



business environment specialists

SBP ROUNDTABLE DISCUSSION 26 May 2010

Is BBBEE (broad-based black economic empowerment) an effective route to inclusive development and economic growth in South Africa?

Around the broad theme, *Making South Africa a better place to do business*, SBP is running a series of high-level discussions concerned with South Africa's competitiveness in the global economy, and our ability to attract investment, stimulate domestic business and boost job creation.

This was the focus of SBP's third roundtable for 2010 which took place on 26 May at our offices. The discussion, involving 24 specially invited participants, opened with short inputs by three eminent panelists - S'dumo Dlamini (President, Cosatu), Bobby Godsell (Chair, BLSA) and Duma Gqubule (author and BEE analyst).

In the first decade of our democracy, black economic empowerment (BEE) initiatives focused primarily on increasing black South Africans' participation in equity ownership and management. While these remain key policy objectives, more recent BBBEE initiatives (via associated sector charters, codes of good practice and other legislation) also aim to address income inequality and development through employment equity, preferential procurement, enterprise development, skills development, and other socio-economic programmes.

In December 2009 President Jacob Zuma appointed his new BBBEE Advisory Council, tasked with assessing the progress, strengths and weaknesses of BBBEE to date. The Council is chaired by the President. Its nineteen members include the Minister of Trade and Industry, Rob Davies, the Minister of Labour, Membathisi Mdladlana, and the Minister of Economic Development, Ebrahim Patel.

SBP's roundtable was organised in association with BBBEE Advisory Council member Prof. Mohammed Jahed, who also serves on SBP's board. The aim was to highlight issues for the Advisory Council's agenda from various perspectives, including large and small business, organised labour, and independent analysts. The discussion was chaired by Prof. Jahed.



S'dumo Dlamini is President of Cosatu (the Congress of South African Trade Unions), the country's biggest trade union federation, with 22 affiliates covering more than 2 million workers. Cosatu is part of the Tri-Partite Alliance with the African National Congress and the South African Communist Party (SACP). S'dumo Dlamini has a depth of experience in negotiation, conflict management and dispute resolution. With a background in nursing, he has a long history of activism as a shop steward and subsequently as an office-bearer at regional and provincial levels in NEHAWU. Over the past decade he has held various leadership positions in Cosatu. He serves on the newly appointed BBBEE Advisory Council.

Bobby Godsell is currently Chairman of Business Leadership South Africa (BLSA), an association of CEOs and Chairmen of the 70 largest corporations and multinational investors in South Africa. BLSA is committed to the national goals of high growth, greater employment, inclusivity and the reduction of poverty. Bobby Godsell is also Co-Chairman (with Zwelinzima Vavi, Cosatu's General Secretary) of the Millennium Labour Council, a body providing for social dialogue between business and labour leaders. He is known for his integral role in the mining industry while CEO of AngloGold. He subsequently accepted an appointment as Non-Executive Chairman of Eskom Holdings, a post he resigned from in 2009. In April 2010 he was appointed by President Zuma to the new National Planning Commission.



Duma Gqubule is a widely published financial journalist, analyst and advisor on issues of economic development and transformation. He has provided consulting services to various public and private sector organizations, including the NEPAD Secretariat, the City of Johannesburg, the Black Management Forum, Naledi, the Offshore Petroleum Association of SA, Coca-Cola South Africa, Nestle and Telkom. He is a member of Cosatu's Panel of Progressive Economists. Duma Gqubule was co-author of the BEE Commission Report submitted to President Thabo Mbeki in 2001, and editor of the book *Making Mistakes, Righting Wrongs: Insights into BEE* (2006) one of the first comprehensive evaluations of the impact of South Africa's evolving BEE policies and programmes. He is a founder of KIO Advisory Services which specializes in the area of BBBEE implementation.

Prof. Mohammed Jahed is a member of SBP's Board of Directors. He also serves on the BBBEE Advisory Council. From 2003 to 2005 he was Head: Policy, Strategy and Research, and Chief Economist: NEPAD and special economic advisor to the Office of the Presidency. As a development economist Mohammed Jahed has worked extensively in the public and private sectors and with international institutions including the EU, DFID and UNDP, and also with the Development Bank of Southern Africa (DBSA). He is a Professor in the Graduate School of Public and Development Management at the University of the Witwatersrand. He is also a Director of Econometrix (Pty) Limited.



THE DISCUSSION: A SUMMARY OF OBSERVATIONS FROM PANELISTS AND GUESTS



Introducing the discussion, **Prof. Jahed** noted that at the most recent meeting of the Advisory Council, President Zuma had stressed that BBBEE must be an essential element of macro-economic strategy and a major contributor to building links between the first and second economies. The President had also stressed the urgency of the issue, describing the unofficial 40% unemployment rate as a recipe for civil war.

S'dumo Dlamini concurred that South Africa is currently sitting on a time bomb, and that we cannot continue to neglect the reality that we have failed to bridge huge gaps in the economy. He noted that sixteen years into our democracy the majority see no change to their situation – many are in fact worse off. Income disparities are indeed worsening. South Africa is one of the most unequal societies in the world. Wealth is concentrated in the hands of a small minority of the country's people, most of whom are white. President Zuma has stressed we need to achieve *broad based BEE* – but it is not clear what that means for all of us in practice. If we're not to go the way of other African countries, we will have to deal with many challenges along the way, including 'fronting', corruption, and nepotism. We must also seriously re-examine the nature and role of the private sector. Deep apartheid fault lines still exist. BBBEE and the budget government aims to allocate to it won't even begin to make a dent on wealth sharing in South Africa.

Bobby Godsell began by saying that the terminology of BBBEE is misleading and unhelpful. We should more usefully talk about the *transformation* of our society as the key to economic growth. There is a narrow political and economic aristocracy in South Africa; and we need to make the circle bigger. He then went on to make three key points:

- *We have to do the right thing for the right reason.* Transformation is necessary because it's morally right and also because in practice it is highly effective. South Africa can't carry on concentrating economic productivity in five percent of our population. AngloGold Ashanti, for example, is now embracing the talents of *all* its employees – and is performing better as a result. This should be true for every industry. If you draw on what all of your employees have to offer, instead of just a select few, your company will benefit, and standards should in fact go up – not down. We must remember that mediocrity, corruption, and nepotism were huge in South Africa in the 1970s; these are not recent arrivals, and 'tenderpreneurs' are certainly not a new phenomenon. So we must embrace transformation and place a high value on diversity to unlock our potential. Our ability to survive depends on this.
- *We have to do the right thing in the right way.* We need real empowerment, real ownership, real responsibility; and leadership exercised by individuals with real skills, real budgets, real power (and who must attend their board meetings – no more 'ghost' directors).
- *We need to keep our eye on the end state that we want:* a diverse, non-racial society.

Duma Gqubule began by noting that, if we're going to build democracy, we need to question and debate the categorisation of South Africans in racial terms as African, Coloured, Indian and White. The challenge is to achieve inclusive development. He then went on to warn against a narrow conceptualisation of BEE. If BBBEE is fundamentally about *development* it must not be reduced to or conflated with the Codes of Good Practice. We need to measure impacts more broadly. The fact is that even if all South African companies were to meet all the scorecard targets, this would still have a very limited impact, for the following reasons:

- Regardless of racial categories, only 7.4% of the population are in management positions
- Only 11.9% of the labour force work in big companies – the Codes don't apply to the other 89% who work in small businesses
- Over 70% of the population is unemployed or underemployed and earning less than R2500 per month – so the Codes wouldn't apply to them either.

In tackling unemployment, we must address the real issues and look at what unemployed people need to raise their contribution to the economy: namely education, skills, capital, access to opportunities, and a decent public health system. Our education and health systems are a disgrace. Government's biggest mistake in its approach to education is that it succumbed to the tyranny of the 'six percent of budget' limit. We need to spend much more on education. The real development of human capital has been neglected. The same applies to the health sector. To be blunt, public hospitals such as Edendale are worse now than under apartheid. South Africa has a huge disease burden and an inadequate budget to deal with it.

Bobby Godsell agreed, noting that 'we benchmark ourselves to death'. Health is running at 11% of the budget, and we're told this is in line with other countries – but we have five to ten times the disease burden of other countries.

Drawing out some common themes in the panelists' introductory remarks, **Prof. Jahed** noted that the discussion around inclusive development and economic growth was clearly raising issues that go broader than BBBEE – encompassing questions about inefficiency, equity, unemployment, national identity, nation building and diversity, and the need to break down racial divisions for the country to come together. More immediately, it is important to recognise constraints on the state: the public sector is extremely under-staffed, there are huge numbers of vacancies, and it takes too long to fill those positions. The nature and quality of education in South Africa is also a crucial issue with many ramifications. He then opened up the roundtable to a general discussion.

On education and skills...

Azar Jammie (Econometrix) said that empowerment must truly be rooted in education and skills development; but, he asked, how do we solve the problem? Is it really about equalising education across all groups? We're caught in a vicious circle, because we don't have enough good educators to train new good educators. Should South Africa be importing skills?

Sandile Hlophe (KPMG) called for a bigger and more meaningful allocation to education from the fiscus.

He was strongly supported by **Hepsy Mkhungo** (SA Breweries) who stressed the importance of skills development, and asked whether the Codes can be reshaped in this regard so that they have a bigger impact on society. In response, **Duma Gqubule** noted that most companies have met the target of 3% skills development, and that some elements in the Codes are already becoming redundant.

S'dumo Dlamini emphasized the inescapable reality that the majority of the population is very poorly skilled. We cannot ignore this and assume that opportunities are equally open to all. The 'lost generation' of the early 1990s is now being succeeded by the 'born free' generation who are trying to enter the labour market, but are very poorly equipped. BBBEE as such cannot provide a solution to this problem.

Leo Morwe (Glenrand MIB) argued that we must be careful not to say that BBBEE has not worked at all. While there are problems, there have also been benefits. Clearly, skills development is a key issue. In Botswana school leavers do national service where they go and work in schools, hospitals, and so on, before they enter tertiary education. It's a way of getting young people into productive jobs where they're simultaneously acquiring skills. We need to look at how corporates can help to improve the education system. This is not about CSR handouts. There are huge problems in rural areas, where you could make a real difference by directing CSR at bursaries for young people at the school level.

Duma Gqubule noted that only 24% of the South African population completes secondary education, with 5.5% completing tertiary education (compared to an OECD average of 25%), demonstrating the scale of the challenge we face.

Bobby Godsell responded by saying that it is not just a matter of more money for education – departments regularly under-spend on budgets. We need to develop more skills. Parents recognise that education and training are crucial. In Soweto there are 52 empty schools, which have teachers, but no pupils. The pupils have been sent to government schools in the suburbs by their parents. The fact that this is costing them a significant amount for transport demonstrates that the parents are engaged and want something better for their children. We need to find ways for parents to take charge of education and make it work. Because we have a very democratic Schools Act this should be possible. We need a commitment from civil society to get the education system functioning. We also have to rethink the basis of the education system: we should *not* be trying to send everyone to university. South Africa suffers from a deep historical class bias toward university education. Our children should be able to leave school in grade 10 and do apprenticeships and get technical skills that will help them to find real jobs. Also, companies should ensure literacy and numeracy training for all their employees at the very least, in addition to programmes to certify artisans, and training opportunities that enable individuals to work their way through the organization. This is more difficult now that technikons have been scrapped. In short, companies must recognise that people are their capital and treat them accordingly.

Peter Bruce (Editor, *Business Day*) said that fundamentally the issue of education is a matter of political courage and will. The ANC had five priorities in the last election campaign, of which education was one. But you can't have five priorities – you can only have one. And where is education as a priority now? We need *actually* to prioritise education.

BBBEE Codes, and beyond...

Nicola Galombik (Capricorn Social Capital) argued that while the Codes provide a useful measure of progress, we need to look beyond them. The challenges are huge, but it's important not to be paralysed by this. We need to pick up ways in which to mobilise business and citizens alike. The real question is: What does a business that is a significant contributor to the developmental state and transformation actually look like? What would such a business be doing?

Peter Bruce noted that BBBEE is certainly not enough. South Africa's economy is part Thatcherite, part Victorian. BEE seeks to make the top layer a different colour. What we need is a different economic model; we need to democratise the economy and how we do business. For example, why can't we do what the Germans do and have trade unions on company boards, have elections for the Chief Executive, have companies that are 15% owned by the workforce?

Bobby Godsell responded by observing that even in a stakeholder economy, the CEO must be in charge of the company. In a stakeholder economy you can still have a profit motive – but you need to build consensus around the need to build profit. Steve Mulholland had argued years ago that every company on the JSE should issue 1% market capitalisation and pool it, and have business use that fund to intervene directly to benefit the poor. You can also take government sector assets and give them to poor people and let them put this to work – the poor are not stupid, they're just poor.

Chris Darroll (SBP) noted that we need to emphasise the importance of small business in increasing economic opportunities for people. The Codes don't touch the small business sector. We need to look at a range of effective public and private sector approaches to support small business growth. The DTI's efforts to date have been disappointing. **S'dumo Dlamini** concurred that SMEs are indeed an important vehicle for job creation.

Takalani Tambani (DTI) acknowledged that over the past three years there have been lots of challenges in implementing the Codes, and there are lots of gaps. The Minister is now aiming to refine BBBEE policy so as to close those gaps. The Advisory Council's four sub-committees will address some of the challenges in the Codes and look at what is working and what isn't. But it is common cause that the Codes alone are insufficient. South Africa needs to embrace the spirit of the transformation agenda.

We can talk and talk – but who is listening? asked **Joe Makhafola** (Altech). And what are they doing about it? Government needs to speed up decision-making. We need to look at how long it takes for government to implement programmes, and to improve lead-times. In fact, what we need is a culture of corporate governance in government.

Mandate of the BBBEE Advisory Council

Busi Ntuli (Thuthuka Development) noted that while the Advisory Council has been set up to promote the broadening of black empowerment, we need to look closely at its mandate and its actual performance. Does its mandate include looking at what hasn't worked? And how can the public hold the Council accountable?

Kgaogelo Mamabolo (SA Institute of Black Property Practitioners) pointed out that the property industry is perhaps the least transformed of all – and yet it is an industry that could do much to empower people. However, government corruption is undermining any real form of BBBEE. Government is the biggest landlord in South Africa and should be driving transformation in this sector, but instead you find that it is friends of friends who get the deals. The industry is attempting to engage with government to try to address corruption, and have written formal letters to the Department of Monitoring and Evaluation, but they have had no response. Can they approach the BBBEE Advisory Council for help in intervening with departments?

Bobby Godsell commented that we need the Council to help put a stop to crony capitalism and corruption. These practices began with white businesses looking for black partners regardless of qualification. There is also a second layer, which is about the party card, and even which faction of the party you support. This is one of the reasons why China has not emerged as a major industrial state; an economy can't grow if all you're doing is changing the elite from time to time. We also need to question the title of the Council itself. It should be bigger than a race category. It should be about *empowerment* as a national project.

A new growth path?

S'dumo Dlamini argued that capitalism is inherently characterised by corruption, greed, and selfishness; and that the current economic system encourages corruption. How do we move beyond this? There is a pressing demand for a debate about a new economic growth path. Government does have the will and wants change, but the question turns on the nature of the appropriate instruments. The DTI is demonstrating new thinking in the IPAP 2 talks about re-industrialising the economy as a mechanism to address unemployment.

COSATU is however concerned that the Minister of Finance's recent budget speech simply entrenches the current system – and this isn't good enough. Dlamini argues that the same is true for the debate about BBBEE – and that COSATU provides the most effective voice of opposition to government in this regard.

It is crucial to involve the broader society in debates about a new growth path. The media must play an informative and responsible role. Dlamini noted that he has seen first hand a commitment from the captains of industry, many of them white, to take action to address the challenges – but that they need a clearer message from Cosatu and government, and an opportunity for constructive two-way dialogue.



business environment specialists

SBP is a not for profit company specialising in improving the environment for doing business. We have worked in Africa and internationally since 1998 providing innovative solutions for policy formulation, better regulation and development in emerging markets. We have a special interest in small business as vehicles for growth and job creation.

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