

Black Economic Empowerment
Presentation by
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Ladies and gentleman

Congratulations to the Department of Agriculture for organising this conference. BEE is an area that is of critical importance for our country and for the future success of the South African economy. It is an imperative for us to implement BEE in South Africa, as it is necessary for us to transform our economy. BEE is not something that we have to apologise for - it makes economic sense to have black economic empowerment and grow the number of people who participate in our economy. It is therefore a subject that cannot be divorced from economic growth, job creation and greater equality in our country and should be embraced by all South Africans. It is also an area that is closely linked to small business development and entrepreneurship in South Africa.

INTRODUCTION

The development of a BEE charter for the agricultural sector is an exciting development for the country as a whole and follows the progress towards BEE currently being made in other strategic sectors.

The agricultural and agro-processing is an important sector and has been identified as one of government's priority sectors; it currently contributes approximately 14% to South Africa's GDP or R124 billion and is a major employer of labour. This sector also plays a critical role in the economy as a source of food as well having backward and forward linkages with the rest of the economy. The Agro-processing sector can also play a critical role in the development of the small business sector. Furthermore, it is an area that will create new opportunities and economic growth in geographical areas that are currently underdeveloped.

The dti has undertaken a survey of the status of BEE in the key sectors of the South African economy. Significantly, the value of black economic empowerment deals has more than trebled in 2003 compared to the preceding year. According to recent surveys, there were 189 black empowerment deals worth R42.2 billion in South Africa in 2003; compared to 104 deals totalling R12.4 billion in 2002.

I strongly believe that this increase in transactions have come about because of the introduction of a set of guiding principles for BEE, which are outlined in the broad based black economic empowerment strategy and the broad based BEE Act. These principles are elucidated on in the codes of good practice, which will be formally gazetted in the next few months, once the new BEE Advisory Council has been established. The primary objective of the codes is to introduce even greater certainty into the market in the application of BEE. This will facilitate greater implementation of BEE and avoid potential pitfalls and conflicts that are inherent in an evolving process.

BEE AS AN ECONOMIC DRIVER

We have argued in the BEE strategy that empowerment is part of our growth strategy and that the kind of inequality which exists in South Africa is a structural constraint to economic growth. Part of our growth strategy is therefore to ensure that we unleash the potential that exists in our country by empowering our people. Black Economic Empowerment is therefore an important component of our growth strategy. During the past ten years, economic growth as measured by GDP has been consistent, but modest, at 2,5 - 3,0 percent. In order to meet the country's economic challenges, especially unemployment, the growth rate must be improved to at least 5%. There are a number of constraints that prevent us from having a higher rate of growth, a major one being the low and narrow entrepreneurship base. BEE is essentially about removing this constraint and increasing the opportunity for more people to start and run businesses and to empower larger numbers of people. A non-racial economy is not only good for political stability but it will essentially raise the level of growth of the economy to the targeted level of 5% over the next ten years, thereby helping to resolve the major issue of unemployment

BEE ACT

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Government will apply BEE criteria, whenever it:

- ⇒ Grants a licence to engage in a specific regulated economic activity, for example, gambling or mining,
- ⇒ Grants a concession to a private enterprise to operate an asset or enterprise on behalf of the state,
- ⇒ Sells an asset or a state-owned enterprise, [BEE can be also achieved through the transfer or sale of an equity stake in a state-owned enterprise (SOE) to black enterprises]
- ⇒ Enters into a public-private partnership,
- ⇒ Engages in any economic activity.

Preferential procurement is also an effective instrument to promote BEE in our economy. Government has been reviewing its preferential procurement policy in order to enhance its impact on BEE. Clear targets are being set to increase the levels of preference to black-owned and black-empowered enterprises.

While the details of the BEE CHARTER will be unpacked during the course of this conference, I would briefly like to cover the main aspects of this Act. In short, the Act formally expands the approach to BEE so that it is broader and encompasses the areas of ownership, management, human resource development, procurement, women empowerment and where applicable, beneficiation. The Act uses a scorecard approach so that targets can be set and can then be measured in each of these areas. Certain sectors and industries will be required to comply with the terms of the Act by developing sector charters, whereas other sectors will voluntarily develop their own sector charters. These charters are important because they outline the issues for effective transformation of the sector, how BEE will be implemented and the targets for transformation.

BEE PRINCIPLES

As you proceed to finalise your charter, it is also important to remember the key principles spelt out in the BEE strategy and Act. These principles are:

1. Broad-based empowerment
2. Inclusivity
3. Sustainable economic growth
4. Good governance

Broad-based empowerment

The first and most fundamental principle is that BEE must be broad based.

BEE must ensure that larger numbers of people benefit from empowerment and that BEE is not restricted to the enrichment of an elite few. It must also ensure that BEE focuses not only on business ownership and equity but also on human resource development, skills development, participation in management, particularly on affirmative procurement and land reform. In essence, broad based empowerment should promote entrepreneurship, and provide market and business opportunities for new black enterprises and not only the few.

Inclusivity

Stability and growth in a country are impossible if certain groups are excluded from that growth and development. Economic empowerment therefore involves all South Africans, black and white, large and small enterprises and all sectors of the economy. BEE is a partnership involving all South Africans and is not just a black issue.

Good governance

The other fundamental principle is that of good governance. We must ensure that all empowerment processes are transparent. Such transparency concerning BEE must include debate on issues such as sustainability, financial arrangements, real or pseudo empowerment and fronting. There are already examples of failed BEE companies who rushed into empowerment and failed.

THE BEE SCORECARD

The DTI has introduced a BEE scorecard, which, under the new legislation, becomes part of the guidelines and code of good practice. The scorecard indicates what a sector of enterprise with respect to BEE need to do. The scorecard sets out guidelines. These are:

- 30% of empowerment should relate to issues of ownership and control.
- 30% of empowerment should relate in the area of human resource development, training and employment of previously disadvantaged South Africans in senior, general and technical posts
- 30% of empowerment should relate to enterprise development. This means that existing enterprises must create opportunities for black entrepreneurs in terms of procurement and financing

Each sector should adapt the scorecard to meet its own needs. An industry can give different weightings to the three components of the scorecard to suit its own particular requirements. The charter must also set clear targets and timeframes.

BEE, IS NOT SUCH A COMPLEX ISSUE

BEE is sometimes seen as a very complex issue. Sometimes people say that BEE is forcing companies to give away shares to BEE companies. The word expropriation has been used.

Also multi-national companies are concerned about giving up shares in local subsidiaries. I believe the BEE policy is flexible enough to deal with all of these issues.

In the financial services sector, for example, the foreign banks, which have branches or subsidiaries, worked out how they could contribute to empowerment, whilst retaining 100% ownership. The oil industry, dominated by multi-national companies, resolved its problems by agreeing to clear arrangements for equity. This included the shareholding in Caltex by the 100 000-strong Black Taxi Association. Some of the earlier funding models used for empowerment were not sustainable but such problems can be overcome by the sectors working and planning together.

Many companies and sectors have already taken the lead in promoting transformation and BEE in their sectors. The agriculture industry can also take the lead and set the pace for transformation in the broader economy.

Ladies and gentlemen Black Economic Empowerment should be seen as an agreement or contract between Government, the private sector and black entrepreneurs that will lead to effective transformation of our economy.

The role of black entrepreneurs, for me, is quite clear and that is to take advantage of the many opportunities that are being created in South Africa. By taking advantage of these opportunities, starting new enterprises and creating new wealth, black entrepreneurs will not only become empowered, but will also contribute to the growth of our economy, greater equality in our society and the creation of new jobs.

The BEE opportunities that I refer to here are not about black people acting as fronts for white firms. The guidelines and codes of good practice will deal with this problem of fronting. BEE is also not about gatekeepers who exclude others from participating in BEE deals. Gate keeping will defeat the broad based requirements of BEE and will therefore not be accepted.

Rather BEE is about those companies that have already been empowered finding ways and means to plough back and support up-and-coming black businesses through procurement, venture capital, offering guarantees and mentorship.

Finally, BEE is about addressing the two economies that co-exist in our country so that over time the people in the second economy are brought into the first economy and our society becomes more equal.

To conclude, as we celebrate the first decade of freedom let us ensure that the next decade will bring about economic freedom for the masses of black people.

Phambili to the agricultural sector

I thank you.-end-