The Economic Empowerment of African Descendants; lessons from South Africa’s Black Economic Empowerment Strategy
(Sub-theme: Economic Empowerment: obstacles and opportunities)

By
Diana Sanchez
HSRC, South Africa

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In South Africa, economic redress to correct the social imbalances and racial divisions of the past has been at the top of the government’s agenda ever since the end of Apartheid in 1994. While the Black Economic Empowerment (BEE) strategy is well rooted in this African country, thinking along similar lines is largely absent in policy and academic debates in Latin America. Although BEE as implemented in South Africa is a sophisticated set of interventions broadly inadequate for the Latin American context, it offers an opportunity to reflect on the need to promote the full integration of disadvantaged communities into social and economic life. In this paper I examine the South African experience and reflect on the possibility of a similar economic empowerment agenda in Latin America.

The main question addressed in this paper is: What are the main lessons of South Africa’s attempt to achieve socio-economic empowerment through the BEE strategy and how can BEE be tailored to serve racial and social mobility in Latin America? To respond to these questions I use data collected through various research initiatives since 2006 and ethnographic observations as a foreigner living in the country. I consult academic articles and media reports and rely on the perceptions of citizens and my personal experiences.

In the introduction I briefly contextualize socio-economic transformation initiatives. The first sections offer a short examination of South Africa’s history and an overview of the Black Economic Empowerment (BEE) strategy followed by an assessment of some of the
outcomes and challenges of the strategy. Finally I reflect on some of the lessons and possibilities of adapting a similar empowerment framework in Latin American countries also facing racial and socio-economic divisions.

Introduction

Initiatives aimed at addressing racial, economic and social imbalances are found in different countries such as the United States, Malaysia, and South Africa. Racial redress initiatives are in principle responsive to countries’ particular histories and reflect the desire of the ruling classes to transform socio-economic and racial divisions and to empower disadvantaged sections of the population. In these efforts, the state is usually the central force driving and regulating such processes.

The term "affirmative action" refers to measures taken to avoid discrimination. These type of initiatives aim to promote equal opportunities particularly in government and educational spaces for groups who have been historically discriminated and/or exploited for their race, religion, language, national origin or gender. Countries applying these initiatives but with a different name include reservation policies in India, positive discrimination in the United Kingdom and employment equity in Canada and South Africa.

While affirmative action measures are usually implemented to benefit minority groups, in countries like Malaysia and South Africa these aimed at benefiting the majority of the population belonging to socially and economically disadvantaged ethnic or racial group. In the case of Malaysia, the New Economic Policy (NEP) was designed as a form of affirmative action to promote the economic uplifting of ethnic Malays who make close to 52% of the population. The affirmative action initiatives were justified as necessary to close the wide economic gap between the Malay and the non-Malay as this threatened racial harmony. This government driven policy provided extensive benefits to this ethnic group through mechanisms such as preferential placement in the public sector (eg public offices, army, hospitals, police), quotas for representation in other spaces, facilitated bank
loans, scholarships and special licenses. As of 2004 the great majority of government servants were Malay and 95% of all government contracts were awarded to ethnic Malays.¹

The South African government has embraced a strategy similar to the Malaysian NEP focusing on affirmative action through employment equity legislation and using the power of the State to redress the history of discrimination and exploitation towards the black population.

I. South Africa’s Socio-economic Transformation: The Black Economic Empowerment (BEE) Strategy

The apartheid system laid the ground for a highly segregated society classifying all citizens by race and restricting access to resources such as land, jobs and education. Through legislation black South Africans were denied both political and economic rights. Discrimination applied not only to Africans but also to Indians and Coloureds as they were collectively classified as ‘blacks’. The black majority could not vote, was deprived of using and owning land and even banned from moving freely around the country. The “Bantu Education” system deprived Africans from basic quality education, directing them to unskilled and low paid jobs and the job reservation system reserved skilled jobs for whites. Consequently, this resulted in a highly unskilled and poorly educated African population and an economic system of white wealth and black poverty. This created great social and economic structural inequalities that still remain in the South African society and which are proving very difficult to overcome.

In response to apartheid’s racial oppression the African National Congress (ANC) was formed in 1912 and it became the strongest political force that championed the struggle against the apartheid system. With Nelson Mandela as its most prominent figure the ANC reached power at the democratic elections of 1994 marking the end of minority rule and the beginning of a new democratic era for South Africa. However, while political power

shifted from white to black hands without major obstacles, the economy remained widely dominated by the white minority.²

Economic and social transformation has remained the biggest challenge for the new government which advocated the implementation of a National Democratic Revolution (NDR). This manifesto provided the ideological ground to develop an economic empowerment strategy to redress the negative legacy of apartheid. The broad objectives and principles of the NDR were to:

(i) Overcome the legacy of racial oppression of the black majority and thereby to forge a united nation and

(ii) Achieve democratization and to transform power relations as a basis for societal equality.

To achieve these fundamental objectives the new government set a framework for action which recognized several central elements as identified by Southall;

(i) the legitimate and ‘historic’ role of the ANC in leading South Africa;
(ii) the need for an interventionist state to radically transform society within the context of a ‘mixed economy’;
(iii) the justified existence, expansion, wealth and function of a black bourgeoisie to achieve transformation; and
(iv) the need for close cooperation with white capitalists of the old system.

As Southall explains, at the heart of this thinking was the expectation that white and black capital will eventually form a ‘patriotic bourgeoisie’ that will encourage broad socio-economic transformation.³

The first efforts to redress the racial imbalances left by the apartheid regime date back to 1990, when the term 'affirmative action' was used in reference to strategies to restore

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'historic imbalances' in the economy. However, since 1994 the strategy and thinking behind economic and social transformation has constantly evolved, with the government embracing a strategy for broader economic 'empowerment' at the centre stage.\(^4\)

**The Evolution of Economic Empowerment policies**

The Black Economic Empowerment (BEE) strategy is the cornerstone of the South African Government effort to overcome the legacy of racial discrimination. It promotes the advancement of blacks within the economy through a persuasive and an assertive approach. The central aim of BEE is to overcome the racial and social divide left by Apartheid by promoting the advancement of previously disadvantaged individuals (PDI) within the economy. Specific aims of the strategy include the development of a visible black middle class, the improvement of skills within the black population, and increasing black ownership and management of business and property. The national Department of Trade and Industry (DTI) has the central guiding responsibility for this initiative, serving as the focus point for BEE regulation and supporting implementation.

The initial emphasis (early 1990s) of empowerment was overwhelmingly on equity transfer through business transactions and this narrow approach resulted in benefits for primarily a handful of individuals, who were mostly politically connected. While this was perhaps in line with the NDR formation of a black elite, growing criticism and dissatisfaction with BEE policies provoked a re-examination of the strategy and of the meaning of black empowerment.\(^5\) As a result, BEE was renamed Broad Based Black Economic Empowerment Strategy (BBBEE), emphasizing the need to embrace a more inclusive process aimed at involving black people in the economy, rather than simply transferring assets. It is now defined as a strategy for the economic empowerment of all black people including women, workers, youth, people with disabilities and people living

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\(^4\) Verhoef, G ‘Economic Empowerment and Performance: Strategies Towards Indigenisation/Black Economic Empowerment and the Performance of such Enterprises in Nigeria and South Africa, since the early 1970’s to 2002’

in rural areas and shaped through diverse but integrated socio-economic strategies that include, but are not limited to:  

(a) increasing the number of black people that manage, own and control enterprises and productive assets;  
(b) facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;  
(c) human resources and skills development;  
(d) achieving equitable representation in all occupational categories and levels in the workforce;  
(e) preferential procurement; and  
(f) investment in enterprises that are owned or managed by black people.

The revised strategy entails a scorecard system and embraces the principles of affirmative action (or ‘employment equity’); skills development; training; encouragement of small black business through targeted procurement policies; and social investment. By the end of 2005 there were at least 24 laws as well as policy and regulatory provisions dealing with empowerment. They covered different sectors, government tender boards, broadcast and telecommunication authorities, small business promotion bodies and labour relations institutions. The (BB)BEE Codes, first released in 2005, serve as guidelines for the implementation of the BBBEE Act (2003) and identify three kinds of components and beneficiaries. (See Table 1).

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6 Department of Trade and Industry, 2005
Table 1: Components and Beneficiaries of BEE

<table>
<thead>
<tr>
<th>Component</th>
<th>Beneficiary</th>
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<tr>
<td>Direct Empowerment</td>
<td>Equity holders, executives and other owners and managers of economic resources</td>
</tr>
<tr>
<td>Human Resource Development</td>
<td>Employees and job seekers</td>
</tr>
<tr>
<td>Indirect Empowerment</td>
<td>Suppliers, communities and other relevant external stakeholders</td>
</tr>
</tbody>
</table>

Source: Department of Trade and Industry. The Codes of Good Practice on Broad-Based Black Economic Empowerment. 2004

The measurement of empowerment across all sectors is guided by the “Generic Scorecard” which identifies seven elements of transformation. Each element is weighted and allows companies to score points by reaching certain targets. A company’s score out of 100 determines their level of contribution to transformation; a company that meets 100 percent or more of the elements is a “Level One”, while a “Level Eight” company is one that earns just over 30 percent of the total possible score. This is the lowest level before being considered non-compliant in BEE standards.

Table 2: The Generic Scorecard

<table>
<thead>
<tr>
<th>Element</th>
<th>Weighting</th>
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<tbody>
<tr>
<td>Equity Ownership</td>
<td>20 percent</td>
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<tr>
<td>Management</td>
<td>10 percent</td>
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<tr>
<td>Employment Equity</td>
<td>10 percent</td>
</tr>
<tr>
<td>Skills Development</td>
<td>20 percent</td>
</tr>
<tr>
<td>Preferential Procurement</td>
<td>20 percent</td>
</tr>
<tr>
<td>Enterprise development</td>
<td>10 percent</td>
</tr>
<tr>
<td>Residual (Social and Economic Development)</td>
<td>10 percent</td>
</tr>
</tbody>
</table>
The South African government has played a central role providing regulations and driving the process through its enormous buying power. Although the strategy has been mainly government-driven, the private sector played a central role participating in consultative processes and endorsing the initiative. As compliance and enforcement has been left mainly to the forces of the market each company is responsible for BEE’s implementation. Companies that do not achieve good BEE scores will struggle to secure contracts to supply the state with goods and services (e.g. ICT, health, education, construction).

The scorecard approach has encouraged the voluntary development of industry transformation charters across a wide range of sectors. The charters establish clear indicators for companies and serve as guidelines for empowerment requirements across the different industries. Although they established their own guidelines they are aligned with the codes provided by government.9

Smaller companies like SMMEs are also expected to contribute to empowerment but the framework was adapted for them in 2005. Acknowledging the specific constraints of smaller businesses to fulfil the transformation requirement, government set new rules for small firms. The codes define a new category for compliance called the Qualifying Small Enterprises (QSE) and provide a different scorecard in which all elements have a 20% weight this facilitating implementation and compliance.10

While the framework has been constantly adapted to facilitate compliance, the pressure for big companies to transform is intensifying. For instance, 2012 is one of the milestones for achieving transformation targets and move on to even more stringent transformation targets. After this year companies will be expected to have more ownership in black

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hands, more black employees and managers and to procure even more from black businesses.

II. Assessing the Impact of BEE

While the impact of BEE is a contested issue and many challenges remain, the BEE strategy has on the whole created a roadmap for empowering disadvantaged individuals and facilitated access to opportunities and financial resources for many black South Africans. The most visible outcome perhaps is that today the country has a growing middle class which did not existed before 1994.

Socio-economic transformation, particularly along racial lines is a long and complex process. Regardless of the setbacks, BEE is a clear attempt to address the injustices of the past and has put the issue of economic and social transformation clearly as a priority in the country’s development agenda. Through an assertive public discourse on the need to empower the disenfranchised black majority as a moral obligation, the private sector has been encouraged to participate in the country’s transformation.

As companies have gained some degree of social consciousness, BEE seems to be encouraging a stronger corporate social responsibility (CSR) agenda. This is for instance reflected on the increasing corporate social investment (CSI) spending since the country’s democratization. \(^{11}\) Furthermore, the consultative approach of the BEE strategy has opened spaces to strengthen the dialogue between government and the private sector and fast-tracked the recognition of gender inequalities, offering specific initiatives and incentives to close the gender gap.

However, almost two decades after the first democratic elections in South Africa social and economic divisions along racial lines remain visible in the society. A look at implementation so far suggests that those in a better position to access BEE opportunities (the larger enterprises or the better qualified individuals) have been the primary beneficiaries. By contrast, the least benefited have been those with difficult access to

\(^{11}\) See the CSI annual reports collated since 1998 by Trialogue: www.trialogue.co.za
information, lower levels of education and fewer resources. While a substantial black middle class has emerged and a powerful black upper class is increasingly visible, the majority of the African population remains poor and marginalized; uneducated and un- or under-employed.

Research comparing data for 1995 and 2000 shows that distributional shifts were not pro-poor during the initial stage of BEE policies. Furthermore, during this period poverty, especially extreme poverty and inequality increased, visibly among the African population. The income gap within the black population has widened with critics claiming that the implementation of BEE is mainly creating a black corporate elite rather than empowering the wider black community. Nevertheless, it seems that not even the black corporate elite had made much strides into the mainstream. Indeed, according to a UN report in 2003 after almost 10 years of democracy, ‘the South African economy remained widely dominated by a white wealthy class as they controlled and owned a large proportion of the corporate world.’

Although many black South Africans have a better quality of life, many others have become worse off. The unemployment rate has been steadily increasing since 1995 and in 2004 was estimated to be between 30-40%. This, according to some observers mainly affects rural communities which have little economic activity and suffer unemployment rates that approach 75%.

The magnitude of the inequality and differences in South Africa is well captured by Marais. According to him, ‘the differences in the living standards of the South African population are striking to say the least. South Africa contains an overwhelming white section of the population whose popular culture and standard of living seem to belong to the ‘first world’, much of the urban black population belongs to the modern,

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13 Hoogeveen & Ozler, 2005
industrializing ‘third’ world, while life for rural South Africans do not differ much from their counterparts in ‘fourth’ world Africa.

The high inequalities and basic standards of living amongst the majority of South Africans is also reflected in perceptions. According to data from the Social Attitudes Survey, a sizable share of the adult population places itself in the lower class. As Roberts explains, ‘with regard to racial groups, less than 10% of African respondents placed themselves in the top upper middle and upper classes compared to a third (33%) of white respondent. Conversely, a large share of African respondents considered themselves as being in the lower class (45%) compared to a mere 3% of white respondents.

Therefore, despite the government’s will to empower the majority of disadvantaged individuals and communities, broad empowerment is yet to be seen as transformation is hindered by different challenges.

Challenges
The BEE strategy faces several challenges which can be broadly classified as implementation, structural and attitudinal challenges.

A major implementation obstacle has been the lack of financial resources both amongst black individuals and communities and in public sources to fund BEE deals. Secondly, given the apartheid history of low quality education for the black majority, finding qualified employees, particularly managers is problematic. This is further aggravated by a fierce competition between companies to attract qualified black individuals which results in low retention rates. Similarly the lack of business experience amongst most black South Africans makes finding equity partners with business skills difficult. Third, in terms of procurement, given the lack of entrepreneurial experience and tradition amongst black businesses, big companies struggle to find reliable and suitable suppliers with good

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BEE credentials. Finally, skills transfer, a key element for sustainable empowerment, has also been identified by some companies as a major challenge as they battle to set aside time and resources to comply with this task. Consequently, many companies have decided to pay non-compliance fees instead of investing time and money in getting their skills programmes right.

The structural challenges refer mainly to the difficulties posed by the structure of the state and the South African economy. Indeed, since instead of transforming the state the ANC government was absorbed into the established Apartheid apparatus, transformation efforts have been limited by this structure and institutions. Therefore while the objectives of the National Democratic Revolution were ‘revolutionary’ in principle, they had to be implemented within the institutional limits inherited from the past. As a result, the implementation of the BEE strategy has at times been affected by inefficiencies and inflexibilities in the public administration and institutions at large.

On the other hand, the structure of the South African economy has hindered the transfer of ownership. Indeed, as the economy is greatly dominated by large corporates, change of ownership requires massive amounts of capital, which, given the history of economic discrimination, are not available for the great majority of the black population. Furthermore, even when capital has been made available (with the support of government institutions or private finance), the usual result has been the inclusion of only a handful of individuals or groups (usually politically connected) into major established businesses with the majority remaining marginalized. Therefore, as long as the structure of the economy is unchanged, equity transfer deals will have little or no impact on the economic situation of the majority of the disempowered black population.

Finally, the BEE strategy has encountered attitudinal challenges which refer mainly to a lack of understanding on the importance of the BEE strategy. This lack of understanding is reflected in resistance to transformation and lack of buy-in into the strategy which naturally affects implementation. While the public discourse is largely supportive of transformation, many large companies have also publicly raised their concerns and
skepticism. On the whole, support to transformation is a divisive affair and seems to be less popular amongst the upper and middle classes which control economic resources while it remains an imperative for the lower class. According to data from the 2009 Social Attitudes Survey ‘only 45% of those in the upper middle and upper classes believe that there should be preferential hiring and promotion of black South Africans, in contrast with 77% of the lower class’. A common critique is directed at the costs in terms of efficiencies and resources, at the limited impact of the strategy on the great majority and at the emergence of a culture of entitlement.

Similarly, there is an implicit assumption that only white established companies must comply with BEE. As ownership is shifting from white to black hands this poses a major limitation. It is critical that new owners and managers, regardless of the racial profile of their enterprises, commit themselves to empowering the majority of the disadvantaged population through the different BEE elements (eg skills development, employment equity, development of small enterprises etc).

Even though the transformation framework has evolved towards a more inclusive approach, the transformation of the economy at the grass-roots level (for instance small business and community enterprises) is very limited. The BEE strategy needs to continue evolving to provide opportunities to average South Africans to participate in the economy and to develop skills amongst the country’s youngsters. While participation in existing economic conglomerates is important, the creation of new black-owned and black controlled enterprises is crucial. Therefore, entrepreneurship and drastically improving education and skills amongst the country’s youth need to be particularly promoted. Socio-economic empowerment is more likely to be achieved and sustained if it creates a large pool of educated youngsters who will either access the labour market or create small businesses to absorb those affected by the current high unemployment rate.

III. Race, Redress and Empowerment; Lessons for Latin America

Given the different realities in Latin America, what are the possibilities of adapting the South African empowerment framework for countries also facing broad socio-economic divisions along racial, geographical and class lines? How can BEE be tailored to serve racial and social mobility in the Latin American context?

The histories of Africa and Latin America are intertwined through shared experiences of colonialism, slavery, struggles for political freedom and socio-economic change. While in Africa political and social discourses illustrate deep racial unconformities and invoke racial reparations, in Latin America the injustices of slavery and racial discrimination have almost faded away in the collective memory. Racial imbalances are now diluted with broader social concerns such as poverty and class inequality. In the absence of recent memories of institutionalized segregation, inequalities are mainly perceived as the consequence of class differences and not to historical racial discrimination. This poses a major obstacle for the reparations discourse.

Nevertheless, several studies of Latin America, particularly of Brazil, point that racism and discrimination are rooted in the society, even if not formalized, and that social inequalities are associated to racial ones. Indeed, afro-descendants in countries like Brazil and Colombia tend to occupy the lowest income jobs, live in the poorest areas and form the majority of the lowest income brackets. However, in the absence of clear-cut racial categories and after decades of racial mixing, afro-descendents and other racial or ethnic minorities are almost invisible in the broader image of countries.

Perhaps the main lesson from the South African experience is that socio-economic transformation is not a simple goal, but a long and complicated process that requires broad political and social support and adequate policies and institutions; it requires clear targets, guidelines and beneficiaries and an active role from government. Similarly it needs the buy-in from the private sector and the society at large. Thus, the weakness of Afro-descendents movements and of broad social support for racial redress initiatives in Latin America will be the first obstacle to defeat.
Second, since in Latin America the moral justification for BEE, namely apartheid, is absent, a new discourse needs to emerge in order to justify and get the buy-in for economic empowerment initiatives. Indeed, as racial and social patterns in Latin America countries are different from South Africa, any racial redress strategy will need to be embedded primarily in a social justice discourse instead of a racial reparations discourse. While compensations for a history of slavery and alienation can not be ignored, a broader social justice approach will be more likely to get the buy-in from key stakeholders. This will anyway facilitate devising economic empowerment initiatives benefiting afro-descendants as they are generally amongst the most disadvantaged in society.

Overall, economic empowerment initiatives to empower afro-descendants in Latin America should consider a couple of issues;

i) In the absence of buy-in from all stakeholders economic empowerment policies become only a reporting exercise.

ii) Under a context of asymmetrical access to information economic empowerment strategies could potentially benefit only a minority with access to information and political connections further increasing social divisions and inequalities.

iii) For economic empowerment initiatives to succeed the state has to be the main driving force guiding and monitoring implementation and using its buying power to create a trickle-down effect in the economy.

iv) The private sector is instrumental and needs to be brought on board and consulted from the beginning of any economic empowerment strategy.

v) The main emphasis of economic empowerment strategies should be on developing the skills of disadvantaged communities and encouraging a culture of entrepreneurship, facilitating the creation of new opportunities.

vi) Economic empowerment should firstly focus on the youth and vulnerable groups within communities (e.g single mothers and people with disabilities)
vii) Initiatives need clear time frameworks and monitoring to avoid a culture of entitlement amongst beneficiaries and to assess progress and make timely alignments to the strategy.

viii) Finally, economic empowerment, if not carefully implemented could come at the expense of social cohesion, creating tensions and divisions amongst different racial groups or sections within communities.

While racial and social inequalities are the consequence of centuries of discrimination, they now persist under economic and political frameworks that prevent the consolidation of more unified and egalitarian societies. Overall the main challenge to achieve broad economic empowerment both in South Africa and in Latin America is achieving the comprehensive restructuring of institutions and society, rather than the replacement of individuals from one race with another. Capital is by nature profit driven and color blind. Therefore, a central aim should be crafting an economic and social framework in which both private and public institutions are committed with broad economic and social change.

Concluding Remarks

BEE in South Africa is a clear response to the need for social and economic justice, which is critical for reconciliation. However, the strategy does nothing to promote social integration amongst the different racial groups. This lack of social cohesion and sense of togetherness amongst South Africans might be the biggest challenge for future generations to overcome. Latin American countries intending similar initiatives should consider the unintended consequences of economic empowerment strategies aimed at specific racial groups. While there is little research available on the impact of BEE on social cohesion, nation building and reconciliation, marked racial divisions and questions of identity and reconciliation continue to burden the South African society. Even if open racial confrontations are almost unthinkable in the new South Africa, the hope for a unified ‘rainbow nation’ and social cohesive society has remained an ideal.