BLACK BUSINESS COUNCIL AND THE STATE IN SOUTH AFRICA.
WORKING PAPER.

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ABSTRACT

This paper focuses on state business relations (SBRs) and industrial policy between 2009 and 2015 under President Zuma in South Africa. The South Africa economy has historically been dominated by an interventionist state and big corporations defined by racial identities. The state, in the form of state-owned companies (SOCs) has coexisted with big business in efficient skills development, capital formation and ultimately higher productivity and income (te Velde, 2010). Following te Velde (2010), the paper discusses how state-business relations (SBRs) in South Africa may constrain the implementation of industrial policy to create wealth. It argues that the state is ambiguous in its relations with business and has connected better with emerging black entrepreneurs in South African. It discusses the manifestation of the strong ties between the state and black business in industrial policy through an instrument called black industrialists. The paper concludes that the state and the Black Business Council need to do more bringing in the rest of business for development and failure could result in poor economic performance resulting in the widening of inequality, chronic unemployment and high levels of poverty.

Introduction

When the state and business interact effectively, they can promote more efficient allocation of scarce resources, conduct a more appropriate industrial policy, remove the biggest obstacles to growth and create wealth more efficiently (te Velde, 2010). When the two sides fail to cooperate or engage in harmful collusion, economic activity centres on wealth creation for the few rather than the many (te Velde, 2010). The te Velde (2010) proposition of state-business relations (SBRs) assumes functioning democratic institutions where business and the state play a clearly defined role as partners in economic development. However, in deeply divided countries, where ethnic, racial, social, sexual and class identities exist, the identities could be the biggest obstacles to growth and result in inequality as wealth is created inefficiently for a few. South Africa presents a platform for understanding state-business relations
in deeply divided societies where poverty, unemployment and inequality have a racial character.

South Africa’s democratic transition, amidst deep ethnic divisions and a turbulent, volatile sociopolitical atmosphere, led to a political settlement embodying the principle of redress. This happens in countries where in the past one group based on race, gender or sexual orientation has been discriminated against statutorily. The form of redress takes different shape or form depending on the nature, balance of forces and external forces to the political settlement. In South Africa, the racially excluded population in 1994 formed 79 percent of the population but had limited economic participation in the JSE Securities Exchange except through the retirement packages and life policy schemes that were administered by asset managers investing in the stock market. Black Economic Empowerment and affirmative action were introduced to redress centuries of deprivation, economic marginalisation and exploitation under colonialism and racial apartheid (Lee & Mondi, 2017). The genesis of Black Economic Empowerment (BEE) was derived from the Reconstruction and Development Programme (RDP) (ANC, The Reconstruction and Development Programme, 1994), a Government’s blueprint for transformation in 1996, which articulated that. The RDP articulates the vision and values of BEE as follows:

“The domination of business activities by white business and the exclusion of black people and women from the mainstream of economic activity are causes for great concern for the reconstruction and development process. A central objective of the RDP is to de-racialise business ownership and control completely through focused policies of Black Economic Empowerment. These policies must aim to make it easier for black people to gain access to capital for business development. The democratic Government must ensure that no discrimination occurs in financial institutions. State and SOCs will also provide capital for the attainment of BEE objectives. The democratic Government must also introduce tendering procedures, which facilitate BEE. Special emphasis must also be placed on training, upgrading and real participation in ownership” (Black Economic Empowerment Commission, 2001).

South Africa negotiated a democratic transition, which involved complex settlements and the comprehensive establishment of institutions. The country’s approach to
affirmative action mirrored this process by leaning more on legal statutes, compliance with standards and codes of conduct, and market-based incentives. The process was also incremental; formal programs did not take shape until the late 1990s, and in fact were initiated by the white-dominated business establishment. The foundation of the BEE Commission in 1998 ushered in a more coordinated system and passage of the BEE Act in 2003 mandating a framework for evaluating empowerment (Parliament of the Republic of South Africa, 2004). The BEE Codes, passed in 2007, schematized a ‘scorecard’ for granting preference in public procurement and licensing based on a company’s performance in advancing black persons across seven criteria, especially ownership and control, as well as enterprise development (Parliament of the Republic of South Africa, 2007).

This paper discusses how state-business relations (SBRs) in South Africa may constrain 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. The paper focuses on the relationship between the Black Business Council of South Africa and the state in economic development. The relationship is discussed in the context of the Black Industrialist Program, a new incentive program from the state targeted exclusively at black businesses. The paper concludes that the state and the Black Business Council need to do more bringing in the rest of business for development and failure could result in poor economic performance resulting in the widening of inequality, chronic unemployment and high levels of poverty.

Methodology

The essay uses structured questions to the dti and the Presidency to understand the origins of the black industrialist led development. The BBC also is interviewed to understand the key players and their understanding of the economic challenges facing the South African economy. The essay also wants to understand the BBC approach to skills and capital formation, competitiveness and output growth. Structured questions are asked on the financiers of the targeted black industrialists. The financial institutions include the IDC, NEF and the PIC. These institutions are asked about their criteria, and whether can a racially defined policy lead to inclusiveness and
economic growth. Lastly, as a control mechanism to the study, the other black business institutions such as National Federated Chamber of Commerce and Industry (NAFCOC) and the all-inclusive South African Chamber of Business will be interviewed through structured interviews.

In this paper, the following research questions are posed. Who is the Black Business Council (BBC)? How did the BBC successfully convince the state to commit over R25bn for 100 black industrialists? Is the Black Industrialist Programme an attempt by the ANC government to appease the black electoral vote? Is the ANC government predatory or opportunist in this effort? Or is it becoming a midwife to nurse the black business constituency? What does the state the Public Investment Corporation, (PIC), the Industrial Development Corporation (IDC) and National Empowerment Fund (NEF) know that the rest of the business does not? Is a failing state trying to rescue itself by appeasing the black business class? Is the state rejecting its development state model and market-led development in favour of black business led development in the form of black industrialists? Will the inclusion of black industrialists build a platform to explain the future pattern of industrial development in South Africa?

Literature review

Imagining how latecomer black industrialists in an open economy could embark on a new activity that requiring economies of scale and a range of specialist inputs is hard. The challenge is exacerbated by the need to compete against domestic and foreign companies that are embedded in long-established specialised production networks (Collier and Venables, 2007). In the SBRs literature effective state-business relations are underpinned by (te Velde, 2010):

• Credible commitment of the state to policies, deals or arrangements, which can be ensured through both formal and informal institutions;
• A stable policy environment, which provides some security for investment by the private sector;
• Strong checks and balances on government policies, tax and expenditure, which help to ensure that taxation policies and the provision of public goods are appropriate and of good quality.

Te Velde (2010) argues that effective SBRs are pivotal in industrial development by overcoming two concerns: (1) market failures (the market alone cannot achieve an optimal allocation of resources (Stiglitz 1996); markets can fail in areas such as education, innovation, or climate change; and (2) government failures (state actors may not be able to address market failures on their own) (Lemma & te Velde, 2015). Governments can also fail because of a lack of perfect information, perfect foresight and moral hazard problems (Hausmann & Rodrik, 2002), or could be captured by elites. However, effective SBRs can address market, coordination, and government failures through effective communication and remove binding constraints to growth by improving the investment climate, providing market enhancing public investment, and reducing policy uncertainty (Hausmann & Rodrik, 2002).

Spicer (2016) contends that the South African history of apartheid and race have ensured that the kind of cultural homogeneity found in the East Asian late comer developmental states and shared worldview and goal have never characterised the state-business relationship. Nattrass & Seekings (2010) concur that there has often been a tense relationships between the state and business, as the state sought to push and bully capital into subordinate cooperation, whilst avoiding genuine deliberation, and being careful not to undermine the very economic foundations of white prosperity.

The transition from apartheid to a democratic government in South Africa was a negotiated process rather and the process of capital reform and deracialisation of the economy was conceived by the ruling black political party, the African national Congress (ANC) and business as gradual and market-oriented. Macdonald (2006) contends that in aggregated terms the beneficiaries of the transition were capital and the black bourgeoisie, whereas Seeking and Natrass (2006) see the beneficiaries as both black and white capital and the organised working class.

The characteristics of state-business relations (te Velde, 2010)
Characteristics of effective state-business relations are:

- information flows: the exchange of accurate and reliable information between business and government;
- reciprocity: the capacity of state actions to secure improved performance in return for subsidies or other forms of state support;
- close consultation and coordination between state and business.

However, the nature of state business relations in South Africa is characterized by political power in the hands of the state and capital power in the hand of business. Both the state and business hold their power dearly as a result state business relations have always been filled with contradictions. Moreover, the relationships between the business and the state explain the patterns of South Africa’s economic development. Business remains fragmented along racial identities between older, white established factions and newer, black dependent ones. (Nattrass & Seekings) contend that the former adopted a largely reactive approach to the state, operating within constraints, without trying to challenge those constraints. The latter were required to be more subservient, as long as they were dependent on state patronage (Nattrass & Seekings, 2010).

State business relations in South Africa have been most effective when there is a political or an economic crisis. For example, black business development policy was unexpectedly energized by the political upheavals of the 1976 Soweto uprising. The government introduced a new empowerment policy that recapitalised the Bantu Investment Corporation and increased homeland development subsidies. The policy was supported by white business initiatives including the Urban Foundation and the Small Business Development Corporation.) Both the National Party and its liberation movement enemies saw a black middle class as a deterrent to black radicalism and political unrest (Iheduru 2004, 4-5).

SBRs under President Zuma
President Zuma came into power in 2009 in the midst of the global economic and financial crisis. His predecessor, President Motlanthle in partnership with business and labour had agreed to a Framework for South Africa’s response to the international economic crisis in February of 2009. The framework comprised of the following principles (The Presidency, 2009):

- Protection of low-income workers, the unemployed and the vulnerable groups from the economic shock, and avoidance of the risk of unfairly placing the burden of them.
- Strengthening the capacity of the economy to grow and create decent jobs in the future, protected and supported jobs as far as possible.
- Maintaining the planned high levels of investment in public sector infrastructure and to encourage the private sector to maintain and improve wherever possible their levels of fixed direct investment and continue with corporate social investment programmes.
- Interventions must be timely, tailored and targeted as is appropriate.
- Need for a bold intervention in the form of a broad stimulus package of R787 billion, as signalled in the recent budget that has economic and social components.

In his first State of the Nation Address (SONA), President Zuma reiterated the framework agreement (SONA, 2009).

“We must act now to minimise the impact of this downturn on those most vulnerable. Another important element of our drive to create job opportunities is the Expanded Public Works Programme (EPWP). The initial target of one million jobs has been achieved. The second phase of the programme aims to create about four million job opportunities by 2014. Between now and December 2009, we plan to create about 500 000 job opportunities. While creating an environment for jobs and business opportunities, government recognises that some citizens will continue to require state social assistance. Social grants remain the most effective form of poverty alleviation. As of 31 March 2009, more than 13 million people received social grants, more than 8 million of whom are children. We are mindful of the need to link the social grants to jobs or economic activity in order to encourage self-reliance amongst the able-bodied”.
The New Growth Path, which was introduced in 2009, complemented the Industrial Policy Action Plan in reviving a struggling economy post the global economic and financial crisis. In the social contract presented in the New Growth Path (NGP) the state committed itself to forge a consensus. The state identified sectors that are labour intensive and not susceptible to changes in conditions in South Africa and globally (Economic Development Department, 2011). The NGP presented a policy package that facilitated employment creation through (Economic Development Department):

- A comprehensive drive to enhance both social equity and competitiveness;
- Systemic changes to mobilise domestic investment around activities that can create sustainable employment; and
- Strong social dialogue to focus all stakeholders on encouraging growth in employment-creating activities (Economic Development Department, 2011).

Both the NGP and the IPAP sought to augment the National Industrial Policy Framework (NIPF), which was adopted in 2007. The NIPF had the following core objectives (the dti, 2007):

- Restructuring the economy and reversing the prospect of deindustrialisation;
- Moving to a more value-adding, labour-intensive and environmentally sustainable growth path – especially in globally competitive non-traditional tradable goods and services;
- Shifting the focus of economic activity towards historically disadvantaged people and regions; and
- Contributing towards comprehensive industrial development in Africa (primarily through infrastructure development, increased industrial productive capacity and greater regional integration).

Since 2009, the South African economy has grown at an average growth rate of 2.5 percent. Unemployment has worsened to 26.6 percent, so has inequality and poverty. The South Africa economy has historically been dominated by an interventionist state and big corporations defined by racial identities. The state, in the form of state-owned companies (SOCs) has coexisted with big business in efficient skills development,
capital formation and ultimately higher productivity and income. Unlike in the Asian developmental model,

Spicer (2016) contends that the ousting of President Mbeki after the Polokwane conference in early 2009 signified a new period characterised by significant turbulence and uncertainty in South African SBRs. President Mbeki had built strong SBRs institutions that included the Business Working Group and the International marketing Council where business interacted with the state. The adoption of the Growth, Employment and Redistribution (Gear) in 1996 by the ANC government angered its allies such as the communist party and the trade unions. Embedded in conservative macroeconomic policy that include the privatisation of state assets, lowering the debt to GDP ratio and budget deficit of less that three percent, the policy was well received by financial markets and business and set up a platform for effective state business relation in South Africa. As a result by 2002 gross capital formation grew on average by 16 percent between 2002 and 2006. Between 1994 and 2002, the South African economy grew by 3.2 percent a year as measured by the GDP (Gelb)

Despite the achievements under Mbeki, the South African business is fragmented and characterised by racial identities. The Business Leadership Foundation is an association of South Africa’s largest corporations and major multinational companies that have a significant presence in South Africa. Their membership is driven by a commitment to addressing the challenges of poverty, inequality and unemployment.

The Business Unity South Africa (BUSA) is a confederation of South African chambers of commerce and industry, professional and corporate associations and unisectoral employer’s organizations. The body was the main representative of SA Business, tackling macroeconomic and high level issues affecting it at national and international level. In 2012 the Black Business Council split from Busa arguing that their interests were not well represented by Busa. The Black Business Council (BBC) is the chosen business partner of choice of the state. Its name is a misleading since it is a professional umbrella institution representing the Black Management Forum, the Association of Black Chartered Accountants, the Black Lawyers Association and the
Association of Black Securities and Investment Professionals. After the BBC departure, Busa issued the following statement:

“It therefore remains incorrect and unfortunate that allegations are made that Busa represents white business interests and that, by implication, it is riding roughshod over black business interests. Busa continues with its work and is currently collaborating closely with the government and other social partners in rolling out economic transformation interventions such as the New Growth Path and the National Development Plan”.

Spicer (2016) argues that it was the appointment of a new president for BUSA that triggered a walkout from BUSA by many of the professional associations of black business. However, at the BBC summit in 2011 a resolution was passed suspending its participation at Busa. The BBC intended to engaged Busa on a range of policy, structural and constitutional issues; and the Summit recommended a steering committee led by the presidents of national organizations. The Summit recommended a relaunch of black. http://transformsa.co.za/2011/09/black-businesses-converge-to-form-unified-body/. Spicer (2016) contends that although the state regretted the rupture, but through its funding and other material support was happy to support an exclusively black organisations. The BBC also assumed a higher profile role in the delegations of business people taken on President Zuma’s international travels (Spicer, 2016).

The state through its development finance institution, the National Empowerment Fund funded the BBC in 2012 with a R3 million cheque to grow black economic empowerment. The support was meant to provide an alternative voice to what was perceived by the state as a marginalised group given the history of South Africa. The Department of Trade and Industry (the dti) provided a support amounting to R7 million for similar purposes. Spicer (2016) contends that the government regret of the rupture was insignificant since practically it promoted both funding and technical support of exclusively black organisations. These organisations also assumed a higher profile role in the delegations of business people taken on President Zuma’s international travels according to Spicer (2016).
The Black Business Council was relaunched on 1 March 2012 with a mandate to support historically disadvantaged people and help get them involved in business. Unlike other business formation, the BBC has been from its formation, an organisation of professionals rather than an association of entrepreneurs. The first president of the relaunched BBC, Sandile Zungu articulated its mission as follows:

“The objective is to make sure that black people are first and foremost, the beneficiaries of our efforts”.

The Black Business Council (BBC) has positioned itself as a partner to government to revive the declining manufacturing sector by increasing output, improve competitiveness, create jobs and improve skill levels. In response to the warmth of black business, the state believes that it has found a panacea to rescue the manufacturing sector by supporting black industrialist. The black industrialist policy is wrapped up with a financial package and delivered to black business whom the state believe possess superior animal spirits that would make them succeed where others have failed.

The dti conceptualised black industrialists. According to the dti black industrialists are black people who are involved in the origination, creation, significant ownership, management and operation of industrial enterprises that derive value from the manufacturing of goods and services at a large scale; acting to unlock the productive potential of our country's capital assets for massive employment locally (Department of Trade and Industry, 2015). The core elements of an "industrialist" are:

- Significant influence in an enterprise or industry;
- Control of an enterprise through shareholding;
- Board and executive management control; and
- Production of products (goods and/or services) with significant wider use (Department of Trade and Industry, 2015).

A black industrialist is a black South African who owns and, through significant shareholding, controls an enterprise whose products is significantly used and has significant impact on decent employment and creates broad-based economic
opportunities. The term Black People is a generic term that includes people of African, Coloured and Asiatic origin that are citizens of the Republic of South Africa by birth or naturalisation before 27 April 1994 or would have been entitled to acquire citizenship by naturalisation prior to 27 April 1994 (Department of Trade and Industry, 2015).

The term Economic Transformation is defined by the Strategy for Broad-Based Black Economic Empowerment as transition from an economy that confined wealth creation to a racial minority into one that benefits all citizens; and is characterised by ownership, management and control of factors of production by previously marginalised communities (Parliament of the Republic of South Africa, 2003). The Black Industrialists Development Programme, aims to create more than 100 black industrialists within three years and putting black industrialists at the forefront of South Africa's industrialisation efforts (Department of Trade and Industry, 2015).

The objectives of the Black Industrialist Program (BIS) are to:

- Accelerate the quantitative and qualitative increase and participation of black industrialists in the national economy, selected manufacturing sectors and value chains; as reflected by their contribution to growth, investment, exports and employment; and
- Create multiple and diverse pathways and instruments for black industrialists to enter strategic and targeted manufacturing sectors and value chains (Department of Trade and Industry, 2015).

The following are characteristics of a black industrialist:

- high levels of ownership (>50%);
- dominant black ownership and management control may be considered for projects that are deemed strategic by the dti, but may need to include other shareholders to attract relevant skills, finance and scale-up the investment opportunities;
- exercises control over the business;
- takes personal risk in the business;
• does business in the manufacturing sector with particular reference to IPAP focus areas; and
• makes a long-term commitment to the business and is a medium- to long-term investor

Black people refer to African, Coloured and Indian persons who are natural persons and:

• Are citizens of the Republic of South Africa by birth or descent; or
• Are citizens of the Republic of South Africa by naturalisation before the commencement date of the Constitution of the Republic of South Africa Act of 1993; or
• Became citizens of the Republic of South Africa after the commencement date of the Constitution of the Republic of South Africa Act of 1993, but who, had it not been for the Apartheid policy, would have qualified for naturalisation before then.
• The definition of “black people” now includes South African Chinese people as per the Pretoria High Court ruling on 18 June 2008 (Department of Trade and Industry, 2015).

The key focus areas of the programme will be on the following productive sectors:
• Blue/ocean economy, including vessel building and repair
• Oil and gas
• Clean technology and energy
• Mineral beneficiation
• Aerospace, rail and automotive components
• Industrial Infrastructure
• Information communication technologies
• Agro-processing
• Clothing, textiles/leather and footwear
• Pulp, paper and furniture
• Chemicals, pharmaceuticals and plastics
• Nuclear
• Manufacturing-related logistics
• Designated sectors for localisation
Funding of black industrialists

In 2015 the Industrial Development Corporation (IDC) planned to invest about R23-billion towards black industrialists in support of the dti program. The IDC's funding gives fresh impetus to the expansion of the benefits of transformation in the country. The IDC has supporting black economic empowerment for the past 21 providing a minimum of R28-billion to black-owned businesses, and more than R53-billion for broad-based black economic empowerment (B-BBEE) generally (IDC, 2015).
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