

INSTITUTIONAL HANDICAPS OF BLACK ECONOMIC EMPOWERMENT AND ITS RECONCEPTUALISATION: THE CASE OF SOUTH AFRICA¹

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Abstract

As an initiative to transform the economic order of the new democratic government post-1994, Black Economic Empowerment (BEE) was adopted as a strategy to include those who were marginalised (known as historically disadvantaged) by apartheid in South Africa. However, an evaluation of the BEE strategy indicates that macro-economic implications of the strategy are still not making the socio-economic impact it ought to have had in the third decade into democracy. Current research indicates that a serious reconceptualization and reformulation of the strategy is required in order to reach a more accurate and favorable understanding of BEE, and for it to deliver on its initial vision. When the strategy is evaluated from an institutional perspective, it is noted that the economic structure of the country, globalisation, administrative weaknesses and quality of management, as well as inadequacies of targeted population groups are regarded as contributors towards South Africa's socio-economic landscape which affect the performance of BEE strategy. This article uses a literature review that evaluates the role of the BEE strategy in improving the lot of South Africa's historically disadvantaged communities. Furthermore, the article aims to analyze the effects of institutional factors on the strategy in a holistic way in order to develop policy recommendations to supplement the current BEE strategy.

Key Words: Black Economic Empowerment, historically disadvantaged, South Africa, Institutional Theory

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1. Introduction

After the new democratic dispensation in post-1994, South Africa launched a massive societal empowerment strategy in order to transform the unequal economic structure and legacy that was left by the post-colonial and apartheid regimes. Black economic empowerment (BEE) was adopted as a strategy to stimulate growth and assist those who were historically disadvantaged (historically disadvantaged include black South Africans, people of Indian origin living in South Africa and Coloured people). While programs in scope of the BEE were initiated with good intentions, they have been criticised because of unsatisfactory performance and implementation challenges.

Although there has been considerable investment in education, access to basic services and poverty-reduction, especially for the historically disadvantaged, it has been accepted by all parties that there is still a long way to go before realising real economic emancipation through BEE. For example, the Reconstruction and Development Programme (RDP) of 1994 targeted the transformation of the economy by 2014 (DTI, 2003:3), there has been very limited change to the economy which is still largely concentrated in the hands of the white community.

Many studies point out that the strategy should be re-conceptualised and reformulated in order to reach more accurate and favorable results. However, approaches and proposals of these studies, when analysed, indicate that they are generally partial and include a hidden ideology. Despite the inadequate attempts to resolve the implementation of BEE as a mechanism to address the imbalances of the past, the strategy is an imperative action due to two primary reasons. Firstly, enhancing asset transfer to historically disadvantaged people for the transformation of the economic structure and secondly, improving skills development of these people for the human capital requisite of economic development.

When the developmental progress of the BEE strategy is analysed, it seems apparent that factors which hinder the achievement of BEE are mostly structural and inter-related and can be improved by applying corrective and holistic approaches in accordance with economic, political and social structural realities of South Africa. Consequently, the article is based on analyzing the institutional approach of the welfare state which is also commonly shared by social theory and very functional to evaluate a socio-economic concept such as BEE.

Finally, the article aims to analyse the institutional factors that impact on BEE and the criticisms that are levelled against BEE as well as to inform the policy direction for BEE by using a qualitative literature review. For this purpose, the first part of the article examines discrimination policies against historically disadvantaged South Africans and its effects on their capabilities and the struggle by them to transform the racist and unequal structure of the economy; a theoretical base underpins the study; and finally, assumptions of the institutional approach for the welfare state are explored. In the second part of the article, the success of the BEE strategy is evaluated through performance indicators such as asset distribution, skilled employment, social welfare etc. Finally, the article examines the institutional factors hindering the BEE are determined by reviewing the literature consists of articles, reports, evaluations and statistics.

2. A Historical Overview of Deracializing the Economic Structure

Following the discrimination policies against historically disadvantaged South African people in the post colonial era, such as forced labour and prohibitive land ownership, the apartheid-aligned National Party adopted apartheid discriminatory policies against black South Africans, which included people of Indian decent and coloured South Africans. During the apartheid regime the black population was discriminated by legislation in terms of employment, human capital, enterprise ownership, administration and access to social and physical services. This systematic discrimination and disempowerment resulted in landless black majority with restricted access to skills development and

process of capital accrual for future participation in the economy (Engdahl & Hauki, 2001:11-12; DTI, 2003:7; Makhunga, 2008:2).

As response to the mass oppression of blacks, many political parties (especially the ANC) adopted a radical form aims struggle and mounted pressure on the apartheid regime. A push for political emancipation was inevitable. The CODESA talks led to a democratic settlement with the ANC winning the first democratic elections in 1994 (Maharaj, 2008:25).

Post-1994, a restructuring and asset transfer process called as Black Economic Empowerment was kickstarted in order to give back economic and social rights to the disadvantaged (Engdahl & Hauki, 2001:20).

After an ineffectual implementation period, a BEE Commission was set-up in 1999 to give impetus to BEE due to the stock market crises of 1998 (Engdahl & Hauki, 2001:49) and this Commission directed the government to adopt new empowerment approaches in which the social development approach harmonizing economic and social aims in elimination of poverty constituted the basis of the strategy (Gray, 2006:53-56).

In 2003 Broad Based Black Economic Empowerment (BBBEE) Program was implemented because the previous narrow empowerment program (BEE) had not transformed the economic structure of the country and failed in its redistributive function. This new empowerment model aimed to reach a wider beneficiary group by emphasizing not only share ownership, but also delivering management-control of companies to the blacks, fostering recruitment and promotion of blacks for managerial and administrative positions and ensuring private sector to purchase inputs from black companies (Schneiderman, 2010:11). In 2003 scorecard implementation was started but codes of good conduct were launched in 2007 (Horwitz & Jain, 2011:309). Due to serious gaps, the B-BBEE Act was amended in 2013 (BBBEEC, 2016:4).

In order to make economic development favorable for the empowerment strategy, several economic programs had been launched (Coomey, 2007:32; Gumede, 2013:2).

According to the Act (SA Act 53 of 2003), BBBEE means “the economic empowerment of all black people through diverse but integrated socio-economic strategies that include but are not limited to,

- increasing the number of black people that manage, own and control enterprises and productive assets;
- facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;
- human resource and skills development;
- achieving equitable representation in all occupational categories and levels in the workforce;
- preferential procurement; and investment in enterprises that are owned or managed by black people”.

3. Theory Underpinning the Study

Due to the fact that the BEE strategy is a comprehensive social investment policy of a developmental state, it is appropriate to study the case of BEE in terms of the welfare state. Among the many approaches of the welfare state, the institutional theory is the most appropriate to analyse the ineffective performance of BEE.

3.1. Statist - Institutional Approach Within Social Theory

After the institutionalist approach discovered political institutions, in addition to the culture, as independent variable effects of which have gone beyond the domain of public administration since the late 1970s, as a result of welfare state failures (Thoenig, 2003:1-2), it has constituted a central part of social theory which tries to explain societal development and change, power structures and institutions as well as numerous other concepts and problems in modern society (Antonio & Kellner, n.d.:7; Harrington, 2005:1).

The notion of institutionalist – statist approach consists of a set of discrete schools of thought. However, three of them, rational choice institutionalism, sociological institutionalism, historical institutionalism⁴, come into prominence due to their relevance and effectiveness in explaining central tenets for the welfare state (Thoenig, 2003:2).

3.2. Statist-Institutionalist Theory of the Welfare State

In the statist-institutionalist approach, the state is considered as an organization - a system of institutions that processes pressures coming from groups of economic interests and other organized groups and produces binding decisions and policies (Huber, Ragin & Stephens, 1993:713). Here, the term 'institution' refers to "political institutions" and "welfare state institutions" as a type of policy tool (Starke, 2006:109). However, in terms of qualification and scope in sociological meaning it refers to formal structures and rules concerning the running of these institutions or to informal norms which shape the decisions and strategic behaviour of policy-makers (Steinmo, 2008:123).

The structure of the state and the policy making activities of bureaucrats are the main sources of international differences in welfare policy and over time are responsible for the expansion of the welfare state. According to the approach, the bureaucratic capacity and centralization have a vital effect in developing welfare programs. Through institutions, the state influences the development and shaping of welfare state programs by creating a policy heritage and a strong historical dependence (Huber, Ragin & Stephens, 1993:713-14; Quadagno, 1987:118).

Although the institutionalist approach gives great importance to politicians and administrators, it acknowledges that their powers are not limitless because they are constrained by the political environment. While social movements are also important in this theory, they are also constrained by institutional conditions and the effectiveness of these movements depends on their ability to conform to the political structure (Heisler, 2003:37) and on the fit between goals and capacities of groups and points of access and leverage allowed by political institutions (Cousins, 2005:31).

It is argued that characteristics of the system as a whole, rather than ideologies and tendencies of the competing parties within a democratic system, determine social policies and social expenditures. This is exemplified by the fact that due to the competitive environment and the influence of corporatist bargaining, the right wing parties have enough social spending and that clientalism and corruption affect the social policy in terms of source usage and legitimacy (Skocpol & Amenta, 1986:143; Orloff & Skocpol, 1984:731; Rothstein, Samanni & Teorell, 2012:9-24).

The financial capacity of the state is also counted among factors that affect the level of social expenditure (Amenta & Carruthers, 1998:666). Further to financial capacity, economic structure and state's power against market actors should be also taken into consideration for sustainable sources and efforts for social policies. Regarding the power of the state against market actors, the new institutionalist

⁴ For more information Thoenig 2003:7 and Steinmo 2008:125

approach puts forward that globalization has narrowed the manoeuvre room for a comprehensive welfare state (Starke, 2006:106-107).

Acemoglu and Robinson (2008) argue that the main determinant of differences in prosperity across countries is differences in economic institutions. However, at same time, economic institutions of a society depend on the nature of political institutions and the distribution of political power in society (Acemoglu & Robinson, 2008:V-2). According to their argument, the distribution of existing political institutions and resources in society will determine the quality of economic and political institutions. These economic and political institutions will finally determine the economic performance and the redistribution of resources (Acemoglu & Robinson, 2008:7). Although the view that poor-quality institutions are the root cause of economic problems in developing countries, has become widespread since the late 1990s, it is argued that economic development also changes institutions through a number of channels (Chang, 2011:473-6).

In general, the assumption of the approach can be stated as that social welfare policies are influenced by the characteristics of the process of state building and of the political system as well as by socio-economic processes (Orloff & Skocpol, 1984:732-746).

Finally, although, institutions are accepted to be exposed to an evolution process, distribution of resources and political institutions is relatively resistant to the change. The distribution of political power is a key determinant of their evolution. However, the distribution of resources supplies its owners with de facto political power and enables to push for economic and political institutions favourable to their interests, reproducing the initial disparity. This mechanism explains why reforms are difficult (Acemoglu & Robinson, 2008:7).

3.3. Institutional Factors Impacting on BEE

When the institutional theory is applied to the empowerment strategy, it is seen that economic structure, the effect of globalisation on the macro-economy, administrative weaknesses, and inadequacies of targeted groups are the main structural problems for BEE strategy and they affect its performance in the negative way simultaneously within the South African socio-economic context.

While the monopolistic market structure and financial openness limits capacity of the government, poor administrative quality wastes limited public resources and undermines belief and support in the public opinion for the strategy. Also, incompetency of black bureaucracy and maladministration in post-Apartheid government is seen an important structural deficiency of the strategy in terms of formulation and implementation of the strategy. At the same time, the huge targeted group without enough financial capital and human capital qualification is another handicap of the strategy which renders it not feasible in the short term.

4. Evaluation of Performance of BEE

According to the evaluation in the National Summit on B-BBEE in 2013, developments of the strategy have been gradual and unsatisfactory, but there are still most serious problematic points (DTI, 2013a:11).

There has been lack of satisfaction in implementation of the codes of conduct that many players are not earning points in important areas such as procurement, skills development, ownership and enterprise development and other players are earning points without fully and honestly implementation. The Baseline Report 2007 found that only 19.7% of sample companies had fully implemented their policy plans, and only 24.7% were formally measuring their programmes. Furthermore, 78.2% of the sample group was non-compliant with the requirements of B-BBEE policy (Lindsay, 2015:192).

The second baseline study conducted in 2012/13 found that there has been a modest improvement in performance since 2007 and although the overall economy improved from level 8 in 2007 to level 4 in 2013, this improvement is not caused by large enterprises, but mainly due to small and micro enterprises (DTI, 2013b).

4.1. Performance of Asset Transfer and Black Ownership

The transfer of the production factors through the empowerment process has been minimal and transferring wealth to blacks from whites has not been achieved (Makhunga, 2008:83). Black people still face lack of access to finance and capital (BBBEEC, 2016:5). Passive shareholding deals did not work and resulted in the least real empowerment of people (DTI, 2013a:11) because of clientalism and fronting (Bhorat et al., 2014:12; Emuze & Adlam, 2013:150).

Most common indicator of the ownership in the economy is the share distribution of The Johannesburg Stock Exchange. However, estimates of black-ownership of the JSE have been controversial because there is no any clear data indicating ownership structure and the research process of ownership situation is extremely work-intensive and time-consuming (Wilkinson, 2017). White capital circles use ownership rates in the JSE while black supporters of the asset transfer consider direct owned and controlled share rates.

White business claim that the capital is now less monopolised and more diversified; there is now significant participation in ownership of the economy by black people, and foreign owned financial institutions (BUSA, 2017:7). At the end of apartheid, companies listed on the JSE were almost wholly-owned by white South African investors. But, by 2016, white South African ownership was down to just 22%. Meanwhile, foreign ownership had leapt to 39%, black direct ownership (mainly through BEE schemes) to 10% and black indirect ownership (largely through pension funds) to 13%, with another 16% uncategorised (Southall, 2017).

However the government uses direct owned and controlled share data for its policy continuation. According to calculation of the National Empowerment Fund, the percentage of the JSE that is controlled and managed by blacks is only 3% in May 2017. Also, it is argued that the significance of black owned and controlled companies declined from 7.1% of the JSE on average in the period 1995-2000 to just 0.5% of the JSE capitalisation in 2016 (Bosiu, Goga & Roberts, 2017:2).

While the white argument denies the existence of white monopoly due to many companies are partly owned by pension funds of blacks, black argument claims that the pension funds are owned largely by black workers on paper, in fact, the control of these funds is monopolised by white-owned asset managers (Malikane, 2017).

Also, white business capitans argue that all JSE listed companies constitute only a third of private the sector, so it is “not a true way to evaluate asset ownership by shares in the JSE” (BUSA, 2017:7). But this situtaion does not change the fact that blacks still do not have enough assets in the economy in comparison to the population demographic where they constitute a majority of the poor. By verifying this fact, the new tax data show that 10% of the previously advantaged population (whites) owns at least 90–95% of all assets, which is much higher than in developed countries where 10% owns 50-75% of all assets (PORSAs, 2017:110).

4.2. Evaluation of Employment and Skills

Recent data indicate that despite a notable progress, the performance of employment equity and skills development is still far away from the aimed level for blacks and coloreds. As it is seen in the Table 1, blacks and coloureds are still under represented in top and senior management levels in comparison to their employment age populations (African 78%, and Coloureds 9.8%) with the exception

of coloureds for professionally qualified level, while their representation rates increase as long as positions become low skilled and pass their population rates in the unskilled level. These rates are more unfavourable in private sector. Though their high rates in public sector, they are still below than population rates. However, whites and Indians are disproportionately over represented in skilled top positions and lower represented in low skilled levels in comparison to their populations (Whites, 9.5% and Indians, 2.8%). Their public sector representations are also above their population rates.

Table 1: Workforce Profile at Different Positions by Race as % Rate in 2016

		Top management	Senior management	Profesionally qualified level	Skilled Technical Level	Semi Skilled Level	Unskilled Level
Blacks	General	14.4	22.1	41.5	60.2	76.1	83.2
	Public	73.2	65.8	72.6	74.1	84.2	86
	Private	10.7	14.9	25.8	69.2	72.8	61.7
Coloureds	General	4.9	7.7	9.7	11.5	12.3	11.4
	Public	8.1	8.3	9.6	11	11.1	12.5
	Private	4.7	7.5	10.4	10.3	9.6	9
Indians	General	8.9	10.6	8.5	5.8	3.1	0.8
	Public	6.6	7.3	3.7	3.1	1.8	0.8
	Private	9	11.1	11.1	2.9	1.6	0.6
Whites	General	68.5	58.1	37.5	20.8	6.2	1.2
	Public	11.8	18	12.5	11.4	2.7	0.6
	Private	72	63.4	49.6	10.6	2.3	0.4

Note: The rates for foreign nationals are not included.

Source: (Adapted from Department of Labour Chief Directorate of Communication, 2017)

Besides, it is reported that the number of black CEOs on the top 40 JSE listed companies declined from 15% to 10% between 2012 and 2015 and tokenism and fronting continue to manifest in senior and executive appointments (BBBEEC, 2016:5).

A “culture of exclusivity” and institutionalised discrimination are still regarded as a systemic societal and organisational challenge for employment equity in workplaces (SASCO, 2017; Emuze & Adlam, 2013:145; BUSA, 2017:12).

4.3. Performance for Enterprise Development

Several studies state that SMEs are still overwhelmingly survivalist nature and most of these emergent businesses cannot contribute meaningfully to employment and economic development (Lindsay, 2015:231-234).

Despite all the support structures, the resources devoted to small business development have had little impact on remedying obstacles to their developments and there is a high failure rate of SMEs (Bhorat et al., 2014:12; NTRSA, 2017:25). There has been a lack of meaningful relationships and collaboration between big and small companies and too little has been achieved in this area (DTI, 2013a:11).

4.4. Performance of Land Reform

The RDP originally envisaged the transfer of 30% of total agricultural land within five years (PORSAs 2017:207-9). However, so far around 9.3% of commercial farmland has been transferred through land reform – redistribution, restitution and tenure reform (PORSAs, 2017:252) and this equates to only 31% of the target.

According to the government, a total of 37 million hectares of farm and agricultural holdings are owned by individuals: 72% of which are whites; followed by Coloureds at 15%; Indians at 5%; Africans 4% (DRDLR 2017:7). But there is no any information about racial ownership distribution of private lands which owned by companies and consist of 25% of the total private lands.

Because of acceleration in the concentration of landed property after the apartheid, 97% of the total registered land are owned by only 7% of total landowners (DRDLR, 2017:2) and it is estimated that this pattern will continue over the next 20 years (Bernstein, 2013:26).

Beside of administrative problems and obstacles in the market (PORSAs, 2017:300), the real challenge for the land reform is regarded as the abundance of fertile land. Accordingly, only 34 million hectares of agricultural land are truly productive, and more than half of these most expensive lands must be purchased and redistributed in order to achieve the 30% target. Therefore the future of land reform is not regarded as optimistic (Lindsay, 2015:269-275).

4.5. Economic Performance

South Africa has showed a fluctating and low GDP growth rate in the post apartheid period. Despite the consensus that the economy needs to grow by at least 6% to reduce stubbornly high unemployment (Mutize & Gossel, 2017), the annual GDP growth has decreased from around 3% to 0.3% in 2016 and forecasted to increase only to 1.7% until 2020 (OECD, 2017:14; WB 2018a:143). While The National Development Plan targets an investment ratio of 30% of GDP by 2030, it was at just over 20% in 2015 (NTRSA, 2017:16).

Because of the low growth rate, employment creation has become a challenge. Unemployment has been around or over 25% level for the last two decades and rose to 27% in 2016 (OECD, 2017: 14). The unemployment was 26.7% and expanded unemployment rate was 36.3% at the end of 2017 (STATSA, 2017b:7). The youth unemployment was 51.1% (STATSA, 2017b:23) which is more than four times the rate for the rest of sub-Saharan Africa (Cilliers & Aucoin, 2016:3).

Generally 97.8% of the unemployed is from targeted group of BEE, and 56.6% of the unemployed has an education less than secondary level (STATSA, 2017b:18-76). This fact makes the matter a real challenge in existing economic context. Also, the World Economic Forum 2016-17 Global Competitiveness Index ranks South Africa on labour market efficiency as 97th out of 138 because of skills mismatch (PORSAs, 2017:126).

4.6. Performance of Social Welfare

Although, there have been serious developments in social welfare dimension, there are still serious inadequacies to be remedied under adverse impressions of the low growth and the high unemployment. Despite the household multidimensional poverty reduced from 17.9% in 2001 to 7.0% and its intensity decreased marginally from 43.9% to 42.8% by 2016 (STATSA 2017a:32), according to OECD Better Life Index 2016, South Africa had lower indices than the OECD emerging market average in income and wealth, subjective well-being, jobs and earnings, housing and health status (OECD, 2017:15). Similarly South Africa ranks 70th among developing economies on the Inclusive

Development Index with slow advancement for a 5 year period, despite having the 19th-highest GDP per capita in this group (WEF, 2017:54).

The number of social grants recipients increased from 3 million in 2000 to 17 million in 2016 which is almost 30% of the total population (STATSA, 2017a:37-52).

Despite social transfers having risen to 3.5% of GDP, which is relatively high by international comparative standards and constituted 16% of government spending in 2016 (Cilliers & Aucoin, 2016:2), income inequality and poverty have continued at high levels (OECD, 2017:16).

South Africa has highest gini coefficient among OECD countries (OECD, 2016:103). The Gini coefficient based on income per capita was 0.65 and based on expenditure was 0.64 in 2015 (STATSA, 2017a:21). The disposable income of the top 20% was about 40 times more than the lowest 20% which was seven times more than OECD average in 2015. Also, poverty rate after taxes and transfers as having 60% or more less income than median disposable income was 32% which is near to two times of OECD average (OECD, 2017:16).

The bottom 40% of the population obtained only 8.3% of the total income in 2015 and 92.3% of these deciles consisted of black African household (STATSA, 2017a:24).

In 2015, 25.2% of the population is under the extreme-food poverty line (STATSA, 2017a:14) and almost all of them are black Africans and coloreds. While 47.1% of the black Africans lives below the LBPL, rates of coloreds, Indians-Asians and whites are 23.3%, 1.2% and 0.4% respectively (STATSA, 2017a:19).

Despite of steady increase, blacks still has lowest education indicators such as past rate, education level, (PORSAs 2017:128; Hoffman 2012:2) and this situations is explained by inequalities in education facilities (Gamede, 2017:90).

The huge gap among annual household expenditures on education by population groups shows this inequality. According to the Living Conditions Survey 2014/15, black and coloured headed households averagely spend R1,656 and R3,236 respectively, while indian/asian and white headed households spend R6,731 and R8,069 (STATSA 2017c:50). As a result of this inequality, the poorer 80% of the population receives significantly inferior quality of schooling in comparison to the most affluent 20%, and the majority of learners is not equipped with skills for the workplace or further study (Wilmot, 2017:2).

5. Constraints of the Bee

Analysis and reports on the performance of the empowerment strategy point out the following three key elements as the most important structural obstacles to the strategy. These three elements can be listed as structural features of the economy, insufficiency of the state bureaucracy and mismanagement and advanced corruption scheme. Although the inadequacy of the target group has been mentioned in many studies, this element is excluded from the scope of the study due to its passive and secondary feature in affecting the strategy.

5.1. Economic Structure

The economic context of South Africa has some challenges as constraints to the empowerment strategy. They can be classified into generally four main titles as continuing inadequate growth and employment creation, persistent need for fiscal consolidation (Gunnion, 2017:48), high openness and oligopolistic structure. All of these matters are inter-related and breed each other. Furthermore, they render the government in need of more capital investment and weaken policy capacity of government

in terms of financing the empowerment programs and forcing business to act according to the policy aims.

It is accepted that the reason of that there is no any commitment to transformation in ownership structure in the economy is that government did not develop any carrot and stick system due to political and economic instability (Hirsch, 2015). For example, a legislation draft predicting 51% of mining industry into blacks for ten years infiltrated the press in 2002 and share prices of mining companies decreased in stock market and millions dollars evaporated from the economy. Finally, the government changed the ownership rate into 15% for first 5 years and 26% for ten years pursuant to the interest of capital (Tangri & Southall, 2008:704-705).

Although, the RDP was successful especially in social protection, the new government experienced some difficulties in the implementation thereof due to the poor fiscal and economic conditions. The fact that economic programs launched after the RDP to accelerate economic growth and to provide necessary resources for empowerment policies could not provide the desired result and therefore the constant need for their renewal reflect restrictions of the economic conditions on the government's manoeuvre room (SAHO, 2014).

Also, the recently contentious debate in public opinion regarding land reform exemplifies the issue. It is argued that it is impossible to allow land expropriation without compensation without affecting the rest of the economy. Although, the government has radical discourse, they cannot put it into practice due to the conditions that are strong enough to prevent the change (Friedman, 2018).

The oligopolistic structure of the economy also does not create an environment conducive to fast growing small and medium businesses (Bhorat et al., 2014:12) and limits the scope for viable small enterprise in poor local economies, particularly, for the kinds of manufacturing enterprise (Phillip, 2011:9).

Unfortunately, observations of BEE suggest that especially elite access points—ownership, control and management structures— at the top of the economy are protected by elites and particularly resistant to change within a fairly static macro-structural context. The BEE policy was not able to open the economy and change existing structures in the time frame and manner of the policy would suggest (Andrews, 2008:93-97).

While the apartheid economy was relatively closed and protected, the post-apartheid economy has been open for foreign capital, more concentrated and so, nonprotected for small businesses (Bernstein, 2013:31-43). Despite the corporate landscape of South Africa has changed remarkably since 1994, it remains highly concentrated (PRSA, 2012:114). The data on concentration levels within manufacturing industry indicates that the proportion of subsectors in which the biggest five firms held 70% and more market share, increased from 16 subsectors in 2008 to 22 of the 80 sub-sectors in 2014 (Bosiu, Goga & Roberts, 2017:2). A recent research shows that there are 294 dominant firms with more than 45% market share in the 31 sectors and concentration indexes indicate being highly concentrated (EDD, 2017:10). Besides, under oligopolistic market conditions, foreign capital invests in existing big high-profit firms and reinforces the oligopolistic nature of the economy (PRSA, 2012:111).

Because the financialization of economy incentivizes the capital to invest in financial markets, the top 50 firms on the JSE have increasingly channelled their investments towards mergers and acquisitions between 2011 and 2016, rather than productive capacities (Bosiu, Goga & Roberts, 2017:2). Consequently, private investment has decoupled from corporate profitability and the economy has relied on mainly public investment to stimulate the growth (UNDP, 2014: 25).

Besides low investment rate, the skills mismatch is an important reason for the weak economic growth (Gunnion, 2017:54). Firstly, weak human-capital formation (Steenkamp, 2015:22) has been nourished by the implicit free market situation in the education sector which sustains the inequality and the skills deficit (Languille, 2016:532). While presently close to half of the employed and 60% of the unemployed do not have secondary education, the annual labour force graduating from science, technology, engineering, and mathematics has not been enough to match the existing demand (Reddy et al., 2016:75).

Secondly the skills mismatch and a weak employment capacity is related to sectoral shifts in the economy. Along with economic and financial liberalization process by the 1990s, (Mohamed 2012:38) the share of manufacturing and mining sectors in GDP has declined and agricultural sectors have displayed a serious loss of employment capacity. On the other hand, financial sectors have increased their shares in GDP and in the employment (Fotoyi et al., 2016:11-12; Reddy et al., 2016:24; STATSA, 2017b:3).

Furthermore, industries have become internationally competitive and grown by the agency of skill intensive production (Steenkamp, 2015:20). Accordingly, export profile and growth in the manufacturing sector have been capital intensive in nature, which needs high skilled labour (Reddy et al. 2016:28-31). Since 2005 the capital-to-labour ratio has continuously increased and this trend has resulted in a structural shift towards a more capital intensive economy (Steenkamp, 2015:43) in which skills mismatch is a main structural constraint to job creation (Reddy et al., 2016:28-31).

While the capital labor ratio – capital intensity has been increasing in mining and manufacturing sectors, the real value added per unit capital in these sectors has been declining (Fedderke 2014:44-46). This situation has constituted negative effects for the competitive advantage of the economy and relative attractiveness for investors as well as for fiscal capability which is quite weak due to high government and household debts (STATS SA 2017a:43-50).

Due to low saving rates and investment, the country is reliant on foreign capital for investment. The low saving rate has caused a fairly large current account deficit in investments and this deficit has largely been financed through portfolio investment instead of foreign direct investment (Reddy et al. 2016:26). The increase in portfolio flows has also been associated with an increase in the trade deficit through increasing consumption of imported goods (Mohamed, 2012:29-30) and macroeconomic instability associated with foreign capital flows has weakened the economy over time (Mohamed, 2012:4). High volatility of the currency and the stock market values which is affected by the openness, and high inflation as well as high levels of household credits and public debt put the government in a troublesome position in terms of monetary policy and fiscal policy (OECD, 2017:23-24).

Finally, as 67% of South African privately held businesses are putting off investment decisions due to uncertainty about the future political direction of the country, economic and political instability is an important risk for the country and need for stability pushes the government always moderate policies against the big business (Lindsay, 2015:11).

5.2. Lack of Qualified State Bureucracy and Mal-administration

Lack of qualified bureucracy has been most important handicaps of the empowerment strategy. Because of deficiencies in bureucracy, at the beginning of the democratic regime, it is argued that undertaking deep institutional reforms which were needed in order to overcome the complex legacy of apartheid, became a major challenge for the government. Even today this deficiency is valid so that a need to focus on building professional public service is stated (Bhorat et al., 2017:4).

The most important reason of that the post-apartheid bureaucracy has not developed the necessary institutional design and failed in implementation of macroeconomic policies, is that the institutions have lacked necessary technical capacity. Secondly, the coordinating agencies have not had the required political authority (Mabasa, 2014:107).

The most essential and rightful criticism towards the BEE policy is its inadequate development process without necessary analysis in terms of structural context. While the apartheid administration and white capital prepared an economic structure proactively for post-apartheid as it can be seen in the agriculture sector (Bernstein, 2013:23-24), black opposition did not realize the importance of such a preparation. Unfortunately, organizational legacy of apartheid has been adopted instead of revision of the state and existing structure, and this revolutionary policy has been implemented in structural restrictions of the past (Emkes, 2012:206-207). As a result, the BEE process was initiated by the white corporate sector amid a lack of concrete policy direction on the part of the newly-elected ANC government (Chizuko, 2013:27) and the strategy was left vulnerable to internal and external challenges.

Moreover, the appointment of disadvantaged individuals to organizational positions without the relevant competencies results in compromised business productivity as well as bankruptcy in some cases (Orton, 2008:49). It is highlighted that empowerment which only employs historically disadvantaged blacks in skills requiring positions by excluding the whites does not result in blacks gaining skills (Human, 2006:8-9). Therefore, empowerment strategies should have been bolted onto a process of skills formation in order to eliminate previous labour market inequalities (Horwitz & Jain, 2011:310-314).

Similar criticism centres around the fact that most of the officials deployed in the public sector are from ANC cadres so there is a lack of professional and independent public servants (Wehmhoerner, 2015:4). As a result, effectiveness of the state institutions have been subject to political interference and patronage by appointment of incompetent managers according to cadre deployment policy, as well as corruption (Cilliers & Aucoin, 2016:6).

Some leaders of the ruling ANC think that members should firstly obey to party rules before the Constitution (Gumede, 2011:16). This belief constitutes an internal ideological solidarity and encourages the corruption in an environment consisting of competing blocs. Tripartite alliance among the ruling ANC, Congress of South African Trade Unions (COSATU) and South African Communist Party (SACP) has centred around state-labour-business and has affected economic policy and the institutional context that shapes business. In this context, BEE policies created incentives for black business to organise along racial lines and to engage directly with the state. This type administration has caused patrimonialism and clientalism, and also policy contestation among the alliances has caused growing policy-incoherence and corruption (Nattrass, 2014:1-4).

Mal-administration is regarded as worse than prior to 1994 and BEE's biggest enemy. It is stated that government is killing BEE, specifically emerging black contractors, by failing them through maladministration (Emuze & Adlam, 2013:150).

5.3. Corruption

Due to limited quality monitoring and evaluation mechanisms where officials are not fully accountable (Shava, 2016:166), the corruption phenomenon became a structural impediment of economic development post-apartheid (DPSA, 2003:3), with corruption having risen dramatically since 2009 (Bernstein et al., 2014:26). While the 1998 National Victim Survey found that only 2% of individuals experienced corruption (DPSA, 2003:3), by 2012 almost 50% of South Africans reported paying a bribe to secure essential services (Bernstein et al., 2014:27). In accordance with this pattern, The World Bank's indicators show a steady decline in South Africa's rank of governance effectiveness

and control of corruption since 1996. The score for governance effectiveness fell from 83 in 1996 to 65 in 2016 and from 76 to 60 in the ranking for control of corruption in the same period (Cilliers & Aucoin, 2016:37; WB, 2018b).

It is also argued that individual corruption has already turned into what is called “state capture” which is systemic corruption by well organized political, business and administrative networks embedded in the state for the last decade (Bhorat et al., 2017:4; Gumede 2017).

A wide range of reports by different government bodies shows that the cost of corruption cases has drastically increased (CW, 2015:2; PSC, 2017:16-18). During the process of empowerment, tender regulations have been manipulated, distorted and misused by some government officials, politicians and businessmen as an opportunity to advance their personal interests at the expense of general social welfare (Zondi, 2012:82-89).

It is strictly criticised that because the major antecedent for BEE ownership success is an ability to convert existing political networks and alliances into economic partnerships (Tshetu, 2014:91), this system hinders the creation of an entrepreneurial bourgeoisie which is key to the economic development, by creating a small class of unproductive black crony capitalists (Jeffery, 2013). Also, the looting public property by state owned corporations in the name of BEE has increased poverty and racial inequality (ACE, 2017).

Some writers characterize discourses of “radical economic transformation” and “white monopoly capital” as concepts of revolutionary populism. According to those, these concepts are used by populists for their own interests and rather than helping for the advancement of society (Dikeni, 2017:19-20). Similarly, it is argued that recent calls for radical economic transformation and the introduction of the Black Industrialist Program are a response to the declining fortunes of the governing ANC at the recent polls (Mondi, 2017:14).

This endemic and immense corruption pattern diverts financial and other resources that could have been used for development, job creation and poverty alleviation (Gumede, 2011:19) and weakens service delivery capacity of the state (CW, 2015:14).

It also undermines the credibility of the government to pursue redistribution reforms, as many citizens are skeptical that the government is not pursuing the reforms in the widest public interest, but only to line the pockets of a few leaders. This means they are likely to oppose any such reforms, or at best become ‘indifferent citizens’ (Gumede, 2011:19).

Unfortunately programs under the BEE strategy have been perceived as a hugely ineffective policy that epitomises the corruption and cronyism by most of the black and white citizens (Lindsay, 2015:3). In accordance with these views, there is a very unfortunate perception in the mainstream media that politicians’ calls for the empowerment policies and economic transformation are just a populist discourse and not a realistic panacea.

6. New Policy Recommendations in the Literature

Since targets of the empowerment strategy have not been reached and socio-economic indicators have been worsening; efforts for implementing the BEE strategy have been regarded as pointless and even harmful within some circles, so much so that a new policy direction has been prescribed for economic development, social welfare and empowerment of PDIs.

Accordingly, BEE, and other forms of redistribution tether the growth rate and also does not serve interests of the black poor (Smith, 2016), however, South Africa needs economic growth (Jeffery 2013). It is also said that the government disobeyed the genuine politics of the moderate, gradual and

market oriented transformation process (Mondi, 2017:8). Therefore, in order to integrate millions of black people into the formal economy the government should give up the BEE and embrace the mainly neo-liberal recipes such as fixing education, investment creation, competitiveness, job creation (BusinessTech, 2015; Jeffery, 2013; BUSA, 2017:2-5). The issue of land reform, with some circles calling for the nationalisation of land, is another issue that needs urgent attention.

Business also supports an inclusive growth approach in which a concerted and collaborative effort between government, business, and organised labour is emphasized (BUSA, 2017:17). What kind of roles can be taken by organized labour and business is not, however, clearly articulated.

Radical economic transformation has been condemned as being used as a mask of state capture by subverting and bypassing constitutionally entrenched institutions and existing implementation of BEE has regarded as a rent management system. Therefore, in contrast to these radical transformers, a constitutional transformation approach has been recommended. According to constitutional transformers, state capacity must re-build to deliver on the 1994 promise of socio-economic rights defined in the constitution and development by managing rents to promote investment and service delivery (Bhorat et al., 2017:4-10).

According to BUSA, ownership redistribution is costly and limited to a concentrated number of established businesses. However overemphasis on ownership has largely failed to deliver meaningful control and value to black people given that shareholdings are generally insufficient to exert direct influence on the strategic direction of invested companies. Growth of black business can be increased through providing access to markets, capital and skills to support entrepreneurship in order to create black owned and black-controlled businesses. Also, greater emphasis must be placed on asset sale transactions as part of establishing new black-controlled businesses (BUSA, 2017:10-11).

Similarly Mondi (2017) argues that “the implementation of industrial policy to create wealth in the context of a fragmented business community and the social and political relations that have defined its characteristics have had very little impact in transforming the structure and the racial character of the economy”. Intensifying racial divisions in business has heightened racial tension rather than a partnership for growth and development and caused underperformance in the economy (Mondi 2017:5).

Besides, in an open economy, it is difficult for new black enterprise to compete with companies that are embedded in long-established specialised production networks. So, there is no need to try a new black industrialist class. Instead, an inclusive growth agenda that goes beyond race and class could just be a medicine to overcome challenges of racial identities, class formations, low growth and worsening poverty (Mondi, 2017:23).

One question that remains unanswered is why white capital has not voluntarily shared its unfair accumulations during apartheid, if it really wants to develop South Africa with harmony and partnership. On the other hand, in an economy with very large monopolistic, capital-intensive, vertical integration features, it does not seem very sensible to blame BEE for macroeconomic indicators. On the contrary, this situation can be interpreted as a fact that the capital resists the state and avoids investment in the economy in order to put government a difficult position with respect to the public.

In order to deracialise the economy, it is recommend to start by inculcating a transformative culture within businesses and building social cohesion (BUSA, 2017:18). However there is not much explanation why business need such an intervention or how any policy can be created. In fact this long overdue recommendation means more delay for economic transformation. Although business declares its support to a meaningful broadening in economic participation and inclusive growth, Andrews (2008) observes that, BEE has been implemented in the context of a strong organisational or market culture consisting of intra and inter-firm relational structures which determine who should be involved in the

main stream economy and this structure resists to accept black enterprises into established business network. In fact the term of organisational culture belies a reluctance to forego its previous status and a desire to keep its white supremacy.

By taking effect and role of big capital and institutional macrostructures in the racial transformation of the economy and also growth of the economy into consideration (Andrews, 2008:46), Andrews (2008) recommends that:

“... firms should be allowed to set their own targets and not be subject to rigid quotas, and targets should be measured by credible entities...; BEE should focus less at the top of the economy where there are skills constraints and defensive elites limiting the effect of the BEE interventions—it should rather focus at the middle and bottom of the economy, getting big firms to reach down and invest in training and jobs...” (Andrews, 2008:97).

Although Andrews argued that racial patterns in South Africa’s economy cannot be adjusted without some structural change that challenges the race-based organizing logics (Andrews, 2008:32), his recommendations were severely limited by the power of the capital. In response, he targeted a more accessible sector of the economy than big.

Also a study which analysed the effect of BEE in terms of profitability and competitiveness with sample of 26 amongst the top 50 BEE enterprises, concluded that the effect of BEE was positive (Kleynhans and Kruger 2014:9). Although Andrews (2008) recommended that BEE must focus firstly on small companies rather than big companies, this study claims oppositely and also indicates that resistance of the big business against BEE is mostly ideological.

Because of an increasingly unfavorable context, some writers even allege that empowerment acts violate the UN Declaration of Human Rights. So, the B-BBEE Act must be scrapped and the BEE must be transformed to “EED” (Economic Empowerment for the Disadvantaged) without any racial emphasis and numerical quotas of outputs (Krüger 2014:452). But why do not those who suggest a social remedy policy without a racial focus, take into consideration that overwhelming proportion of the disadvantaged people consists of black people due to lingering effects of the past discrimination.

7. Conclusion

Despite expectations about rapid social and economic improvement, the socio-economic environment in South Africa seems to be getting more complex due to the prolonged economic and social division, radical inequalities, an alarming unemployment rate, poor growth performance, rise of corruption and political turbulence (Magri, 2016:9). At the dawn of democracy the promised “better life for all” is fast waning given the ever-widening gap between rich and poor and the socio-economic tensions that is palpable within this fledgling democracy.

The worsening circumstances of historically black South Africans have been fuelling widespread calls for nationalisation of private sector assets and changes to the system of property rights. Accordingly, the newly-formed Economic Freedom Fighters (EFF) political party is starting to gain much popularity in the recent national elections due to its radical discourse of economic war against what it terms “white monopoly capital” and its call for nationalization is resonating well with those who live in poverty (Lindsay, 2015:9-10). As reflections of social unrest against poverty, mal-administration and corruption; crime protests, violent demonstrations and labour unrest have increased and it is argued that the violence has become a way of communication with the government and among communities (Cilliers & Aucoin, 2016:18).

The most problematic dimension of the empowerment is ownership and asset transfer. The problem is not in the narrow sense of asset transfer, but lies in the fact that it is limited to a very narrow beneficiary group which is selected without any fair criteria and also in a corrupt manner.

Also the black political elite enriched in this way has alienated itself from the problems of the poor and are reluctant to develop realistic policies to address the challenges of the poor. Unions, who ought to have been the champions of poor worker rights, align themselves to politically connected elites, and unions have been among the investors of BEE enterprises (Nattrass, 2014:22). Organised labour's involvement in BEE deals gives black workers a material stake in the economy and blurs the lines between workers and capital (Nattrass, 2014:26), but this situation also may prevent the development of policies for empowerment of the outsiders and prevent unions from acting for ordinary working class as a real power source in the economy.

Again, it is also a contradiction to deem the enrichment of a black minority as a problem (Bhorat et al., 2017:53) in an economy in which white capital is an over-centralized and dominant economic power. It is not rational to criticize this fact in an economy where competition power comes from economics of scale. However, the legitimacy of this enrichment of minority, whether or not they are productive entrepreneurship, and the issue of efficiency in resource allocation for the general welfare of society are important issues to be discussed.

The reason for the income inequality among blacks being greater than whites is due to wage inequality and unemployment, which are caused by skilllessness and racial discrimination rather than inequality in wealth distribution. For this reason, if minority enrichment is to be criticized, it should be done in the same way for both white and black capital.

The decrease in the white shareholding ratio in the stock market does not solve the problem. Why have shares not been transferred to blacks instead of foreign capital? Also, at this point, the important question is where and for what purpose income from the sale of shares of foreign capital is valued.

ANC has declared that the economic transition process was entering the second phase since 2012. And goals of the second phase of the transition, guided by the overall vision outlined in the National Development Plan. According to Economic Transformation Discussion Document of ANC, without effective structural interventions, the system will continue to reproduce racialised poverty and inequality. In order to realize the socio-economic transformation, a comprehensive package of policy interventions should be include as follows (ANC, 2017:2-3).

When the policy recommendations of ANC are analyzed, it is seen that the ANC has understand the problem correctly and produced solutions theoretically. It has realized the importance of economic growth and the necessity of economic transformation. While the capital circle condemns the ANC's discourse of radical economic transformation as a populist policy, and the extrem left condemns the ANC because the current economic transformation is insufficiently radical and recommends nationalisation. Consequently the ANC is sandwiched between the left and the right (ANC, 2017:6).

When the failure of the strategy is analyzed, some few but important factors stand out. These can be identified as unfavorable economic context, corruption, lack of qualified bureaucracy, lack of adequate planning, lack of political alternative and inadequacy of targeted group.

At the outset of the problem, lies the lacks of a competent bureaucratic structure and a strong and objectively perceived political opposition. Because white capital hesitates to share its wealth, its criticism against government, even correct, is not perceived as valid by blacks, so existing income injustice actually leads the black people to be vulnerable to political manipulations.

When the South African experiment is analyzed and compared to the Malaysian case, it is seen that South African strategy was commenced without serious planning or swot analysis.

Unlike the Malaysian example, unexpectedly employment of blacks in skilled positions has been ineffective due to a lack of training. It was also wrong to start the transfer of assets by unplanned way and economic actors' will. This has both led to a slow transfer and limited beneficiaries to an elite segment. While Malaysia began this process after a preparation period of 13 years in the post independence, South Africa began de facto without any mental and legal preparation.

Despite the fact that over 20 years have passed, continuing legislative changes due to technical insufficiencies still show that the planning of the BEE strategy is not reaching its main objective and the bureaucratic structure to support it is lacking. Yet the counter-argument, which revolves on a socialist strategy in an open market environment, within the economic context is hardly taken into consideration. The creation of the Malaysian review team to take advantage of the Malaysian experience in 2011 is the most concrete indication of a retrospective acceptance of poor planning and how little importance was initially attached to the plan.

The transfer of assets is inevitable and the most important question is how and what methods should be adopted. An application could be made in the form of stock certificates and profit-loss coupon distribution for all of the target entities for a certain and limited period from the public enterprise, if it allows for it.

Finally, inequalities in the education system should be prioritized and the empowerment strategy should be based on meritocracy in terms of achievements in formal education and training.

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Şenol Öztürk, D B Jarbandhan
Institutional Handicaps Of Black Economic Empowerment and Its
Reconceptualisation: The Case Of South Africa

Vol: 3 Issue: 1
Winter 2020

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