

# Black economic empowerment : a South African perspective

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# BLACK ECONOMIC EMPOWERMENT

## A South African perspective

**Thero Setiloane,**

born 1959 in South Africa; 1987 degree in Mech. Eng from University of Warwick; post graduate diploma from University of Cape Town School of Engineering Management. Dip. Mash. Mech – apprenticeship with AEBI & Co. Among other honorary posts, Director of the Commonwealth Leadership Forum. At present Director of the Real Africa Group.

*South Africa's new President, Thabo Mbeki, speaks so eloquently about the vision of an African Renaissance and the need now, at the cusp of the second and third millennia, to lead Africa into the global socioeconomic mainstream. It is in the context of the African Renaissance, in particular, that black economic empowerment finds its best and most sanguine expression.*

Without delving too deeply into South Africa's complex, peculiar and often dark history, we have to briefly revisit the apartheid era. Apartheid, in essence, was based on unfair discrimination and injustices, which proliferated to the point of severe mutations and distortions. During the apartheid era virtually all black compatriots – along with many women and other previously marginalised or victimised demographic groups – lacked or were even completely denied not only privileges or advantages, but basic rights as well.

### **Democracy and Emancipation**

This whirlwind past is emphasised for two good reasons.

*First*, political democracy and emancipation are hollow and meaningless if they are not accompanied by a process of comprehensive democratisation, liberalisation and empowerment in all spheres of human endeavour. There is scant benefit in previously disenfranchised citizens having the right to vote when they have no jobs, no shelter, no food, no transport and no community school to which to send their knowledge-hungry children. The enfranchised citizens want and need to have the right and the choice to become full and productive people who can reap the rewards of their hard work in an economic context.

*Secondly*, while much of the initial euphoria about South Africa's sociopolitical emancipation and the Rainbow Nation miracle has simmered down, we cannot afford to lose sight of the need to drive transformation and ensure that an acceptable impetus is maintained to create a full democracy. In reality, democracy is about

hard work and dedication by all individuals and groups – and no viable democracy can be developed without the representative participation of all groups in all of its social spheres and the reserves available to fund the required institutions.

### **New opportunities**

Black economic empowerment therefore, in part, has been necessitated by the apartheid legacy and the need to create the right counterbalance to ensure true economic progress, complete with a broader scope for the equitable creation and distribution of wealth. Black economic empowerment also has to happen in context and with an understanding that economic standards are not dictated by anyone single nation state. They cannot, therefore, rise or fall to suit the intrinsic or proclaimed requirements of anyone state. In most respects, black economic empowerment in South Africa is a positive commitment to moving forward to create and enjoy new opportunities.

Black economic empowerment, for now at least, must continue to focus on the need to accelerate all and any viable initiative to empower people from previously and currently disadvantaged groups with human and financial capital experience. They must also have the opportunity to learn from mistakes so that they, too, can become constructive and valued contributors to the economic mainstream and, therefore, also satisfied beneficiaries. As black economic empowerment gathers impetus, creates wealth for the previously disadvantaged and increasingly produces true role models, then the sooner we shall witness the true genesis of an African Renaissance in a South African context.

Today, as we develop and advance our understanding and expression of black economic empowerment, we must appreciate the effort, the risk and the vision of many black entrepreneurs. The springboard from which empowerment in South Africa was launched was a solid one.

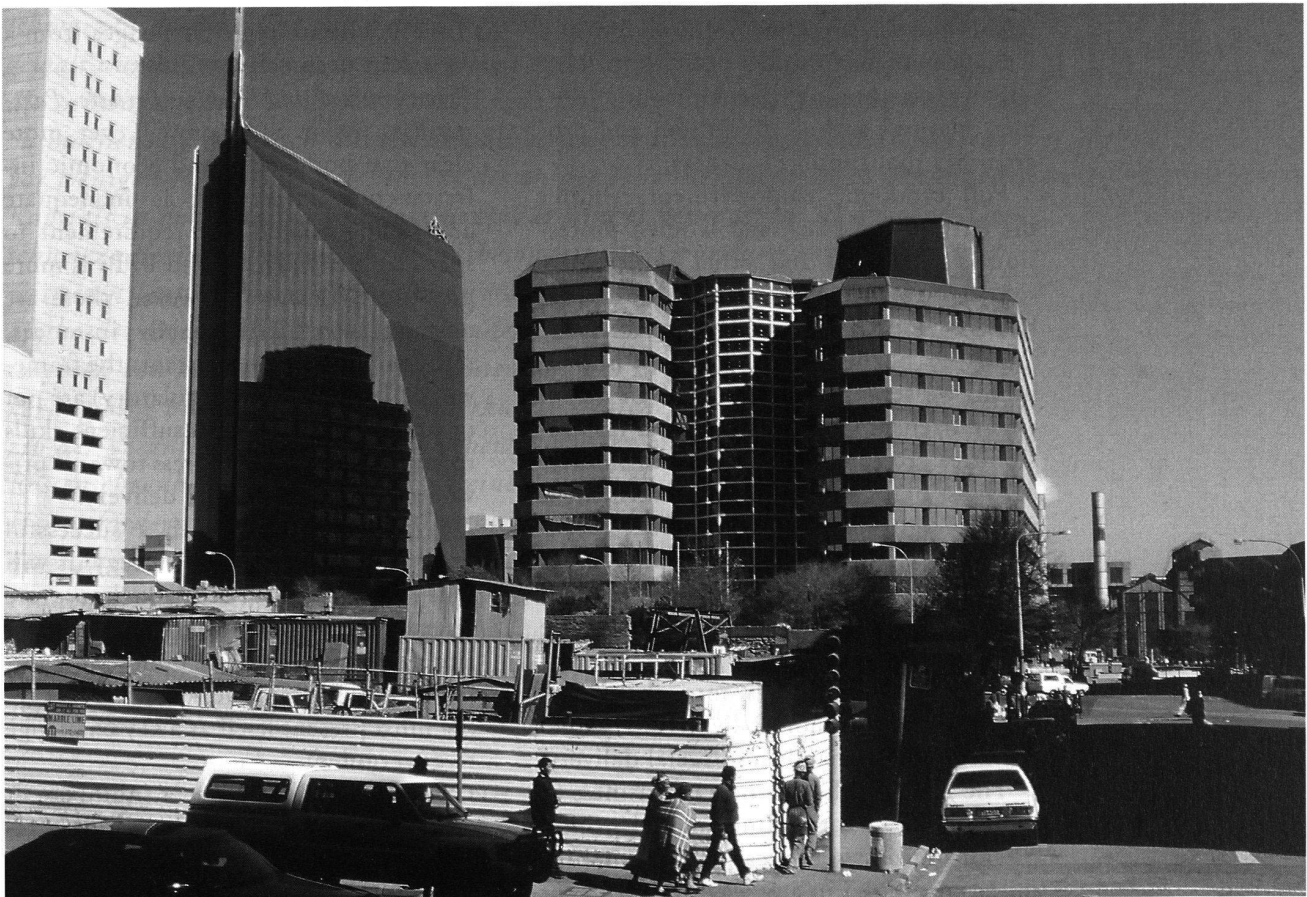
Much of the proof lies in the emerging proliferation of both promising and successful black-owned businesses. Companies such as Real Africa Holdings Limited, World Wide, National Information Technology Acquisition Consortium (NITAC), Naledi Petroleum, Afric Oil and Coordinated Network Investments (CNI) are just a few of the many growing examples. Just as encouraging are the signs of further empowerment deals being planned, some of which involve State enterprises such as Telkom South Africa, South African Post Office (SAPO), NATREF, ACSA, PORTS and South African Airways (SAA).

### **Remarkable growth**

Both the South African Government and the private sector have become active and

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supportive agents of black economic empowerment by, among other things, providing finance, engaging in partnerships and joint ventures, and entering into preferential tendering arrangements with emerging businesses. We are witnessing some significant shifts in the nature and extent of business ownership, as well as entirely new companies being created by more fully representative groups of investors and entrepreneurs. The unbundling of some of South Africa's larger corporations, with the express intention of selling sections of these to black investors, has enabled black companies to achieve some promising and potentially significant footholds in the South African economy. These holdings have increased from 0.1 percent to more than 10 percents of the Johannesburg Stock Exchange capital. Several black-owned companies have achieved remarkable growth over the last three to five years and some are now listed successfully on The Johannesburg Stock Exchange. Besides the aforementioned Real Africa Holdings, other examples include African Life and Metropolitan Life.



*The Johannesburg stock exchange. Photo: Walter Sommerhalder, Littau, Schweiz.*

Full economic empowerment requires the entrance of black and women professionals, managers and other skilled personnel into key economic positions.

What is encouraging about many of these black-empowered deals is the presence of groupings which previously would not have had such opportunities – consortiums involving union investment companies, women's investment groupings and small-business people. The early phases of fast-evolving black economic empowerment are not being restricted to the domain of the more affluent investors or talented entrepreneurs.

### **Ownership, the Key to Economic Power**

Empowerment, itself, has to be continuously revisited and challenged if we are to understand its true meaning and exploit the full potential of its benefits. While ownership is key to the achievement of economic power, it is not the only avenue through which black economic empowerment should be achieved. Empowerment also needs to be pursued by ensuring that black South Africans occupy, in growing numbers, meaningful positions at all levels and in all sectors of the economy. It also means that they must increasingly participate and share in the formulation and management of business policies, pricing strategies, technology development, customer relations and all disciplines and programmes that support business.

Full economic empowerment requires the entrance of black and women professionals, managers and other skilled personnel into key economic positions that have previously not been their preserve.

At the beginning of the new millennium, we sense the dawning of an age of true citizenship and shared global responsibilities. To limit our vision and interest solely to black economic empowerment is to lose sight of prevailing global megatrends at the expense of our inward-looking, parochial commitments. We cannot just talk in terms of race and gender, we must accept and work towards implementing these commitments into the mainstream of our economic lives. The global market place demands non-racial delivery.

The need for the business of business to remain business, the fundamental principles of business sense, cannot be compromised or diluted in any way by black economic empowerment. A balance sheet is a

balance sheet – there is no such thing as an empowerment balance sheet. Once people from marginalised and previously disadvantaged groups, including women, are truly empowered in the economic mainstream and enjoying the fruits of their efforts, they still have to stay empowered, energised and focused on maintaining the economic system as their legacy for future generations.

It would be remiss of me to come this far and restrict my presentation to black economic empowerment. It is only right that I share my perceptions of the strategic challenges that will face the Second Republic and the direction needed for South Africa to achieve nation status in the globalised market place.

South Africa is positioned to make an increasingly convincing case for an investment rating in the short to medium term. However, if certain strategic challenges are not addressed, growth and development potential will be severely constrained for the next three to five years.

### **Strategic Challenges**

As I see it, the strategic challenges from a government perspective will be:

- *Privatisation and Public Private Partnerships:* As it is becoming ever more clear that both social and economic infrastructure investment is inadequate and falling behind, the requirement to speed up privatisation and PPPs is more pressing than ever. However, there are obstacles to this. In many instances, trade unions remain resistant; the frameworks (legislative and regulatory) are not in place and there are insufficient skills to manage effective progress towards private sector infrastructure delivery.
- *Poverty Relief:* Even with a successful employment-generating strategy, it will take time to turn around the severe structural unemployment in South Africa. Therefore, both a policy and implementation framework for poverty relief must present itself as a key challenge to government.
- *Governance:* There are a number of challenges and needs here: administrative performance, representative needs (changing the racial and gender composition of the civil service), transform-

ation needs (changing the role of the state) and transparency needs (ensuring clean government).

- Government has a mixed record of performance and success. However, it has recorded enough achievements and managed competently enough a complex restructuring of government in the past five years to be given the benefit of the doubt in the coming five. I feel the following key shifts in economic policy are required:
- Investment and labour policies need to be reviewed, with a strong focus on designing them to meet the requirements of medium-sized businesses, since this is the area where job creation potential lies. It is the view of many that medium-sized businesses should be used as the benchmark in the design of investment/labour policies.

- There needs to be a shift towards an integrated investment strategy which covers the industrial and service sectors (the focus is currently on industrial). Figures show that the service sectors are playing a growing role in the South African economy.

- Government needs to adopt an approach that tests investment initiatives/programmes against alternatives to ensure that priorities, such as employment generation, are being adequately addressed.

I could go on to scrutinise the new Cabinet – the good points and the bad. But at the end of all this the only question that matters is: Am I happy with progress thus far and am I confident that goals will be reached and potential fulfilled? The answer is an emphatic YES.

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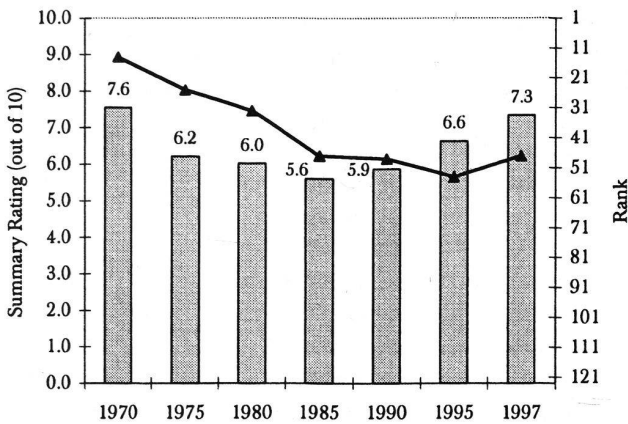
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*Im vorstehenden Beitrag spricht Thero Setiloane, Director of Real Africa Holdings, von jenen Voraussetzungen, die herrschen müssen, damit Südafrika bald den Anschluss an den globalen sozioökonomischen Mainstream finden wird: ein zielstrebigter Aufbau von wirtschaftlicher Kompetenz in einer während der Apartheid jahrzehntelang benachteiligten und als billige Arbeitskräfte ausgebeuteten schwarzen Bevölkerung sowie die Übernahme der wirtschaftlichen Entscheidungsgewalt durch diese. Eines der Hauptziele südafrikanischer Wirtschaftspolitik ist, die Schwarzen auch zu Besitzern von Industrie oder Dienstleistungsunternehmen zu machen. Systematisch werden deshalb schwarze Investoren gefördert. Waren vor wenigen Jahren nur 0,1 Prozent des an der Johannesburgur Börse gehandelten Kapitals in den Händen von Schwarzen, so sind es heute schon 10 Prozent. Die schwarze Bevölkerung muss heute insbesondere zur Gründung von kleinen und mittleren Unternehmen angehalten werden, denn die Tatsache, dass sich in Südafrika der Dienstleistungssektor besonders stark entwickelt, begünstigt das Heranwachsen von klein-kapitalisierten Unternehmen. Es gilt, in der schwarzen Bevölkerung eine bürgerliche Unternehmerkultur entstehen zu lassen, in der das Prinzip der Verantwortung und des Wettbewerbs nicht mehr durch Standes- oder neue Rassenschränken gebremst wird. – Keine Wirtschaftsentwicklung ohne strategische Herausforderungen: Die Privatisierung stösst noch auf Hindernisse aus der Zeit der Apartheid – die starken Gewerkschaften etwa. Auf Vorurteile gegenüber Frauen und den schwierigen Umgang mit der behördlichen Transparenz trifft man bei der Reform der öffentlichen Verwaltung. Was hingegen in den letzten fünf Jahren von der Regierung auf dem Gebiet der strategischen Orientierung des Landes geleistet worden ist, gibt Anlass, auch mutig in die Zukunft zu blicken. ♦*

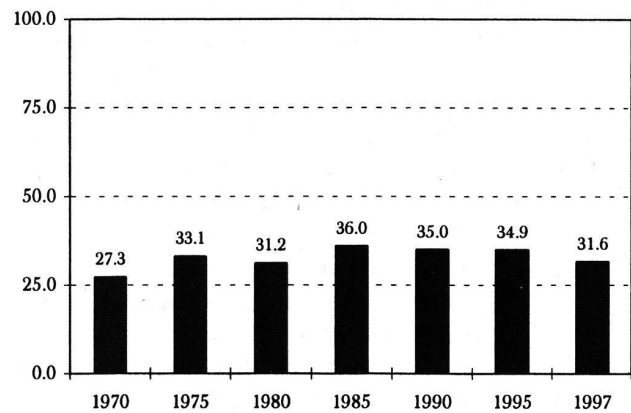


## SOUTH AFRICA

### Economic Freedom Rating (bar) and Rank (line)



### Total Government Expenditure as a Percentage of GDP



Despite slow improvement during the 1990s, South Africa's economic-freedom rating continues to fall midway among rated countries: its ranking remained steady, 48<sup>th</sup> (out of 115) in 1990 and 47<sup>th</sup> (out of 123) in 1997. Government expenditure (31.6 percent of GDP in 1997) remains extremely high for a low-income country (\$ 4,513 per-capita GDP in 1996) but fiscal discipline has been improved and the level of expenditure as well as the size of the budget deficit is declining.

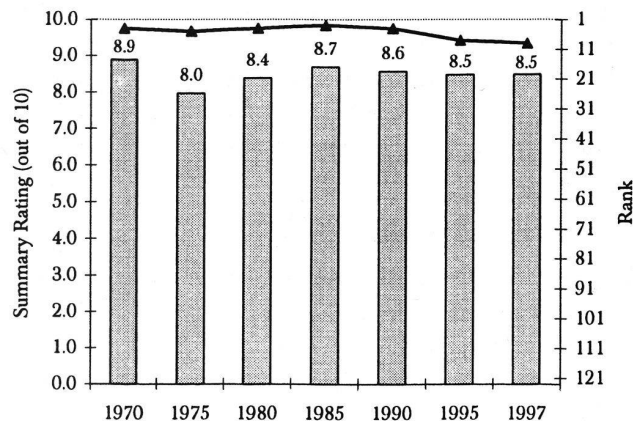
With the disappearance of apartheid, the first government of the new democracy and the 1996 Constitution greatly improved the overall legal structure.

Trade tariffs have been reduced and the powers of the former agricultural marketing boards removed. Farmers and long-protected industries have had to adjust to the changed circumstances and formal unemployment has consequently increased to around one-third of the potential workforce. The government has re-stated its commitment to privatization but the process is proceeding very slowly.

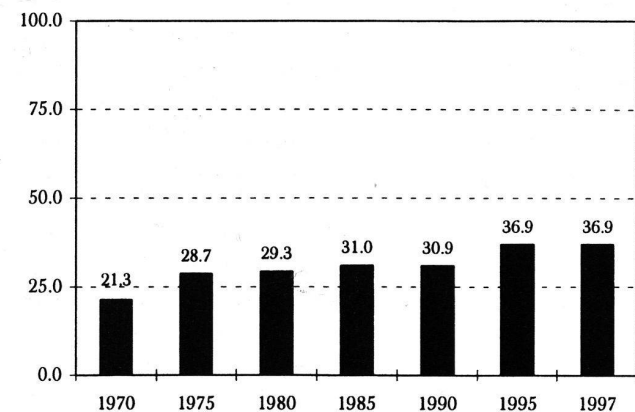
South Africa can improve its economic freedom rating and prospects of higher growth by continuing to reduce the growth rate of the money supply, replacing the existing limited rights to own foreign currency with total freedom to maintain foreign currency accounts in local banks, abolishing the remaining limitations on the ownership of bank accounts abroad, substantially reducing government expenditure as a percentage of GDP, privatizing rapidly, and reducing marginal tax rates.

## SWITZERLAND

### Economic Freedom Rating (bar) and Rank (line)



### Total Government Expenditure as a Percentage of GDP



Switzerland's 8.5 rating places it 9<sup>th</sup> in our 1997 index. Switzerland has sustained its high position during the past decades and has never been ranked below 10<sup>th</sup> position.

The characteristics of the Swiss economy are its credible and stable monetary regime and well-established legal structure (note the almost perfect rating in that area). Further, a free foreign-trade sector – in the last two years nearly all taxes on international trade were abandoned – as well as the freedom of owning foreign currencies and the small number of government enterprises are positive attributes. While the growth rate of real GDP has been meagre – an average of 0.4 percent annually between 1990 and 1997 – the Swiss economy remains one of the most free in Europe.

Gwartney, James D., *Economic Freedom of the World: 2000 Annual Report*, Reprinted in Germany, COMDOK, Liberales Institut, Potsdam-Babelsberg 2000.