

Southern Centre for Inequality Studies (SCIS)

Returns to a Broader Base? Webinar at Wits University

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I. Introduction and opening remarks

The public policy debate on BEE and black entrepreneurship in post-apartheid South Africa has been reduced to three main approaches. **Firstly**, an emphasis on what Ponte et al.(2007) describe as the ‘managerialisation of BEE – the treatment of BEE as a separate technical entity to be managed according to the principles of corporate social responsibility and auditing’.¹ This paradigm mainly focuses on the B-BBEE Act, codes of good practice and regulatory compliance. **The second** approach examines share transfers, ownership demographics, governance and dividend accumulation in large-scale B-BBEE transactions completed since 1994 (**especially between 2000-2010**). This literature explores the experiences and market activity of BEE pioneer companies, which are popularly referred to as the ‘fab four’: Mvelaphanda, Shanduka, Safika Holdings and African Rainbow. **A third** approach dissects class formation debates on creating an independent black capitalist class, which uses economic rents for productive activity and not rent-seeking or neo-patrimonialism. The emphasis here is on the politics of transformation, corruption and so called ‘tenderpreneurs’. This last strand has unfortunately captured the public discourse, especially in light of the evidence provided in state capture analyses. It is widely accepted that BEE generally and B-BBEE policy frameworks specifically are faced with a serious legitimacy crisis.

II. MISTRA publication and core argument

In February 2020, MISTRA published a book entitled: ***Beyond Tenderpreneurship: Rethinking Black Business and Economic Empowerment***. This publication, edited by and Ayabonga Cawe and Khwezi Mabasa, examined what underlies the B-BBEE policy framework legitimacy crisis by exploring the following questions: what is the socio-economic impact of BEE? What lessons can be drawn from varied black entrepreneur experiences? The main aim was to contribute to B-BBEE policy reform debates through a different or fourth approach, **which embeds B-BBEE in broader political economy discourses on post-apartheid economic restructuring**. This type of analysis departs from three approaches described in my introductory remarks in several ways. It shifts our discourse from a limited focus on shareholding transfers, demographic ownership trends, good governance and share

¹ Ponte, S., Roberts, S.& Van Sittert, L.2007. ‘Black Economic Empowerment, Business and the State in South Africa’. *Development and Change*, 38(5), 933–955.

dividend accumulation. We can only achieve ‘**returns to a broader base**’ of beneficiaries through ESOPs, Trusts and other Broad-Based Ownership structures (BBOs) if we adopt a policy approach that locates B-BBEE in economy-wide impacts, industrial diversification and wider conceptions of social redistribution. In other words, establishing or reforming BBOs without considering altering market structures, sector configurations, and investment patterns will not produce the desired socio-economic outcomes. I am not totally dismissing the need for **transforming operational control or demographic ownership** in different BBOs or any other entity involved in a B-BBEE transaction . But it is important to highlight that these two factors are not sufficient for guaranteeing ‘**returns to a broader base**’. I am positing an alternative view articulated in MISTRA’s publication, which calls for achieving returns to a broader base through the following four core arguments .

III. Concrete Proposals

Firstly, creating a conducive macro-economic environment for achieving the wider socio-economic impacts in B-BBEE policy implementation. Researched evidence suggests that fiscal, monetary, competition and industrial policy frameworks shape the success and failures of B-BBEE transactions. These policies determine the nature and depth of returns to parties involved in empowerment deals. We need to ensure that decisions taken in these policy areas complement achieving a broader B-BBEE beneficiary base. This necessitates prioritising B-BBEE impacts when considering major macro-economic policy reforms. **For example**, most empowerment transactions are financed through third party debt and the costs of servicing these loans are determined by monetary policy. Therefore, debates on an appropriate monetary policy framework have a significant impact on B-BBEE transaction outcomes. **Similarly**, competition policy and market access determine pricing amongst different entrepreneurs. Black businesses often fail the competitive market pricing tests, and this trend is mistakenly reduced to price collusion coordinated in corrupt middlemen networks. But this perspective overlooks how market access and scale influence pricing options. Competition policy also shapes B-BBEE market activity through regulating mergers and acquisitions as seen in the much-lauded Coca-Cola deal, with a 15 per cent workers ownership stake and increases in supplies from black sugar cane farmers. There are additional examples in the fiscal and industrial policy areas that illuminate how macro-economic policy choices shape B-BBEE success or failures.

The second argument relates to broadening our understanding of black enterprise development and market transformation. South Africa’s empowerment policy is primarily aimed at advancing share

transfers and demographic ownership changes within the JSE-listed companies. I accept this rationale given its centrality in South Africa's economy. But we must equally think about black economic empowerment and enterprise development outside the listed market space. Most formal fully black-owned enterprises, which largely fall within the SMME classification, are not listed companies. Research indicates that they are confronted with structural political economy barriers. These include, but are not limited to, markets access, finance, technological upgrading and regulatory constraints. In addition, the B-BBEE policy frameworks have overlooked the informal economy. This is astonishing because demographic data indicates that black African entrepreneurs are leading informal economic activity. B-BBEE policy interventions have largely treated black entrepreneurs as a monolithic social group without due consideration for differences in enterprise size, access to capital, sector participation and business strategies. Returns to a broader base require looking within and beyond the JSE-listed space and a comprehensive black enterprise support strategy for non-listed economic activity. This includes, in our view, a dedicated focus on the informal economy. The calibrated market transformation approach is more suitable for addressing other intersectional inequalities such as race, gender and urban/rural divides.

Thirdly, we need to think about B-BBEE beyond the confines of what Ashman & Mohamed (2013) describe as a finance-led MEC.² We cannot broaden returns or ownership within the limits of existing market structures. Research on the major empowerment transactions concluded between the early and late 2000s indicates that they occurred in three main traditional sectors: mining, finance and energy. The limited socio-economic impact and minimal market structure changes of these large-scale transactions is documented in several BEE publications (**See Cargill, 2010; Gqubule, 2006**).³ Achieving returns to a broader base requires thinking about black entrepreneurship and empowerment through an industrial diversification, market structure reform and technological upgrading lens. One example of this is the renewables sector which is in its early product-and-innovation lifecycle. Another example is the ongoing debate on digitisation and its impacts on services sectors like transport within the context of platform economy business models. B-BBEE and black enterprise development can be leveraged to produce greater economy wide social returns in developing the transitions towards low-carbon and digital economies.

² Ashman, S., Mohamed, S. & Newman, S. 2013. 'The Financialisation of the South African Economy and its Impact on Economic Growth and Employment', UNDESA Paper. <https://bit.ly/2x8aEvG>, accessed 10 February 2019.

³ Cargill, J. 2010. *Trick or Treat: Rethinking Black Economic Empowerment*. Johannesburg: Jacana.

Gqubule, D. 2006. *Making Mistakes Righting Wrongs: Insights into Black Economic Empowerment*. Johannesburg: KMM Review Publishing Company

Lastly, the design of B-BBEE deals, financing frameworks and performance indicators need to be reformulated. This is essential for attaining broad-based participation and restructuring of the economy. Empowerment transactions must be structured on the basis of (and in response to) operational and business productivity concerns. These two elements should be prioritised over narrow financial indicators such as share price movements, interest rates and dividend policies. The case studies in our book provide concrete examples on how to achieve this by highlighting some outlier transactions, especially in the area of ESOPs and trade union investment companies. In these cases, ESOPs and union investments were not limited to dividend pay-outs. But rather extensive political economy considerations such as worker control, industrial diversification and addressing structural socio-economic inequalities. This includes building alternative investment patterns and ownership structures within the political economy. We need to think about different frameworks for measuring a good empowerment deal or investment that produces greater social returns. This is where I depart from the fixation with the **B-BBEE codes**, which constrain us to a strict quantitative discussion on points and accounting procedures. South Africa needs to reimagine how it examines B-BBEE transactions, with an emphasis on the deeper structural issues raised in my input.

Overall, the discussion on BBOs should not be disembedded from these wider political economy factors. The operational control and demographic changes within these structures will produce minimal socio-economic gains if we separate them from these fundamental economic restructuring imperatives. Share allocation, dividend accumulation and management dynamics must be complemented by deeper meaningful structural change in order to attain returns to a broader base. We must equally explore international case studies from Malaysia, USA, East Asian Developmental States and India on how to pursue broad-based socio-economic redress. The evidence from these international case studies suggests that successful policy implementation rests on the macro-policy and political context that shapes socio-economic redress. Another crucial lesson is the ability of states to ensure that rents are used for broadening socio-economic returns and economic restructuring. Alice Amsden (2001) refers to these measures as reciprocal control mechanisms, which have been poorly enforced in our B-BBEE policy implementation efforts.⁴ The state's regulatory role and active participation in markets is essential for achieving returns to a broader base.

Ends

⁴ Amsden, A.H.2001.*The Rise of the 'Rest': Challenges to the West Late- Industrialising Economies*.New York: Oxford University Press.

