic landscape and a future in which the benefits of economic growth accrue equitably to all sectors of South Africa.



7 BEE Elements: Equitable Economic Opportunities

BEE Elements

Ownership

Management Control

Employment Equity

Skills Development

Preferential Procurement

Enterprise Development

Socio Economic Development

Direct
Empowerment

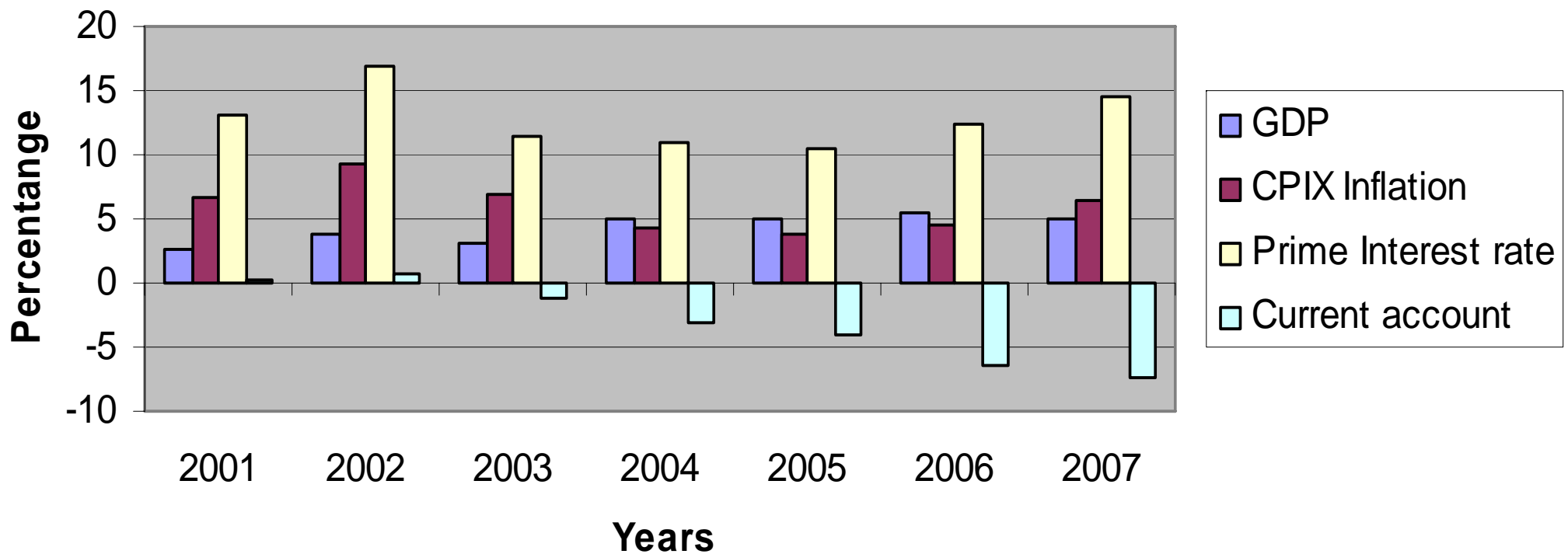
Human Resource
Development

Indirect
Empowerment



BEE Thrived during the buoyant economic climate

Economic Data



Source: FNB Five year Macro Economic Outlook

BEE Successes during the Growth Era

- **Mining Sector:** BEE was successful in creating companies such as ARM, Shanduka, Mvelaphanda, Eyesizwe/Exxaro, Wesizwe etc.
- **Financial Services:** Sanlam, Absa etc.
- **Agricultural Sector:** Broad-based empowerment of wine farm workers, fruit farm workers
- **Employee Participation Schemes (ESOPS):** Massmart and Sasol (R17,9bn)
- Companies now see empowerment as a critical component of their business in order to access every opportunity to supply their products and services
- R200bn worth of BEE deals since inception (Moody's Investor services)
 - R96bn of deals concluded in 2007
 - Telkom, MTN, Sasol (Inzalo), Nedbank in the forefront of BBBEE deals



Consequences of BEE Growth Successes

- Increased economic participation in the market by the blacks
 - Unemployment decreased to 25%
 - Increase in black middle class (so called Black Diamonds)
 - Increased number of dollar millionaires (Sunday Times, 29 June 2008)
- Increased standard of living
- Was BEE exclusive?

Although progress has been made in dealing with serious challenges, this progress was achieved in the context of a growing economy.



BEE Challenges in this growth era (2001 to 2007)

- Unprecedented focus on wealth redistribution/creation compared to the other pillars of BEE
- Wealth redistribution as a solution to developmental goals has led to
 - Increasing number of fronting by companies
 - ANC leaders are seen as the only visible beneficiaries of BEE (**Fat Cats**)
 - Discouragement of entrepreneurship among the black population
 - Increase in income inequality (Gini coefficient (1994: 0,57 to 2008:0,65; 0,63 in 2006)(BD 04/07/08)
- Skills development, management and control, preferential procurement and enterprise development have taken a back seat in many South African companies
- Low levels of education among the black race has led to
 - Shadowing by companies
 - Inept Political appointments
 - In the majority of cases, low levels of productivity and competence

Education and mindset play an important role in the game of BEE

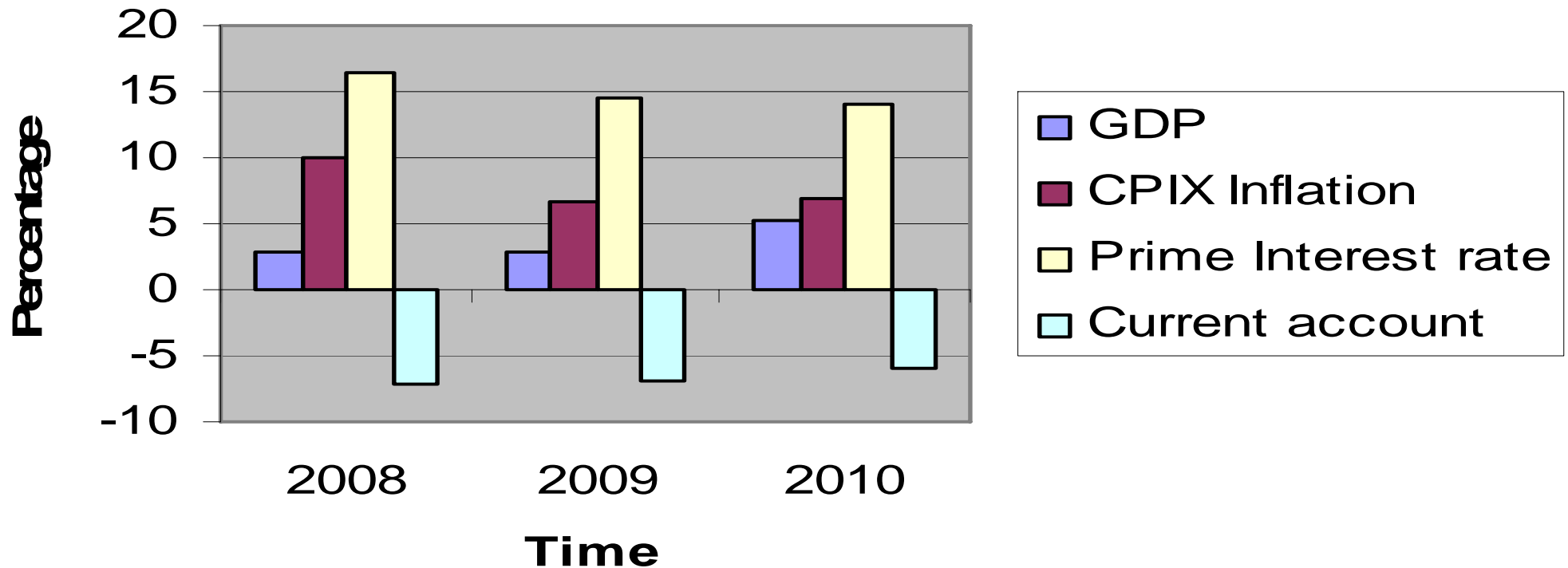


Exclusivity in “Fat Cattism”



Is BEE sustainable (in an economic downturn)?

Economic Data



Source: FNB Five year Macro Economic Outlook

BEE challenges in the Current Economy

- Cracks are starting to be evident in the current South African economy
- Global shocks in food and oil prices have increased inflation to untenable levels
 - Inflation has risen to above 10%, with the SARB threatening further increases
 - Eskom power increases still have to be factored into the inflation equation, and this will lead to more increases in interest rates
 - This leads to an increase in borrowing costs, which will then lead to a slowdown in the number of BEE transactions concluded.
 - Possibility of flight/sale of share equity
 - Companies may struggle to pay off debts, this will lead to retrenchments and also a limit to the number of new jobs available (Employment Equity will be affected)
 - Expenditure on skills development and social projects will also decrease
 - This will entrench the notion that “BEE has benefited only the elite and top political party members”

**“BEE is more of a problem than a solution”.....
it.... “stops blacks from becoming entrepreneurs” Moeletsi Mbeki**



BEE Economic Challenges in the Current Political Climate

- **The transitional phase in government and the ANC (post Polokwane) may also have major effects on the economy**
 - We will see a
 - slowdown in fixed investment (impact on Employment Equity)
 - Emigration of skilled labour to developed countries (which will lead to a slowdown in the transfer of skills)
 - Flight of capital to developed and stable countries
 - Deterioration in the standard of education (and standard of living)
 - Increase in poverty: leading to hunger and diseases (various social ills)

“We may need to solve problems not by removing the cause but by designing the way forward even if the cause remains in place”

Edward de Bono



Conclusion

- Government will have to be staunch in the empowerment stance and shift the focus from Equity and widen the base to include professional employees and entrepreneurs. This can be done through a concerted effort to drive:
 - Enterprise development
 - Preferential procurement
 - Management and control
- Education also has to be upgraded to meet the needs of the private sector
- The mindset of the people (especially black people) should be focused on economic participation and productivity in order to create a productive and competent workforce



Conclusion (Continued)

- Failure to support BEE in these trying times will lead to the societal ills that are starting to emerge:
 - Rising unemployment
 - Rising income inequality (increase in the Gini coefficient)
 - Poverty
 - Crime
 - Xenophobia (directed at fellow blacks)
 - Xenophobia/Racism (directed at non-blacks)

“Changing the way people think is one of the tougher challenges of leadership, as people tend to fight hard to hold on to their view of the world”

David Rock (2006)



The Message

- Implementation of legislation can yield either positive or negative results depending on where you are positioned.
- BEE as a legislative instrument is aimed at inviting everyone to share in the gains of the country's economic growth
- This is supported by the freedom charter, which encourages that people of the land shall share in the country's wealth
- The challenge with BEE legislation is the misconception of exclusion of certain sectors of our community from participating in the country's economy
- Legislation in the context of BEE can and will have a positive impact on the growth of the economy.
- BEE, applied correctly, will have far reaching economic and social benefits for the South African economy as a whole.



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POWERING POSSIBILITY

THANK YOU

