BEE Com.

BLACK ECONOMIC EMPOWERMENT COMMISSION

IN MEMORIUM

This report is in memory of

Tebogo David Motsatse

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PROLOGUE

Here it is then!

The long awaited Black Economic Empowerment Commission Report (BEE). Better late than never…

This is the BEECom's humble contribution to the debate and effort of fundamental transformation in South Africa.

It defines the collective role of the key players in our economy and how they can develop a shared vision for the future of South Africa. The Commission's terms of reference were inter alia:

- Develop a clear and coherent vision and strategy for BEE
- Locate the empowerment project as part and parcel of the transformation of South African Society, and
- Examine ways in which black business can speak with a united voice

We believe we have done this.

The BEECom report presents South Africa with an opportunity to break the cycle of under development and continued marginalisation of the black majority from the main stream economy.

The BEECom believes that an Intergrated National BEE Strategy is intergral to the success of the RDP. At the same time it will launch South Africa on to a course of sustained and even spectacular rates of economic growth.

This strategy will also require a sustained effort to mobilise all South Africans, to arrive at a National Consensus on the challenges of economic transformation.

I extend my deep gratitude to all Commissioners, researchers, advisors, sponsors, suppliers, community leaders and government officals for their participation and contribution in producing this report.

Cyril Ramaphosa
Chairman

A LETTER TO THE BLACK BUSINESS COUNCIL

We, the undersigned, were appointed by you to investigate and report on the following issues:

- to develop a clear and coherent vision and strategy for black economic empowerment;
- to construct a clear and unambiguous definition for black economic empowerment;
- to find a way to integrate the empowerment project into the transformation of South African society;
- to identify the role of black women in the empowerment process;
- to determine the role of black business in the transformation process;
- to report on ways in which the management skills of black people can be developed;
- to explore ways in which black business can speak with a united voice on issues which directly affect them;
- to examine ways in which black business can ensure that its business conduct and ethics remain credible at all times, and
- to come up with practical ways in which small business can be developed.

In order for black people, Government, business and black professionals to spearhead the black economic empowerment agenda, an in-depth understanding of its nature, form, effectiveness and legitimacy as a strategy of transformation, is vital. For this reason, the commission resolved that its recommendations on black economic empowerment should be based on "empirical investigations and research into the systemic, structural and process of empowerment initiatives and their outcomes. This approach should both ensure sound, effective recommendations and generate informed debate and functional knowledge on the requirements for feasible and sustainable empowerment initiatives".

The commission consequently designed the following terms of reference for the study and research undertaken on black economic empowerment:

- an inquiry into the structure and functions of the regulatory and legislative environment aimed at facilitating black economic empowerment within the context of our national economic transformation
- research and evaluation conducted to investigate the nature, forms and outcomes of black economic empowerment in both the public and private sectors
- a detailed investigation into the nature and form of economic empowerment initiatives pertaining specifically to business transactions
- an examination of the trickle-down effects of empowerment initiatives in the private and public domain on the quality of life of ordinary disadvantaged South Africans
- the development of benchmarks and criteria as to what would constitute meaningful and sustainable empowerment initiatives in both private and public domains
- the compilation of pronouncements on the efficacy, long-term consequences and benefit of empowerment initiatives and processes to date
- the formulation, popularisation and implementation of monitoring and evaluation mechanisms against which empowerment initiatives and transactions will be assessed.

The BEECom believes that BEE is an integral part of the South Africas' Growth and Development plan. We the under signed submit this report of our findings to you.

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INTRODUCTION

Origins and Objectives of the Black Economic Empowerment Commission

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 deracialise 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 parastatal institutions will also provide capital for the attainment of BEE objectives. The democratic Government must also introduce tendering out procedures, which facilitate BEE. Special emphasis must also be placed on training, upgrading and real participation in ownership (RDP 4.4.6.3)

The above paragraph from the Reconstruction and Development Programme (RDP) - the country's blueprint for transformation - encapsulates clearly the vision and values of Black Economic Empowerment (BEE). However, seven years after democracy, despite significant achievements by government on many fronts, the vision articulated in the RDP has not been realised.

Most studies suggest there has been virtually no change in the overall inequality and wealth the result is that black people remain in poverty and marginalised from ownership, control and management of economic activities. This crisis is hindering our growth prospects and our competitiveness as a nation.

The idea of a BEE Commission (BEECom) arose out of a resolution taken at the Black Management Forum (BMF) National Conference in Stellenbosch, from 14 to 15 November 1997. The prevailing view at the Conference was that black people should direct and take charge of a new vision for BEE, a process that, until then, had been conceptualised, controlled and driven by the private sector.

"The motivation for the establishment of the commission is that the notion of true empowerment as defined by black people does not exist, nor does a common definition or benchmark which serves as minimum requirement. Many deals are concluded by organisations, including Government structures, that fall far short of recognising the true aspirations of the marginalised black majority all in the name of Black Economic Empowerment." (BMF, Stellenbosch November 1997)

At the conference, it was argued the Commission should address issues such as:

- the lack of a national vision for BEE;
- the failure by Government and black business to provide leadership and a vision for BEE;
- empowerment versus enrichment;
- the empowerment process being driven by white institutions;
- the lack of a coherent definition for BEE;

The BEECom was then formally established in May 1998 under the auspices of the Black Business Council (BBC), an umbrella body representing 11 black business organisations.

The BEECom set its objectives as follows:

- To gain insight into the BEE process through empirical research and to make observations on the pace and results of BEE initiatives during the 1990s.
- To draw conclusions on the obstacles to meaningful participation of black people in the economy.
- To develop a powerful case for an accelerated National BEE Strategy and to make recommendations on policies and instruments required to guide a sustainable strategy.
- To develop benchmarks and guidelines to monitor the implementation of the National BEE Strategy.

The commission then conducted extensive research and embarked on wide ranging consultations. A consultative conference was held on 30 September 2000. The views of these and subsequent discussions with stakeholders were incorporated into the report.

The Definition of BEE

There is often a tendency in South Africa to define BEE narrowly and to equate it with the development of a black capitalist class. The narrow definition focuses on the entry and transaction activities of black people in business, especially what is commonly referred to as BEE investment companies. In other words, it would evaluate the experiences and challenges faced in the establishment of companies such as New Africa Investments Limited (Nail), Real Africa Investments Limited (Rail), and Johnnic. To a lesser extent this approach addresses the experiences of small and medium businesses and the development of skills (within the confines of existing legislative requirements).

The consequence has been an inadequate response to the limited inclusion of black people in economic activities. The growth of the black middle class and the black business strata since 1994 has been far from spectacular. There has been a marginal increase in the number of black managers in the private sector over the past seven years and barely any evidence of black people in controlling positions in capital (with the exception of the public sector, including parastatals).

The broader definition, which is the approach the Commission anchored its research around, argues that the fundamental crisis in our economy is that black people remain excluded from financial and economic resources. BEE must incorporate comprehensive strategies, which are aimed at increasing access to productive assets whilst simultaneously ensuring the productivity of those assets. BEE should therefore seek to promote new opportunities for and increase the levels of participation of black people in the ownership, management and control of economic activities. Strategies should support individual entrepreneurs as well as social and collective capital.

According to this approach, BEE should be viewed within the broad scope of empowerment processes including, amongst others: job creation, rural development, urban renewal, poverty alleviation, land ownership, specific measures to empower black women, skills and management development, education, meaningful ownership, and access to finance for households and for the purpose of conducting business.

BEE must be a people-centred strategy, in word and in deed. BEE must impact on the lives of those purposefully and systematically excluded from the economy. It must influence the life of a woman running a spaza shop in an outlying rural area, a worker in a factory in Germiston and the black manager in the corporate head office in Sandton.

The BEECom believes that BEE is imperative and it must be implemented in a coordinated and integrated manner. For example, accumulation strategies to expand the identified growth sectors will have to go way beyond increasing the size of the current narrow economic base. They must be accompanied by measures to increase access to productive assets for the majority of the population and appropriate support to ensure sustainable use. Our nations competitiveness will not only rest on the extent to which we promote industry, but also on the degree to which we are able to counter inequalities, exacerbated through globalisation, and simultaneously embark on strategies, which enhance the competitiveness of our people.

The commission is therefore proposing a broader definition of BEE against which a workable and sustainable BEE programme can be designed and implemented as part of a new Growth Plan for the economy. This definition has been tested in debate, in consultations and in the media. It now has broad support from our constituency. The BEECom therefore submits the following as the definition of BEE.[1]

It is an integrated and coherent socio-economic process.
It is located within the context of the country's national transformation programme, namely the RDP.
It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens.
It seeks to ensure broader and meaningful participation in the economy by black people to achieve sustainable development and prosperity.

ADDRESSING THE CHALLENGE OF DISEMPOWERMENT

In this report, the BEECom presents a case for South Africa to break the cycle of underdevelopment and continued marginalisation of the majority of its people from the mainstream economy and catapult the country onto a course of sustained rates of economic growth. In making this case, the BEECom believes that the legacies of colonial and apartheid oppression and deliberate disempowerment provide a sufficient moral and political basis to justify an Integrated National BEE Strategy.

The historical evolution of the South African economy has been predicated on the domination, exploitation and marginalisation of the black majority.

"All societies,.... necessarily bear the imprint, the birthmarks of their own past... A penetrating understanding of our country today requires also that we look at its past." Thabo Mbeki, 21 years ago

Apartheid's race and gender oppression was not mere prejudice, but ultimately about using power and control in the interests of a minority white population. In the early colonial period, reliance was placed on the theft of land from black people and the institutionalisation of an economic system that used black people as cheap labour (as "hewers of wood and drawers of water").

The Colonial system introduced the pass laws, hut taxes, influx controls, and a plethora of other oppressive measures that were perfected under Apartheid. Colonialism, white racial power, privileges and wealth were systematically legitimated through the effective propagation of a multitude of racist ideologies.

Gender oppression, which was central to Apartheid, led to widespread abuse of women, both inside and outside the family. Apartheid laws set out limited and impoverished roles for African women. Colonialism in South Africa intensified the gender oppression found in pre-Colonial systems. The combination of Colonial and customary oppression denied women basic social and economic rights in the family and the community. Many women were barred from living in cities, owning land, inheriting, borrowing money or participating in political and social struggles.

In the 1910s Afrikaner corporations like the Nasionale Pers, Sanlam and Santam were launched by mobilising the capital of the relatively wealthy people in mainly the Western Cape. On the strength of nationalistic fever, the first economic Volkskongres (congress) was organised by the Afrikaner Handelsinstituut in 1939.

The coming to power of the National Party (NP) in 1948 signified an intensification of discrimination against blacks. It also brought with it aggressive implementation of Afrikaner empowerment programmes utilising the full might of the State to eradicate white poverty and build support for the Nationalist Government.[2]

Shortly after PW Botha became Prime Minister, a comprehensive new policy agenda was implemented in an attempt to ensure the survival of the white hegemonic order.

Colonial and Apartheid policies lead to significant structural distortions in the economy. These distortions eventually resulted in a crisis in the Apartheid economy, the consequences of which are still with us today.

The crisis in the economy started during the early 1970s, when growth rates deteriorated sharply[3]. From the mid-1970s the South African economy entered a long-term period of secular decline with the average annual growth in real GDP per capita falling to zero between 1970 and 1979 and - 3.4% between 1980 and 1989.

A crisis implies that the system cannot continue to develop along the same path as before. "It must adapt or die," as PW Botha said 20 years ago. SA's crisis is reflected in the high levels of unemployment; highly unequal distribution of income and low levels of growth and investment. There have been a number of explanations for the crisis.

The growing saturation of the white consumer market limited not only sales, but also the ability of the manufacturing sector to benefit from economies of scale. Since an expansion of the black consumer market was not then contemplated, this made more urgent the State's often re-iterated, yet difficult to realise, call for an increase in exports. In terms of this explanation the continued marginalisation of the black majority was, therefore, the cause of the crisis. It acted as a depressant on aggregate demand, which in turn restricted prospects for economic expansion and/or only allowed for a form of growth that reproduced the narrow economic base that continued to marginalise the majority.

It has also been argued that the economy began to experience acute foreign exchange and skilled labour bottlenecks each time production increased. The labour shortages increased wages for skilled workers. The initial response of the Apartheid state was to push for an increase in exports and immigration. Later, there were token reforms to include certain black groups in sham political decision-making structures.[4]

Another view emphasises the source of crisis on the supply-side of the economy - in the inability of South Africa industry to adapt to rising labour costs (resulting from skill shortages and the rise of semi-skilled worker organisations) and rising capital costs (due to continued dependence on imported machinery). International economic turbulence and domestic political instability also contributed to the problem, since low investor confidence due to these factors reduced firms' willingness to invest in order to adapt their operations. A low growth equilibrium was therefore reinforced.[5]

The analysis of the crisis is more than just academic, it is important in terms of the strategies designed to address it. If the crisis was caused by supply-side factors, then the strategy must focus on supply-side responses, in particular on productivity-enhancing policies. An increase in demand without higher productivity simply leads to macroeconomic instability, and is not sustainable as a redistributive or empowerment strategy.[6]

If, then, a redistributive strategy is also intended to resolve the crisis (by increasing growth etc.) it must focus on (i) productive asset redistribution, rather than income redistribution; and (ii) ensure that the asset redistribution leads to productivity improvements, so that there are social returns over and above the private returns.[7]

Both explanations of the crisis – the demand side and the supply-side theories – illustrate the imperative to address the continued marginalisation of the black majority.

To address the crisis the productive capacity of the economy must expand, that is the rate of investment must increase. It is therefore necessary to understand the determinants of productive investment. The BEECom's Integrated National Black Economic Empowerment Strategy emphasises the negative impact of inequality on investment and growth. It argues that SA's growth prospects will increase as we address inequality through access to productive assets and targeted measures to improve the productivity of those assets.[8]

"In developing effective investment and job creating policies, factors other than "economic fundamentals" need to be taken into account. The key determinates of investment can extend beyond the set of core economic influences. In many respects solving the problem of inadequate capital accumulation can be a political problem as well as an economic one. Furthermore, new redistributive strategies - for example, asset based redistribution- could resolve the potential contradictions between encouraging investment and pursuing a more equal distribution of income."
(Heintz page 11, TIPS paper Sept 2000.)

Meeting the Challenge of Disempowerment

South Africa's democratic Government inherited a mismanaged economy designed to serve the needs of a minority of the population and condemn the black majority to a vicious cycle of extreme poverty, unemployment and underdevelopment. Over the past seven years, it has fundamentally transformed the country's political, economic and social landscape. It has entrenched the values of equality and freedom and laid the foundations for the country to chart a new path to economic development for other developing nations to follow.

It stabilised the political environment and entrenched the rights of all citizens after passing the Constitution in 1996. In addition, it passed hundreds of laws aimed at dismantling the Apartheid machinery and achieving the total transformation of society.

The Reconstruction and Development Programme (RDP)[9], adopted by Government in 1994 as a guideline against which the Government programme would be implemented, seeks a leading and enabling role for the state in guiding the economy towards reconstruction.

South Africa's role in the international arena has been asserted through the promotion of the vision of an African Renaissance and a new approach in institutions of global governance that emphasises the need for these institutions to restructure in order to meet the needs of developing countries.

The Government, through the Growth, Employment and Redistribution (Gear) strategy, implemented mechanisms to stabilize the macro-economic environment and to improve confidence in a difficult international context. The budget has been re-orientated to serve the majority and significant gains have been made in the provision of basic social services and social infrastructure to eliminate the Apartheid social deficit.

Industrial policies have been introduced, for example, tariff reductions and the abolition of previous wasteful export incentives brought about far-reaching structural changes in the economy. The policies forced South African producers in many sectors to be more competitive.

Strategies to deregulate certain sectors of the economy, for example telecommunications, broadcasting and gaming, - have been implemented. These strategies attracted local and foreign investment, infrastructure development, new skills and technologies, jobs, and opportunities for black business while increasing levels of choice for consumers.

The advancement of the youth has been identified as a national priority. The Government established a National Youth Commission (NYC)[10] and The South African Youth Council. The Umsobomvu Trust has been launched as a fund to promote youth development and enterpreneurship.

An extensive programme to transform the public service has been embarked upon, this programme is aimed at improving overall public sector efficiencies.[11]

The government has implemented various policies to develop the country's human resources through restructuring the education system and implementing a skills development strategy. The implementation of a national Human Resource Development strategy and a programme to transform the Higher Education system are imminent.

The country's Information and Communications Technology (ICT) infrastructure has been upgraded following the restructuring of Telkom. Strategies to improve innovation, to promote the development of the ICT sector and to restructure the telecommunication sector through managed liberalisation have been designed and will soon be implemented.[12]

Opportunities have been created and institutional support provided for black entrepreneurs and workers through strategies aimed at promoting small, medium, and micro enterprises (SMEs), workplace equity and labour standards.

Laws have been introduced to protect the rights of women in the political, economic and social spheres. A program of action referred to as the National Machinery for the Advancement of Gender Equality, is composed of a variety of structures whose aims are to mainstream gender equality. Structures include the Office for the Status of Women (OSW) and the Commission on Gender Equality (CGE).[13]

Since the early 1990s, the private sector has embarked on a range of BEE initiatives, including ownership strategies and proposals to stimulate economic growth.

During the 1990s the private sector produced a number of proposals on ways to stimulate economic growth and reduce the country's development backlogs. Some of these proposals called for intervention in the economy (in the form of requirements that life insurance and retirement companies should invest a fixed percentage of their cash flows in low-cost housing). The Life Offices Association (LOA) started the Investment Development Unit (IDU) to encourage the industry to invest in socially responsible projects. The project was later discontinued.

In 1993, Sanlam sold 10% of its stake in Metropolitan Life to a black consortium called Methold. Thereafter, the private sector took the initiative by commencing on a period of sustained deal-making, selling stakes in companies, many of them listed on the Johannesburg Securities Exchange (JSE). These BEE ownership initiatives gave impetus to a flurry of activities during 1996 to 1998. The collective approach, suggested in some pre-1994 initiatives, gave way to market driven approaches by individual companies which did not translate into a meaningful transfer of ownership to the black majority.

The 1998 stock market crash exposed BEE funding weaknesses and, eventually, resulted in a virtual drying up of deals and funding. The initial excitement and activity came to a near standstill as funders turned their back on Corporate BEE transactions. This was indicative of the superficial nature of many BEE transactions. Furthermore, the private sector activity took place in an ad hoc manner in the absence of both a comprehensive support framework and guidelines from Government, as well as a coherent response from black business.

Since 1994, the private sector, through its various representative organisations, has participated in tri-partite structures such as the National Economic Development and Labour Council (Nedlac), the Presidential Working Groups and the Millennium Labour Council (MLC). While agreement has yet to be reached, these initiatives have placed the issue of developing a shared vision for growth and empowerment on the national agenda.[14]

In 1998, the private sector participated in the Job Summit and announced that it had committed itself to making a contribution towards development in the form of the Business Trust.[15] This was an important contribution, but nowhere near the scale of initiative required to catapult the country onto a new growth path and substantially eradicate poverty.

Despite the implementation of transformative policies and sound fiscal management by Government, South Africa's economic growth performance remains disappointing. Continued high levels of unemployment and poverty undermine the stability of our new democracy. The country still has one of the most unequal distributions of income in the world. This is a reflection of the extremely low levels of black participation in the economy. Indicators of the current state of the economy include the following:[16]

Since 1994 it is estimated that more than 500,000 formal sector jobs have been lost. The sectors most affected were mining and agriculture, while the number of jobs in manufacturing has stagnated. A recent survey by Stats SA has found that the decline in the traditional, formal sector remains severe, with almost 7 000 jobs lost in the last quarter of 2000. The survey found that employment had declined by 2,5% year-on-year.

A Stats SA survey of a representative sample of 10 000 households in February 2001 found an official unemployment rate of 26,5%. By comparison, the 1999 October Household Survey measured unemployment at 23,3%. The official definition of unemployment excludes those who have not actively looked for work in the four weeks before the survey. According to an expanded definition of unemployed, 47,8% of Africans and 54% of African women are estimated to be unemployed. Furthermore, it is estimated that only 35% of the economically active population is employed in the formal, non-agricultural sectors of the economy.

Across all sectors women find themselves in positions associated with stereotyped gender roles. Women (who constitute approximately 54% of the population) account for a third of the labour force, with the majority engaged in low-wage domestic labour, informal survivalist trading, subsistence agriculture or low skilled labour, primarily in the services, retail and manufacturing sectors. Only 30% of African women participate in the formal economy.[17]

65% of Africans live in conditions of abject poverty. The gap between rich and poor has remained relatively constant over the past three decades. South Africa now ranks third in the world in terms of levels of inequality.

Only 12% of Africans have a matriculation certificate or a tertiary qualification. About 24% of Africans over the age of 20 have had no formal schooling at all.

Black-controlled companies accounted for about 1,7% of the JSE's market capitalisation in August 2000.[18]

We run the risk of social unrest that has plagued other countries where previously disadvantaged people have seen no concrete changes in their lives even after independence and the balance of economic power continued to remain in the hands of former oppressors or minority groups. If we do not want to suffer a similar fate as Brazil, Indonesia and Zimbabwe where there have been social upheavals in recent times then transform we must. (Department of Tourism discussion paper, 2000)

Racism remains ingrained across all sectors of South African society. It is a structural impediment that continues to distort the efficient functioning of markets in South Africa and reinforces the marginalisation of the black majority from viable economic participation.

The country cannot therefore sustain high levels of economic growth in the absence of deliberate measures by the State to facilitate the meaningful participation of black people in the economy. The state has an integral role to play, in the policy and regulatory environment and in the provision of services itself.

BEECom research shows that both the public and private sector have over the past seven years designed various strategies aimed at achieving BEE. There has however been little coordination of policies and programmes. A consequent lack of clarity has created much uncertainty amongst both local and foreign capital. These strategies have also had limited impact on inequalities.

Left alone, markets tend to reinforce existing distributions of incomes and assets. This is especially so in the context of globalisation. This is unacceptable in a country such as SA where the market mechanism deliberately distorted markets to allocate incomes and assets on non-price criteria such as race. Given this legacy of deliberate disempowerment the state must play an unapologetic and interventionist role to reduce inequalities. The trend in a globalising world is towards uneven development and marginalisation of vulnerable groups. The world economy is characterised by a reduction in the activities of the state, less policy autonomy and the rapid mobility of human and financial capital. These trends are serious and persistent and have to be explicitly countered.[19]

The state should therefore operate in an intelligent and responsive manner to lead the growth and developmental process. The need for a state to reshape and direct the course of economic development to suit local conditions must be emphasised. In fact, the state is not a helpless entity in relation to capital it has direct and indirect leverage of the employment of capital and it must use this leverage in order that we build a globally competitive nation.[20]

Most of the objective difficulties facing the State can be changed, but they require an accurate reading of the balance of forces that will define the tactics to be adopted at each stage of the transformation. Objective circumstances are not carved in stone. Any balance of forces is dynamic, influenced by changing endogenous and exogenous factors. that's the challenge we face. (J. Netshitenzhe at the Castells Lectures in Gauteng, July 2000)

The challenge confronting South Africa therefore dictates a fundamental shift in approach from all sectors of society, government, established business, emerging black business and labour, to commit to contributing towards the goals encapsulated in the RDP. This strategy will require a sustained and inclusive effort to mobilise all South Africans to arrive at a national consensus on the challenges of economic transformation and the roles and obligations of all stakeholders in helping achieve these objectives.

The private sector has the responsibility to actively aim to achieve increased levels of black participation in the ownership, management and control of economic activities. The financial sector should make a commitment to transform its activities and it should explore suggestions to increase the level of investment in areas of national priority. The private sector must also take into account private and social returns and factor in longer term and strategic considerations when making investment decisions.

"The wider, and critical struggle of our era, (is) to secure an acceptance and actualisation of the proposition that while capital might be owned privately, there must be an institutionalised system of social accountability for the owners of capital. In this context, it may very well be that the success of our strategy for BEE will address not only the objective of the creation of a non-racial South Africa. It might also be relevant to the creation of the system according to which the owners of capital would, willingly, understand and accept the idea that business success can no longer be measured solely by reference to profit. According to this thesis to which we must subscribe, success must also be measured with reference to a system of social accountability for capital, which reflects its impact both on human existence and the quality of that existence" Nelson Mandela 1997, ANC National Conference Mafikeng Northwest Province.

The responsibility of governments is to substantially increase the efficiency of the public sector, including SOEs to facilitate higher levels of fixed investment and delivery of services. Strong political will, commitment and leadership are required to build strong institutions with the capacity to implement effectively. It is also the responsibility of government to ensure a uniform and consistent approach in the policy arena, with clear guidelines that can be followed by all stakeholders.

The challenge facing black business is to become a dynamic force for change mobilising other sectors of society behind a developmental agenda. Black business has a responsibility to play an activist role to champion transformation efforts in the economy as a whole and within their professions and places of work.

" Black people must use the resources they are beginning to command to promote programmes aimed at taking the majority out of poverty and onto a developmental trajectory. If poverty and disease decimate the majority SA will continue as an enclave economy its ability to attract investment will diminish because SA will have no skilled labour or consumers". (Saki Macozoma, Financial Mail supplement, December 2000)

All business people should therefore find ways of subordinating short terms gains to the national growth agenda and build support for a broad understanding of BEE in business.

The BEECom calls upon all black business people to play a key role in the transformation of the economy in the following manner:

- Encourage investments in areas of national priority and job creation by mobilising support for this objective within the boards of pension and provident funds;
- Investing in skills development and growing companies;
- Business organisations should work towards unified business structures provided there is a measurable commitment to implement BEE and to deliver services to members;
- Provide services to members (of business organisations) such as: management training, small business support and the marketing of Government programmes and incentives;
- Promote compliance with the full spectrum of labour relations policies and legislation and encourage members to go beyond the minimum requirements of the law;
- Promote compliance with principles of corporate governance and encourage members to go beyond the minimum requirements of the law;
- Promote the development of new forms of ownership, including ESOPs and retail schemes, affirmative procurement practices and support for small businesses (including community and worker-owned businesses);
- Always include women and women-owned businesses in the economy;
- Empower local communities through procurement and programmes in communities, focused on infrastructure provision and job creation, and as far as possible, encourage the use of local content;

The BEECom therefore proposes the adoption of an Integrated National BEE Strategy comprising a co-ordinated, simplified and streamlined set of guidelines and regulations that provide clear targets and demarcate roles and obligations pertaining to the private sector, public sector and civil society over a period of 10 years or more. The Strategy should incorporate the supporting institutional arrangements and an oversight body, namely the National Empowerment Commission (NEC) which would report to the Presidency and to the relevant cabinet clusters.

The key components of the Integrated National BEE Strategy include:

- An Investment for Growth Accord between business, labour and Government aimed at reaching agreement on a concrete strategy to lift the country's levels of fixed investment and economic growth.
- The design and implementation of an Integrated Human Resources Development (HRD) Strategy.
- The implementation of the Integrated Sustainable Rural Development Strategy and the creation of an agency to streamline and co-ordinate funding and other initiatives in rural areas, including land reform.
- A National Procurement Agency located within the Department of Trade and Industry aimed at transforming the public and private sector procurement environment.
- A National Black Economic Empowerment Act - Enabling Legislation aimed at creating uniformity in policy and establishing the necessary institutional support and instruments with which to drive the BEE strategy. The Act should define BEE and set uniform guidelines that will facilitate deracialisation of economic activities in the public and private sectors.
- An Empowerment Framework for Public Sector Restructuring that outlines empowerment principles to be followed.
- An enabling framework aimed at improving access to finance for households and businesses through disclosure and reporting requirements in the banking sector and targets to encourage service delivery and the enhancement of existing State capacity in the Post Bank.
- Recommendations on the streamlining and co-ordination of public sector funding initiatives through a National Empowerment Funding Agency (Nefa).
- Recommendations on building the capacity of business structures especially black business structures.
- The strategy incorporates national targets to be met by the stakeholders. These are discussed in the following chapters.

The BEECom proposes that the following targets to be achieved within a period of ten years guide the Integrated National BEE Strategy. (With black women accounting for 35% of all the targets below and disabled people 5%). These targets should be achieved in an incremental manner, which is measurable and annually reviewable.

At least 30% of productive land should be in black hands, including individuals and collective enterprises.

Black equity participation in each sector of the economy should be increased to at least 25% including individuals and collective enterprises. Equity participation refers to ownership measured in terms of economic interest in each sector over the period specified. Where equity is near to 25% continued efforts must be made to increase the equity by an additional 25%.

Black people (including businesses and collective enterprises) should hold at least 25% of the shares of companies listed on the JSE.

At least 40% of non-executive and executive directors of companies listed on the JSE should be black.

At least 50% of SOE and Government procurement _ at national, provincial and local levels _ should go to black companies and collective enterprises as defined in this document.

At least 30% of these companies should be black-owned SMEs.

At least 30% of private sector procurement (for companies with more than 50 employees) should be to black-owned companies, including SMEs and collective enterprises.

At least 40% of senior and executive management in private sector companies (with more than 50 employees) should be black.

The National HRD strategy should ensure that black people comprise at least 40% of the number of people in the professions and in professional training.

The National HRD Strategy should ensure that the country's Higher Education & Training (HET) system should increase the participation rate to 20%.

At least 50% of borrowers (by value) on the loan books of National Development Finance Institutions should be black-owned companies and collective enterprises.

In the event of restructuring, at least 30% of the equity of restructured SOEs should be owned by black companies and collective enterprises.

At least 30% of long-term contracts and concessions (PPPs) within the public sector should incorporate black-owned companies and collective enterprises up front.

At least 40% of Government incentives to the private sector should go to black companies

The banking sector and Government should agree on targets with respect to accessibility of financial services (Community Reinvestment) that should ensure an increase in advances to black entrepreneurs, SMEs and black households in rural and urban areas.

This Integrated National BEE Strategy provides a framework for economic growth with black participation as a fundamental pillar. The recommendations contained within this document need to form part of an Economic Growth and Development Plan for the 21st Century. Much effort is required to incorporate the work done across all spheres of Government into a coherent plan for the economy. We therefore recommend that an appropriate process be agreed upon to take forward the development of an integrated plan.

INVESTMENT FOR GROWTH - A NEW PATH TO DEVELOPMENT

Problem Statement

Seven years after South Africa's first democratic elections, the country is still experiencing low levels of economic growth. This has resulted in huge development backlogs and rising levels of unemployment and poverty. The job losses have reduced black participation in the economy and increased levels of inequality.

The country's rural areas are trapped in a cycle of underdevelopment, crushing poverty and dismal levels of new investment in social, physical and human capital, with black women most acutely affected by rural conditions. The HIV/AIDS epidemic threatens to arrest further economic progress.

Despite Government success in stabilising the economy and creating an investor-friendly environment, private sector confidence remains low largely because of the continued poor levels of economic growth. In turn, low private sector investment in expansion, jobs, human resource development, small business and infrastructure reinforces the low growth cycle.

The lack of demand and a viable domestic market has resulted in many companies pursuing opportunities offshore. However, the imperative of globalisation requires the development of world-class and competitive local industries. This is not possible in the current environment unless South African companies make significant investments in human capital and infrastructure. Furthermore, increased competition from imports and foreign investors in South Africa challenges local firms to continually improve productivity.

The attention given to promoting foreign direct investment by the democratic Government is aimed at attracting capital inflows, up-to-date technology, advanced management and access to markets. This should be maintained. As the bulk of productive investment is to come from domestic sources, South Africans should be perceived to have the confidence to invest in their own country.

As the macro-economic environment for the implementation of the next stage of the RDP has been achieved, the imperative is to agree on targeted measures to increase the country's growth rate. This requires strategies which address the association between the lack of investment and growth and continued inequality.

The other engine of growth will be an Integrated Manufacturing Strategy that strives to create a significant number of world-class producers who can export a substantial amount of their products and services to world markets and to find new industries to replace declining ones. However, the BEECom believes that this Strategy cannot achieve its objectives without BEE as a fundamental pillar.

The challenge for policy makers is to chart a new path to development and implement creative strategies in a context in which perceptions of the owners of capital – about race, the African continent and alternative theories of development – dictate the manner in which investors, domestic and foreign, view the stability of governments and their economic policies.

The time has come for decisive action from all stakeholders to play their part in breaking this low growth cycle. There is a need for concrete strategies to increase fixed investment to 25% of GDP (from the current 15%) in order to raise our economic growth rate towards the 6% level. These concrete strategies require measures to steer financial flows towards productive investment.

Findings

In order to address the challenges facing the country the key stakeholders need to act to steer investments towards areas of national priority as has been done by governments throughout the world.

The Apartheid Government used the State-owned Industrial Development Corporation (IDC) to set up Sasol at a time when the strategic objective was to reduce dependence on oil imports during the sanctions era.

Governments, particularly in East Asia and Japan, have created Development Finance Institutions (DFIs) – in response to market failures in the financial sector – to direct funds towards priority areas. The Asian Tigers have successfully steered private financial flows towards priority areas such as export industries. In Malaysia, Bank Negarra – the country's Central Bank – required banking institutions to make 20% of the value of their loan books available to indigenous Bumiputra entrepreneurs.

During the early 1990s, there were continued calls for the financial sector to make a financial contribution towards the rebuilding of a post-apartheid South Africa. These calls emanated from the ANC-led Alliance via the RDP[21], Cosatu's Social Equity and Job Creation: The key to a Stable Future report, the September Commission documents and in subsequent submissions to the Job Summit.

Sections of the private sector have also supported such calls: An example is the Nedcor-Old Mutual Scenarios. The US-based Rockefeller Foundation talked of a reconstruction fund, while a prominent merchant bank investigated an RDP Bond during the early 1990s.

The country needs to develop a socially responsible fund management sector. The United States is an example of a country where civil society, consumer and trustee activism has resulted in fund managers incorporating social and ethical criteria into their investment criteria, contributing towards the growth of a dynamic sector.

Socially Responsible (SR) Investing describes an approach to investing that integrates personal values and societal concerns into the investment decision-making process. In the United States, a rapid growth rate was experienced between 1997 and 1999, reaching the $2,16 trillion mark (more than one out of every eight dollars under management in the United States was part of a responsibly invested portfolio). The competitive performance of socially-screened mutual funds, the continuing divestment of tobacco holdings and the increased availability of social investment options in retirement plans are cited as key drivers of the growth of socially responsible investing over the past few years.

In South Africa SR funds are relatively new. These funds were the private sector's response to the possibility of Government interventions in the financial sector. The first fund to be formed was Southern Life's Futuregrowth in November 1993 and others soon followed. There are now over 20 funds investing in BEE, property, electrification and infrastructure.

Recommendations

3.1 The BEECom proposes that stakeholders should reach consensus on an Investment for Growth Accord highlighting their participation in Targeted Development Investment Strategy (TDI) thereby substantially increasing the levels of fixed investments and elevating the economy's growth path. TDIs should not be exclusively directed at black business development. The bulk should include social and economic infrastructure and investments in human capital. This strategy would involve each stakeholder making the following commitments:

3.1.1 Government's commitment could have three components:

- After consultations with labour, the Government Employees Pension Fund (GEPF) should invest 10% of its assets in productive investments in areas of national priority over an adjustment period of five to seven years. (The GEPF has already allocated 3% to the Isibaya Fund with a mandate to invest in BEE.)
- Government should invest a portion of privatisation proceeds in an agency dedicated towards rural development. (Already, Government has foregone privatisation revenues to start the NEF).
- Government should implement its Restructuring of State assets programme to increase levels of foreign and domestic direct investment and to upgrade infrastructure provision. The State should commit to diverting an increasing portion of the Budget towards capital expenditure and development

3.1.2 Business's commitment could have three components:

- The financial sector, particularly life and retirement companies, should divert a specified percentage of its total assets towards productive investments in areas of national priority over an adjustment period of five to seven years. The percentage should not be so low that it fails to stimulate new investments. The BEECom recommends a minimum of 10%.
- The private sector should make a concrete commitment to rural development and other infrastructural and economic initiatives in rural areas and anchor projects aimed at attracting investments into Industrial Development Zones (IDZs).
- The banking sector should set targets for and disclose its investments in underdeveloped areas in terms of the BEECom's proposed Community Reinvestment requirements.

3.1.3 Labour's commitment could have the following components:

- The BEECom calls on the trade union movement to become active participants in designing the Accord. A conference with all relevant parties should be held as soon as possible to discuss the Accord.
- With the considerable influence the trade union movement has over the allocation of the savings made by its members in life assurance and retirement funds, the movement should commit itself to expedite the design of investment guidelines for union trustees.
- A concerted effort must be made to launch a trade union-driven training programme for trustees to encourage responsible, prudent decision-making, that also achieves social objectives.
- A policy framework could be developed to enable workers to exercise more control over sector-based retirement funds and use them to increase black participation in the economy and make investments in infrastructure. Trade unions could explore the feasibility of using joint employer/employee pension contributions to increase worker ownership in specific companies and industries.

3.2 The strategy will require the design of specific vehicles and projects towards which investments can be directed. A concrete programme needs to be agreed to, which sets up guidelines and defines qualifying vehicles for investment.

3.3 The strategy would be guided by the principles of joint public-private partnerships and the use of existing implementation capacity within the private sector – for example, the Business Trust, accredited fund management companies, and organisations such as the IDT, that have acquired expertise in RDP-related investments.

3.4 The BEE Commission believes an Investment for Growth Accord would kick-start the economy if it receives the support of all stakeholders. A comprehensive programme could quantify the value of new Investments – and their additional contribution to GDP - over the duration of the Accord. After a few years, the additional growth in the economy would draw new investment, creating a virtuous cycle of economic growth.

- Such an Accord would increase black participation in the economy because new investments in areas of national priority would create formal sector jobs, stimulate rural economies, and promote the development of SMEs.
- The BEE Commission is of the view that the Investment for Growth Accord should focus on identifying projects that will enhance fixed investment and economic growth in the same way that the Job Summit concentrated on identifying projects that would create employment opportunities.

AN INTEGRATED HRD STRATEGY

Problem Statement

Colonial and Apartheid policies had a devastating impact on the development of black human capital. The scars caused by this criminal neglect of the country's most important economic resource - its people – will haunt us for many years to come and put a ceiling on the potential growth rate.

Of all the crimes against humanity committed under Apartheid, the denial of education and the deliberate enforcement of an inferior education rank amongst the world's most evil abuses of human rights this century.

Research shows that: 24, 3% of Africans are illiterate and 43% functionally illiterate; 3% of Africans over the age of 20 have a tertiary qualification; 12,1% of Africans over the age of 20 have a matric qualification. The proportion of matriculants passing maths and science declined during the 80s with less than 2% of African matriculants passing mathematics in the 1990s and 0.02% passing both mathematics and science.

South Africa's democratic Government inherited a Further Education and Training (FET) and Higher Education and Training (HET) system that was "fragmented, unco-ordinated, supply-driven, and insufficiently responsive to national priorities." As a result, the country's education, management and skills levels continue to reflect Apartheid era patterns. This inequitable distribution of skills remains a huge impediment to equitable growth. This is a fundamental weakness of our economy that has been repeatedly acknowledged by international competitiveness surveys and rating agencies.

The crisis the country faces is that it does not have the human capital required to attain sustained, high levels of economic growth at a time when competitiveness is no longer based on mass production of standardised goods, cheap raw material inputs and low-skill, low-wage labour.

The new competitive environment ushered in by globalisation has brought new education and training demands – for example, the need for a highly skilled labour force able to employ new technologies and add value to goods and services through continuous innovation. Enterprises require entire labour forces that are sufficiently skilled to adapt rapidly to changes in product markets and to cope with unforeseen circumstances.[22]

The challenge is to design and implement an Integrated Human Resources Development (HRD) strategy that enables the country to plan its HRD requirements for the 21st century in the face of formidable obstacles such as the HIV/AIDS pandemic that threatens to derail current attempts to substantially increase the country's human capital.

Projections of the path of the epidemic suggest that the overall prevalence of HIV will reach almost 25% in the general population by 2010. By that year, life expectancy is expected to fall from the 68,2 years anticipated in the absence of the AIDS epidemic to 48 years.

Findings

The development of the country's human resources, which includes increasing access to education and training at all levels for black people, has been a priority for Government. The Government has introduced a number of laws and policies to reform the labour market and reverse the Apartheid legacy.[23]

The South African Schools Act aims to redress past injustices in educational provision and provide an education of progressively high quality for all learners. It has created a national and non-racial education system, introduced compulsory school attendance for children aged 7 to 15, transformed the curriculum to one based on Outcomes-Based Education (OBE),started a national campaign to restore the culture of learning, teaching and service and implemented an Adult Learning Plan that includes the establishment of a national literacy agency.

The FET system has been transformed to enable learners to access post-compulsory education and training in various settings linked to social and economic needs and opportunities. In addition, the country's 152 technical colleges have been incorporated within the FET system.[24]

The HET system has been modified with a view towards creating a single, co-ordinated system to overcome the fragmentation of provision and the inequities of access and infrastructure. The Department of Education (DoE) has introduced a number of policies and instruments to steer the HET system to meet national priorities.

All of the DoE policy texts argue that a new regulatory framework is needed in both FET and HET that will co-ordinate each band as a single coherent whole, applying uniform norms and procedures with sufficient flexibility to allow for diversity in addressing the multiple needs of highly differentiated learner constituencies.

The Department of Labour (DoL) has introduced a more co-ordinated approach to national skills development.

The Skills Development Act of November 1998 and the Skills Development Levies Act of February 1999, have created a new institutional and financial framework for the co-ordination, planning and incentivising of training. These include the National Skills Authority (NSA), approximately 30 Sector Education and Training Authorities (SETAs), a new funding regime, and lastly, a Skills Development Planning Unit within the Department of Labour[25]. A national (not industry-based) levy-grant system based on a 1% tax on payroll, with a 80/20 % share allocation. 80% of total levy revenue will be re-allocated back to the sectors via grants to enterprises that invest in the training of their employees. 20% of total revenues collected will be retained by the state to form a National Skills Fund (NSF) to be used for strategic priorities identified by the Government and the NSA.[26]

The South African Qualifications Authority (SAQA) Act facilitates the development and registration of national qualifications and standards (which are outcomes-based), as well as the establishment of the relevant quality assurance bodies. This Act allows for the appointment of an Authority that is responsible for the development of the National Qualifications Framework (NQF). The Authority is accountable to both the Ministers of Education and Labour. This Act is particularly important to the youth in that it provides various means of gaining access to learning institutions. It also paves the way for greater portability across sectors of the economy and a higher level of articulation between institutions of learning. It is thus central to attaining the broader goal of lifelong learning.

An Employment Equity Act was implemented to address racial and gender discrimination that can prevent black people and women from accessing on-the-job training required to perform in high-skill occupations in the workplace.[27]

Despite Government efforts to transform the country's education and training system, the entire system has low throughput rates. The country's HET system is producing too few graduates to meet the increased demand for skilled professionals.[28]

The country's schooling system is not producing enough people to enter the HET system. The number of candidates obtaining full matric exemption has declined from 89 000 in 1994 to 69 000 in 1998. It increased marginally in the year 2000.

The number of candidates leaving school with higher grade mathematics passes (20 250 in 1998) and higher grade physical science passes (22 000) is barely sufficient to meet an annual inflow of 30 000 students into programmes which emphasise mathematics and physical science.

As a result, head count student enrolments to the country's universities and technikons levelled off between 1996 and 1998 and declined by 7% (41 000) to 564 000 in 1999 compared to 605 000 in 1998. DoE projections show that head count enrolments could fall to 520 000 in 2002.

Furthermore, the outputs from the country's HET system have dropped over the past few years. Most outputs from the HET system are qualified in humanities with few blacks qualifying in fields such as science, technology, business and engineering.

In 1999, 15% of all students (at universities and technikons) were following teacher training programmes, 35% were in humanities, 25% were in business and management studies and the remaining 25% were enrolled in life and physical sciences, engineering, computer science, health sciences and applied technology.

Large proportions of African students enrolled in 1999 were in distance education programmes, most of which were humanities and teacher upgrades.

Gender equity improved between 1993 and 1999 from 43% to 52%. However, female students are clustered in humanities and teaching.

The average annual increase in university graduates (between 1995 and 1998) was just 2,2%. In 1998, there were 17 800 African graduates compared with 33 400 whites. Graduation trends between 1991 and 1998 reveal wide racial disparities. The proportion of black graduates was:

- 2% in accountancy
- 9% in medicine and engineering
- 12% in natural sciences
- 13% in law
- 20% in social sciences

The country's institutions of higher education continue to display apartheid era staffing patterns.

During 1993 – 1998, the overall proportion of African academics increased from 7% to 12%. At technikons, the proportion increased from 2% to 14%. Academic staff at historically white universities remain overwhelmingly white, especially at the historically Afrikaans universities where black academics constituted fewer than 3% of the total in 1998. At historically white English universities the proportion of African academics grew from 4% in 1993 to 7% in 1998. The proportion of African academics at historically white technikons increased from 1% in 1993 to 6% in 1998. White male academics dominate the senior and middle ranks, making up 90% of all professors, 78% of associate professors and 67% of senior lecturers.

The private sector has a critical role to play in enhancing the country's education and training levels. The private sector's contribution towards Human Resource Development (HRD) however, is alarmingly low.

The country's largest 220 firms spent R725m on Corporate Social Investment (excluding sponsorships) during 1997/98 with 44% (R320m) of the figure spent on investments in education.

A survey conducted by the DTI showed that the mean level of expenditure on training is well below 2% of asset value.[29]

The private sector, through the Business Trust, is investing in the re-orientation and re-equipping of the inherited technical college system, in partnership with the education departments, as part of the implementation program for FET.

There are few black people with the skills required to grow the economy. The number of skilled black people showed a marginal increase between 1997 and 1999.

Over the next few years, most jobs will be created at the professional level. The highest rate of growth is expected in business services (including information technology) and banking. This suggests the need to develop black skills in these sectors.

Currently, BEECom research shows that there are dismally low levels of black participation in the professions:[30]

- 99% of certificated engineers, 96% of professional engineers, 94% of professional technologists and 94% of engineering technicians are white males who account for only 8% of the Economically Active Population (EAP).

- The South African Medical and Dental Practitioners (SAMDP) says that around 15% of the total number of medical practitioners are African. Of this figure, 30% are estimated to be African women. The SAMDP estimates that around 500 out of the total number of dentists (4500) practising in the country are African.[31]

Continued low levels of black participation in private sector management structures reflects the limited efforts to transform over the past few years.

Table 1: National Management Profile 1999

National Management Profile						
	African	Asian	Coloured	White	Female	Male
1997	5%	3%	3%	89%	13%	87%
1998	6%	4%	3%	87%	16%	84%
1999	7%	4%	4%	84%	17%	83%

A breakdown in the composition of management shows that the percentage of Black people in management has increased marginally over the past few years. Overall black management accounted for only 15% of total management. Women represent 10% of all senior management and 25% of junior to middle managers.

A Commission on Gender Equality (CGE) survey found that:

- Male managers have twice as many subordinates as female managers
- For every male earning less than R60 000 a year there are eight women.
- Twice as many men compared to women earned more than R100 000 as year.
- The survey also found that out of the 103 companies, there were two African females in non-executive director positions; three executive directors; six senior executive managers; three senior managers; 5 middle managers; seven junior middle managers and eight assistant managers and senior supervisory staff.

All sectors of the economy reflect poor performance in so far as black participation in management structures is concerned, with the advertising, banking, mining, research and professional sectors showing the least integration.

Table 2: Management Profiles by Sector 1999

Management Profiles by Sector 1999						
SECTOR NAME	African	Asian	Coloured	White	Female	Male
ADVERTISING	3%	1%	2%	95%	53%	47%
BANKING	4%	3%	2%	91%	24%	76%
BUILDING AND CONSTRUCTION	5%	6%	3%	86%	8%	92%
COMMUNICATION	16%	6%	6%	73%	14%	86%
FINANCIAL SERVICES	5%	4%	5%	86%	26%	74%
FINANCIAL SERVICES FIELD STAFF	18%	6%	3%	74%	3%	97%
FMCG	10%	6%	11%	74%	16%	84%
INDUSTRIAL	10%	5%	2%	82%	10%	90%
MEDIA	8%	3%	3%	86%	25%	75%
MINING	4%	1%	1%	94%	5%	95%
MOTOR	4%	5%	4%	87%	7%	93%
OIL	9%	8%	13%	70%	12%	88%
PAPER & PACKAGING	8%	6%	4%	81%	10%	90%
RESEARCH & PROFESSIONAL	5%	3%	2%	90%	21%	79%
RETAIL	9%	7%	14%	71%	32%	68%
SERVICE & HEAD OFFICE	6%	4%	2%	88%	18%	82%
TRANSPORT	8%	5%	3%	84%	12%	88%
ALL INDUSTRY	7%	4%	4%	84%	17%	83%

The Information and Communication Technology sector is playing a key part in changing the nature of South African business practice by enhancing skills requirements. Consequently, the Government has begun to design and implement an ICT strategy.

New developments in ICT necessitate investment in new technologies and changes in employment patterns and requirements. The DTI has embarked on a number of programmes aimed at enhancing the ICT sector and integrating the development of ICT skills and technologies into growth strategies for other sectors.

The SAITIS project located in DTI is aimed at scoping, designing and implementing an integrated IT strategy. In addition, the formation of a ‘Technology Transfer Agency’, the 'Technology and Human Resources for Industry Programme' (THRIP), 'Support Programme for Industrial Innovation' (SPII) and the 'Partnership in Industrial Innovation' (PII) will provide assistance to enterprises in innovation.

The DTI offers funding to SMEs for 'Feasibility Support Studies' (FSS) regarding possible innovation and technological adaptation. The Innovation Hub has been established by the Centre for Scientific and Industrial Research (CSIR) and the Gauteng government as an initiative which is aimed at promoting innovation through providing integrated support for new businesses in an incubator environment.[32]

A considerable amount of work needs to be done to ensure education and ICT Strategies are integrated.[33]

- Approximately 50% of the country’s schools have electricity, while 75% have running water.
- Approximately 7,5% of South African schools have adequate telephone lines, electricity and computers to facilitate the use of ICT in schools.
- The vast majority of schools with computer facilities are urban-based and predominantly white.
- Figures from the schools register of needs (1996) indicate that of 27 066 schools countrywide, 2 241 have computers totalling.
- 843 between them, and more than 90% of schools do not have access to computers.
- Most schools use ICT for administration management purposes, and not to support learning initiatives.

The tourism sector has been identified as a key growth sector for our economy. It is therefore imperative to build black skills in the industry.

Many initiatives which are aimed at stimulating the tourism sector and its employment potential are currently underway. The Business Trust, for example, is a big business forum which arose out of the Job Summit of October 1998, and has made a decision to invest R1 billion in the tourism sector over the next five years.

Furthermore, the Department of Environmental Affairs and Tourism (DEAT) has identified 19 Priority Areas for Tourism Infrastructure Investment (PATIIs). These PATIIs will form the basis of product development and skills enhancement.[34]

The Tourism and Hospitality Education and Training Authority (THETA) is devising a National Training Strategy for accreditation, the setting of standards and the disbursement of levies. Through the establishment of the Business Trust, the DEAT, together with the Hospitality Industries Training Board (HITB) entered into a partnership to develop learnerships as a job creation project. Most of the learnerships target students and unemployed youth, aiming to improve their employability in the tourism sector through a combination of structured learning and structured workplace experience. More recently, the Business Trust has agreed to facilitate 3000 memberships.

Recommendations

4.1 The BEECom believes that an integrated National HRD Strategy needs to be designed and implemented urgently.

HRD is most often used narrowly to describe matters to do with personnel management. However, it entails more than 'personnel management' or 'education and training' (ET). It is a cross-sectoral concept which seeks to incorporate the education and training pipeline which best meets the needs of our countries economy in order to build globally competitive human capital.[35]

The HRD Strategy should incorporate the full spectrum of learning including primary schools, higher education, adult basic education and training, life long learning, learnerships for the youth, SME skills development and on the job training in the public and private sector.

4.1.1 The feasibility of establishing a review body or advisory panel for long-term oversight and effective consultation should be considered.

A "Champion" – should be appointed to oversee the design, co-ordination and formulation of policies, fulfil an advocacy role in the public and private sectors and report on the stakeholder responses.

4.1.2 The first step in the design of a HRD Strategy is the acquisition of detailed quantitative and qualitative information on education and training, the labour market, industrial growth and employment trends. Once a comprehensive, viable management information database has been established, medium to long-term cross-sectoral planning can commence.[36]

4.1.3 The second is to develop coherence and cross-sectoral linkages across the education and training, labour market, industrial and employment divides. Policy effectiveness must be underpinned by a strategy of co-ordination and planning.

For example, the industrial policies (within the Department of Trade and Industry) must be communicated to the various supply-side initiatives (within the Departments of Education, Labour, Communications and Arts, Culture, Science and Technology), giving details about the growth points in the economy and their requirements over the next few years.

4.2 The BEECom recommends that Government introduce:[37]

- Measures to ensure that the HET system substantially increases its output of black graduates, especially in the fields of science, information technology, business and engineering. Incentives and penalties need to be employed to steer the system towards this goal.
- Clear output targets for each of the country's 36 universities and technikons. These targets will be set according to the requirements of the National HRD Strategy.
- Penalties to be imposed on those institutions that fail to meet targets. These penalties will be linked to the current subsidy formula. Financial incentives will be awarded to those institutions that meet targets.
- Incentive schemes for the HET system to enter into creative partnerships with secondary schools. For example, all institutions should use their infrastructure to design innovative programmes to help upgrade the quality of teaching for students in grades 10 – 12, thereby improving matriculation pass rates
- Programmes designed to promote entrepreneurship. The programmes should incorporate entrepreneurship into school and higher education curricula, SETA training initiatives and DTI enterprise development strategies.

4.3 Government should introduce clear targets to be achieved by tertiary institutions in respect of transforming staff profiles.

Institutions should submit reports (in their three-year plans) to the Minister of Education, giving details on how they intend to achieve these targets. Penalties linked to the current subsidy formula, should be imposed on those institutions that fail to achieve targets. Incentives will be given to those institutions that do achieve these equity targets.

4.4 The current percentage set aside for the Skills Levy must be gradually increased. With an unemployment rate of 30% the current skills levy 0,5% - 1% is far removed from the 1996 national growth and development strategy suggestion of 5%.

4.5 The BEECom believes that the HRD Strategy should be integrated with the country's policies to develop the ICT sector, thereby providing a pool of skills to support the development of the ICT sector.[38]

- An integrated HRD/ICT strategy would require input from all the sectors regarding infrastructure upgrades, growth point identification, increased accessibility and the improvement of black participation in the industry.
- Programmes need to be aimed at developing ICT literacy and skills within the education system.
- Government should be responsible for promoting innovative partnerships between private sector partners (local and international) and academic and research institutions with the view to establishing centres of technology excellence, particularly within historically disadvantaged institutions.
- An HRD/ICT Strategy requires in-depth analysis of supply and demand trends and identifying institutions that are best-suited to increase the supply of black ICT professionals.
- The capacity of existing research organisations needs to be increased to perform ICT intelligence and research and development.
- Innovation will be a critical component of the HRD/ICT strategy. Centres such as the Innovation Hub that link innovation, skills development and entrepreneurship, should be promoted.

4.6 The BEECom believes that the private sector needs to demonstrate far greater commitment to the implementation of a national Human Resources plan.

- Private sector involvement in upgrading schooling and in providing infrastructure for schooling needs to be expanded. For example, a large-scale project to link schools to the internet could be undertaken. The private sector in Argentina has embarked on a programme to provide every learner access to the internet, including e-mail and a website for every learner.
- Private sector partnerships with FET and HET institutions on particular sector-focused projects need to be explored. For example, participation in the implementation of ICT Centres of Excellence in an HET institution.
- Lifelong learning and all policies supporting this issue, need to be given priority status.

4.7 As a matter of urgency, Government should expedite programmes aimed at addressing the problems of youth unemployment. These include the National Youth Service initiative, learnerships, the restructuring of the further education and training sector and the targeting of youth in other government job creation and training projects.

ACCESS TO FINANCIAL SERVICES AND CAPITAL

Problem Statement

The history of Apartheid and Colonialism can be seen as one of the systematic destruction of productive assets owned by the black majority, with the aim of making black people completely reliant on the sale of labour. Rural people, who had built up a limited asset base before the advent of Colonialism, saw a progressive destruction of their productive assets. Viable economic activity and therefore black business was restricted as to their type, area, size and choice of trading partners.

An arsenal of laws prevented black people from accessing land, capital and other inputs necessary for starting and running small businesses. Black women were further marginalised by discriminatory civil and customary laws and practices, which denied them contractual rights by rendering them perpetual minors. Rural communities, particularly women, were denied access to affordable financial services. Today, most can still not open a bank account. Furthermore, millions of black people are unable to access any form of credit because of black listings and market failures in the financial sector.[39]

Efforts to support SMEs have focused on the micro level, with limited financial and non-financial support aimed at developing a vibrant small and medium sector with the potential to grow the economy and create jobs. In so far as extension of financial services is concerned the focus has been on the regulatory environment and protection of existing consumers in the micro finance sector, little attention has been paid to the formal banking sector or to the creation of new institutions to deliver financial services on a massive scale.

Government programmes overestimated the extent to which the private sector would participate in BEE. Market failures and continued racism in established business, particularly the financial sector, are amongst the major obstacles preventing meaningful transformation. Financial institutions have been geared to serve the needs of the minority white section of the population, resulting in a biased allocation of resources to the disadvantage of the black majority, particularly women. The industry has therefore failed to provide banking services to the vast majority of South Africans.

This market failure is not unique to SA. Financial institutions generally fail to provide finance to the poor. Where formal banking institutions have attempted to provide such services, they have needed to establish separate units within the institution or outside it. On the other hand, developmental Micro-Finance Institutions (MFI's), such as credit and savings co-operatives, village and community banks, have demonstrated an ability to substantially reduce poverty and vulnerability amongst the poorest of the poor in a financially sustainable manner.

The continued low level of black participation in the economy is also therefore also a reflection of highly inflexible capital markets. (Recent studies have attributed the growth in the US economy not only to flexible labour markets, but also the countries flexible capital markets.)

All indications are that there are relatively few enterprises in the small and medium range in this economy, thus limiting the potential growth benefits from a more competitive and vibrant SME sector. Furthermore, those black small businesses that exist are active in the less skill and capital intensive components of industry.

The majority of women (who constitute approximately 54% of the population) are engaged in unpaid domestic labour, informal survivalist trading, subsistence agriculture or low skilled labour.

BEE must therefore provide mechanisms through which the black people can build an asset and property base that generates income and reduces vulnerability to poverty on a massive scale. This can only be achieved by access to savings or credit.

Findings

The major drivers behind the growth in black business have been a range of public sector initiatives such as licensing and procurement policies. The Government has also introduced numerous measures to enhance and improve access to finance and non-financial support for black entrepreneurs and households through the restructuring of existing institutions and the creation of new ones. Government initiatives have however suffered from a lack of institutional support, poor co-ordination, insufficient focus, unclear mandates and insufficient outreach.

Government has rationalised numerous inefficient Bantustan Provincial Development Corporations (PDCs) - that provided housing, agricultural and economic development loans - through mergers and closures.

It has refocused and restructured Apartheid-era national DFIs such as the Industrial Development Corporation (IDC), the Land Bank, the Development Bank of SA (DBSA) and the former Small Business Development Corporation (SBDC) - now Business Partners - in which Government has reduced its shareholding to 20%. Plans are on the table to allocate this shareholding to other Government agencies such as Khula.

Recognising the vital role of SMEs in the economy, Government drafted a national strategy for the promotion of the sector. The National Small Business Act 1996 provided for the creation of four new institutions: Khula Enterprise Finance, Ntsika Enterprise Promotion Agency, the National Small Business Council and the Centre for Small Business Promotion within the DTI.[40]

More recently, Government has created other institutions - the National Empowerment Fund (NEF), the Umsobomvu Trust and the Isibaya Fund, started by the GEPF.

A number of Government departments established sector-specific funds aimed at entrepreneurship development - for example, the Community Public-Private Partnership Fund in DTI and the Film Fund in Dacst.[41]

Government has relaxed the Usury Act to allow higher rates of interest to be charged on loans below R6 000. The micro-lending industry has lobbied Government to increase this limit to R50 000.

The National Housing Finance Corporation (NHFC) is a wholesale institution aimed at improving access to housing finance. The Rural Housing Loan Fund (RHLF) programme works with micro lenders doing housing in the rural areas with unsecured loans, for which interest rates of 40 % are common. There are situations where the housing lenders are experimenting with new loan products that use innovative approaches to securities in areas with collateral problems.

Figures recorded in July 2000 showed that only a small percentage (less than 6%) of the total value of loans that have been extended by the IDC and the Land Bank has been advanced to black businesses.

Table 3: Development Finance Institutions

DFI	Total Loan Book (Rm)	% of Loans to Black Business	Value of Loans to Black Business	No. of Loans to Black Business	Size of Loans (Average)	Loan Type
IDC[42]	22940	5.9[43]	1361[44]	298	R4.6m	Debt & equity funding[45]
Land Bank	14000	2.1	296	51761	R5700	Micro-finance[46]
Umsobomvu Trust[47]	1000	N/A	N/A	N/A	N/A	Debt & equity
Isibaya	6000[48]	N/A	500	7	R71m	Debt & equity
NEF Ventures[49]	200	N/A	N/A	N/A	N/A	Venture Capital
Ithala	1 100	141				
Khula Provincial Equity Funds[50]	50	N/A	N/A	N/A	N/A	Private Equity & venture capital
Khula RFI's[51]			R130m[52]	60000	R34600	Debt capital
Development Bank of SA	11150	780[53]				
Business Partners[54]	465[55]	28	128	223	573 000	Debt & equity

There are numerous initiatives in the development finance arena. However, there is little co-ordination in the sector, which sometimes leads to overlapping mandates. This has resulted in mission incoherence and mandate creep, whereby institutions become involved in areas beyond their original mandates. The DFIs have therefore had limited impact and outreach when measured against the demand for the services.

Government attempts to transform old institutions and establish new ones have been hampered by delays in defining new mandates and implementing effective restructuring plans. For example, the NEF has taken more than three years to get off the ground. A CEO was appointed from April 1, 2001.

Many of the old and new initiatives appear to be institutionally weak. Most of the financial NGOs and development banks, particularly at a provincial level, have extremely high cost structures, capacity constraints and limited reach. The PDC restructuring has proved extremely difficult with cash-strapped organisations unable to effectively reposition and sustain themselves.[56] Few are lending profitably. Ithala has targeted the SME sector and is averaging over R35,000 a loan for its 5,000 clients, but most of the other Development Corporations are struggling.

The mandates of the various DFIs have not been clearly spelt out and are in many cases contradictory - for example the need to be financially self-sustaining versus the need to meet development objectives. Pressure is placed on institutions to achieve sustainability in a very short period with limited support from the state.

Loan criteria and conditions are not that different from those offered at private sector banking institutions. At the IDC, entrepreneurs are usually required to put in a minimum 10% of the required capital. The finance provided by the majority of these institutions is debt-based with few entrepreneurs accessing grant-based funding and even fewer gaining access to venture capital or private equity.

The DFIs have not been successful in reaching out beyond the boundaries of Gauteng and a limited number of other urban centres. There is inadequate capacity at the provincial Government and local authority levels to leverage public resources and channel private sector support towards SMEs. Efforts are required to increase the spread and reach of SME support providers.[57]

Within the various DFIs, there has been little attention to developing sector-specific capacity to address the needs of entrepreneurs within particular industries. Non-financial service providers must have the appropriate skills and the ability to move away from a one-size-fits-all approach to delivering services towards a demand-driven model where the needs of the entrepreneurs are king.[58]

While there have been some focused initiatives that promise success, these have been launched on a smaller scale. The Manufacturing Advice Centres (MAC) have been established to provide advice and counselling to SMEs involved in manufacturing. These initiatives have targeted promoting export driven manufacturing businesses with other potentially more promising sectors for SME growth almost ignored.

There are few programmes targeted at female entrepreneurs. Ntsika and CSIR have established the Technology for Women in Business programme (TWIB), aimed at assisting women SMEs, especially those in rural areas, to access technology to grow their informal businesses into formal ones, and to assist them in developing globally competitive products.

No rigorous research has been conducted to specifically assess the effectiveness of new and restructured institutions providing support to South Africa's SME economy.

The IDC has been the only retail provider of support for black small and medium enterprises. The other Government ventures intended to serve the small and medium sector have not got off the ground.

In designing institutional mandates, there has been little macro-level co-ordination to segment the market according to business type and size and develop a systematic approach with clusters of institutions providing specific products for each market segment.

Micro and Small business lending has been dominated and supported by Khula[59]. Khula is faced with a problem of inadequate RFI capacity, an inappropriate response from the banking sector, shareholder pressure to achieve returns on equity and inadequate capitalisation.[60]

"While beginning to change, the (Khula) boards role has been focused mainly on the assuring Khula's financial performance rather than longer-term results for the SME sector." "While Khula's mission is to facilitate the flow of credit to the high risk small business sector, it is simultaneously expected to operate according to conservative banking principles, maintain high loan recovery rates, and achieve a favourable return on equity."

Khula has struggled to identify and establish an effective network of retail financial intermediaries (RFI's) that are integral to delivering on its mandate.[61]

There are substantial capacity constraints among the RFI's. These stem from a variety of areas, including lack of good managerial capacity, few well trained staff, and weak governance structures. They are compounded by a lack of strategic development plans for building capacity within the institutions, the purchasing power to acquire the necessary skills to manage the institutions properly, and a relatively weak service sector to support the micro enterprise lenders. Recent closures of RFIs such as the Start-up Fund, Ikusasa, Get Ahead, and the Rural Finance Facility, among others, threaten to exacerbate matters.[62]

Khula has also failed to win the support of all the commercial banks. The Khula Credit Guarantee Scheme, which guarantees up to 80% of loans granted by banks to SMEs, has achieved limited success in stimulating commercial bank loans to black entrepreneurs.

Ntsika, the primary provider of non-financial support, has been riddled with management and institutional design problems ever since its inception. The consequent leadership vacuum and internal strife has resulted in a lack of definition of mandate and objectives. Furthermore, users complain about the low level of skills within Ntsika and its LBSCs and TACs. This is largely due to poor salaries, and suggests there is a need to create the right incentives to promote an entrepreneurial development industry. Ntsika will be integrated into The Enterprise Organisation in DTI together with the DTI incentives.[63]

Ntsika's Local Business Service Centre (LBSC) network is mostly urban biased. Ntsika has also identified and accredited Tender Advice Centres (TAC's). About 40% of SMEs assisted by TACs get contracts but only about 10-20% actually get to service their contracts efficiently. This is often due to financial problems and other major problems related to late payments by Government (provincial and national departments in particular).

In conclusion, Government has provided limited institutional support - funding and non-financial - for the development of sustainable black businesses. Furthermore, there are no institutional mechanisms to facilitate broader ownership. Existing instruments such as procurement and licensing are doomed to fail in the absence effective financial and non-financial support mechanisms. Government resources have been ineffectively directed towards household, micro- and survivalist enterprises and predominantly white and male SMEs - rather than the promotion of meaningful and sustainable black business participation in the economy.

To a large extent, Government's SME strategy overestimated the willingness of the private sector to participate in a partnership to promote entrepreneurship and to help drive this national empowerment imperative in a manner that truly benefits the majority of our people. In fact the banking sectors approach towards SME development has been hopelessly inadequate.

The five largest banks in South Africa (Standard Bank, ABSA, First Rand, Nedbank, and BOE) presently hold over 80% of the market share. The banking environment itself has changed significantly, with a clear move towards the use of ICT to enhance delivery, some banks have recently formed partnerships with micro lenders to access the unbanked sector. However, commercial banks continue to ineffectively support SME development. They site, amongst a number of reasons, the risk (which raises the cost), the fact that it is not their prime business, that there is insufficient collateral and that it is not as profitable as other lending activities.

The participation in the Khula Credit Guarantee Scheme has been well below expectation with branch managers advancing loans to people who would have received them in the absence of a Guarantee. In practice, the banks have used the scheme to advance loans to white and male-owned businesses.[64]

In response to much criticism the Banking Council of South Africa (BCSA) and five major banks joined forces to establish Sizanani Advisory Services (Sizanani), the objective being to provide mentorship to the owners of start-up and expanding micro and very small businesses (SMEs). The Sizanani scheme is aimed at businesses which do not comply with normal banking requirements, and require finance of between R10 000 and R50 000 to establish or grow their enterprises.[65]

The private sector have also launched SME support initiatives either in their individual capacities or as joint ventures. South Africa's 220 largest companies spent R725m on Corporate Social Investment during 1997/1998, with 15% (R108m) going towards small business development.[66]

In response to the sectors inadequate provision of financial services, a Micro-Finance Industry has grown over the past five years following Government relaxation of the Usury Act. The massive growth of this industry bears testimony to the large demand for credit amongst those excluded from the formal banking system. It is widely believed that Micro-lenders, at least in their current form, tend to exacerbate dis-saving in the economy. Furthermore, there has been a wide range of unethical practices and abuse of clients in this sector. The Micro-Finance Regulatory Council (MFRC) as been set up to regulate the industry.[67]

In South Africa, micro enterprise finance accounts for a very small portion of the micro credit market. This sector is active in making short to medium term loans to individual borrowers that normally fall outside the formal banking network, due to the inability of the loan applicants to provide conventional collateral. Clients can however generally provide proof of employment and a bank account. This is mostly an urban-based product that does not fit the profile of rural people, who often have inconsistent income patterns.[68]

These micro-lenders, being motivated solely by profit maximisation, and generally extending loans for consumption expenditure, contribute little to empowerment of individuals and tend to exacerbate dissaving in the economy over both the short and long term.

Micro enterprise finance on the other hand comes largely from NGOs and Trusts with little overt micro enterprise finance from the commercial sector. Poor outreach however, is limiting the impact of these initiatives with underdeveloped areas generally excluded from any support.

At present the regulatory and supervisory environment for organisations attempting to establish themselves as developmental MFI's is fragmented and confusing. The tendency has been towards regarding such institutions as exceptions to a set of rules designed for qualitatively different institutions. Exemptions are provided through subordinate legislation. Any serious effort to establish a sustainable and developmental micro-finance industry would require a reappraisal of this approach, since regulation and supervision of such institutions may require special legislative and administrative arrangements.

The exemption to the usury act has been an important element in the proliferation of the access to finance, but has also skewed the interest rates and the delivery forms. In the end these exemptions are not promoting the growth of a vibrant development oriented micro finance sector and the majority especially rural people remain unbanked.

The provision of services to the poor by the formal banking sector is therefore virtually non-existent. Currently, between 60% and 80% of the countries economically active population remains unbanked, which, according to official census data, is approximately 12 million employed people. 87% of formerly employed adults are banked, but in demographic terms, only 30% of the black population hold bank accounts.

Commercial banks have not provided products, which address the particular needs of rural communities due to the lack of collateral and administrative costs of small transactions. These institutions may have developed advanced technology, but lack the geographic spread of retail outlets. A sharp decline in rural branches is also evident. It is estimated that whereas in 1995 approximately 50 % of the population had easy access to commercial banking facilities, this number has declined recently to approximately 30 %.

While the demand for banking services is growing in the low-income market, there has been a contraction of service provision for these communities within the traditional institutions. To achieve international competitiveness and maintain market share in the local markets, the major retail banks have had to eliminate cross-subsidisation and increase efficiency by closing unprofitable accounts and branches. It is clear that even with the use of modern technology, there are many communities and individuals who will remain out of reach of the conventional banks for many years to come. (Banking Council)

SME's whose financial needs are greater than those of the micro-enterprises and fall outside of the loan sizes governed by the exemption to the usury act are therefore not served by microlenders (whose ceiling is R10,000) or the commercial banks (whose floor, especially for start-ups is really in the range of R100-250,000, though there are some exceptions at R50,000), are also excluded.

Loans for income generating purposes are not provided below a floor of around R35 –R50 000. This is despite evidence from South Africa that markets exist (and can be sustainably serviced) for loans as low as R50. Savings and transacting services are also not tailored to meet the needs of the poor, being inaccessible and high cost. They generally do not extend beyond wage earning employees.

It is therefore assumed that most lending goes to sustaining people's livelihood rather than to creating new jobs and little assistance is available to facilitate the conversion from a survivalist mode to an enterprise activity. (Mid-Term Evaluation of the National Strategy for the Development and Promotion of Small Business in SA prepared for the Department of Trade & Industry, September 1999)

Research indicates that there is a "missing middle" in the case of loan advances of R35-50 000 (some argue R10,000) - R4m, with the IDC tending to invest in larger BEE transactions. This is the category of business most likely to become sustainable and, therefore, create jobs. Venture Capital is almost non-existent. It is therefore necessary to increase the number and outreach of enterprise loans below the R10,000 exemption ceiling, and then increasing the finance in the middle range, up to R4m. Extending access to all forms of financial services in underdeveloped areas remains the major challenge.

Experience in a range of low and middle-income countries shows that financial services which contribute to developmental objectives can be extended to the poorest of the poor on a non-concessionary basis. Traditional banking procedures and practices that tend to exclude the poor (such as the need for collateral and the complexity of procedures) can be overcome through a variety of institutional designs.

Various retail institutions have attempted to meet the challenge of developmental micro-finance. These include savings and credit co-operatives (falling under the umbrella body SACCOL), Grameen Bank-type institutions and Village Banks. Furthermore, South Africa's unique rotating savings and credit organisations, the stokvels, are firmly established.[69]

Rural savings and credit cooperatives are estimated to hold about 7,000 accounts, but they have not reached the scale to really impact on the country's financial systems. They can serve as one option in the rural and difficult to reach geographic areas and they have demonstrated an ability to substantially reduce poverty and vulnerability amongst the poorest of the poor in a financially sustainable manner.

Key features of alternate finance models include: exclusive focus on the low-income/very-poor market niche, very low-cost operations (enabling reasonable but market related interest rates), providing services to the poor where they live, the extension of credit for income generating purposes only and (in some cases)the replacement of physical collateral with some form of social collateral or group liability.

Despite the attempts to address micro finance- we have not yet reached the scale of outreach that would make a serious dent in poverty and contribute positively to savings rates, asset creation and empowerment on a national level.

South Africa's challenge, therefore, is to create a regulatory environment, together with pro-active partnerships, that can facilitate the emergence of a diversity of financially sustainable retail institutions that can constitute a stable tier of the financial services industry which services the poor on a large scale

In this context institutional innovation and nurturing is required. South Africa's main advantage in this regard is its comparatively advanced formal financial services industry, which has the capacity to develop innovative low cost solutions (e.g. Standard Bank's E-bank to the Land Bank's step up loan ladder). The combination of private sector infrastructure and expertise and our rich history of developmental, people-centre organisational forms provide fertile ground for such innovation.

New legislation should not cater simply for the credit cooperative model, but should in addition accommodate other approaches to micro-finance. A friendly regulator environment is a necessary but not sufficient condition for the emergence on a large scale of a sustainable and developmental micro-finance industry.

The main constraint on the realisation of this vision are cost structures and distortions in South African markets generally. A cadre of educated, skilled and committed community bank workers would be difficult to build without conforming to market-related salaries, which are absolutely and relatively higher than in other countries that have developed these institutions. Reducing the cost of extending loans and mobilising savings is the key to reducing interest rates to a level were credit promotes empowerment rather than disempowerment.

South Africa does not have a venture capital market, which has played a salient role in stimulating small and medium businesses internationally. Although the private equity market has developed in South Africa to some extent, (funds under management of R27.5bn) few of these funds invest in BEE.[70]

Some institutional investors have only recently become more comfortable with private equity as an asset class. However, it will take some time before institutional funds flow into the venture capital arena. The venture capital funds that exist in South Africa (particularly those with a BEE focus) are primarily donor-funded. The IDC has launched a R600m venture capital fund (with a technology focus) together with international donors. A portion of the fund will be invested in BEE.

A key issue in the development of a vibrant venture capital industry is a dearth of the appropriate personnel with the skills to conclude and successfully monitor venture capital transactions.[71]

In the United States, approximately 5% of pension fund assets are invested in private equity/venture capital. The equivalent figure in a South African context is nearer to 1% (almost all of which is Private Equity). The challenge therefore is to stimulate the flow of retirement funds into venture capital.

The financial sector has participated in numerous "big-ticket" BEE activities since 1993 in an attempt to facilitate the transfer of ownership into black hands.[72] ***These ownership transactions were facilitated in various ways:***

Initially, there was an attempt to source black capital through stokvels, trade union pension funds and retail schemes. After this failed, funders turned to conventional debt funding, combined with multiple pyramid structures when the JSE allowed them.

Later, funders insisted on participating in the equity upside as well using special purpose vehicles (SPV), between 1996 and 1998, SPVs were by far the most favoured financing structure, accounting for 52% of black economic ownership. The SPVs were premised on a bull market. When the bear market came into effect, many empowerment groups realised that they may not be able to meet their financial obligations as defined in the SPVs, and some were forced to give up recently acquired shares in investee companies.[73]

SPV transactions have predominantly been big-ticket deals involving deployments in excess of R5 million. An SPV is essentially a company established for the sole purpose of facilitating the purchase of an equity stake in a target company ("target") by a BEE grouping. Targets can either be companies listed on the Johannesburg Securities Exchange ("JSE") or private companies.

Table 4: BEE Transactions on the JSE[74]

Year	Number of transactions	Total value of transactions
1993	1	R140m
1994	3	R681m
1995	19	R300m
1996	45	R7bn (R1, 5bn without Johnnic and JCI)
1997	52	R8, 3bn (R4, 0bn without PQ Africa)
1998	111	R21, 2bn (R6, 2bn after stripping out the six largest deals)
1999	50	R3,4bn

The bull run of 1996/1998 created a deal frenzy with a large number of SPV transactions being concluded in this period. As the number of successful empowerment deals grew it drew more financiers and vendors into the process.[75]

The market correction of late 1998 caused the BEE bubble to burst and resulted in a situation where a significant number of SPVs were 'out of the money', resulting in substantial losses for financiers who withdrew from the market.[76]

There are now few deals that involve the acquisition of minority stakes in JSE-listed companies. This is because BEE groups are under pressure from funders and the markets to demonstrate focus, move away from portfolio investments, and to become operationally involved. More recently, some BEE companies have been able to fund their acquisitions on the strength of their balance sheets. There have been very few new entrants and almost no new sources of funding.[77]

BEECom research shows that this activity has not translated into a meaningful transfer of ownership into black hands.

Even under a best-case scenario the funding structures implied a significant dilution of black ownership on winding down SPVs, with most of the financial benefits accruing to funders. The funding mechanisms were not designed to effect real ownership. A number of flaws in the SPV funding mechanism have therefore become apparent.[78]

In structuring the transactions, advisors seldom critically assessed the potential of the instruments to transfer sustainable ownership. In the race to do the deal, advisors were often not rigorous in their appraisal of investment opportunities, resulting in many BEE consortia entering into deals they should never have considered. However, BEE consortia must also share the blame for not interrogating the contracts presented to them.[79]

A primary concern needs to be the creation of a new SPV model that overcomes the inherent problems of the current strategy or the creation of a new structure to revolutionise the BEE funding process. In the creation and implementation of the alternative strategies BEE companies need to be rigorous in the selection of advisors to ensure that transfer of ownership occurs and a broader ownership base is established.[80]

Ownership has seldom been translated into meaningful influence at board, executive management and operations levels.

The BEECom believes ownership is an imperative and we therefore do not support recent views that de-emphasise black ownership and control, while arguing that focus must fall on other empowerment indicators such as black management development.

BEE companies were seldom given the opportunity and the support to effect meaningful ownership and use that position to drive empowerment.

The responsibility for the lack of proper control being exercised must also lie with the other parties who have engaged in the transaction. Partnerships tended to be superficially defined, with unarticulated expectations quickly disappointed.

In addition, SPV structures were one step away from the operations of the target companies and BEE companies were only allocated a few board seats.

There are new trends in empowerment funding that threaten to exclude BEE entrants.

The downturn on the JSE and financiers' diminished appetite for SPVs has resulted in renewed focus on private equity. Some of the recent deals conducted over the past two years have involved the delisting of companies on the JSE.

Funders are now imposing a "one-size-fits all" straightjacket on all BEE consortia. The new trend is to fund using a private equity model that:

- Insists on own contributions, sector focus and operational involvement by the BEE company; and
- Passes some of the risks to the target company

The above model closes the door on funding for black investment companies, and could further reduce the number of beneficiaries by excluding new entrants.

Recommendations

The BEECom believes Government should intervene in the financial sector to promote BEE. To this end the public and the private sector should have the following obligations:

5.1 Government should sell its current stake in Business Partners to raise funds for targeted support through existing structures.

5.2 Khula must exit the business of providing financial guarantees for banks and focus on building a sustainable and larger network of retail financial intermediaries.

5.3 Government should direct more financial and human resources towards developing sustainable SMEs.

5.4 Government should consider providing incentives in the following areas:[81]

- Encouraging the development of ESOPs, co-operatives and retail schemes.
- Stimulating a venture capital industry (as a means of stimulating private sector participation in the industry, Government could exempt funds accredited by both SAVCA and NEFA from capital gains tax).
- Extending the current tax incentives for SMEs.
- Giving a specified percentage of current incentives to black SMEs.

5.5 The BEECom recommends that the State establish a new DFI institutional framework aimed at co-ordinating, streamlining and rationalising the activities of all DFIs, with a view towards revamping the sector to achieve the objectives encapsulated in the RDP. The proposed Trade and Industrial Council or the DFI Co-ordinating Council should drive the formulation of the framework and the setting of guidelines and targets for DFIs.[82]

5.6 The BEECom further recommends that the Government establish a National Empowerment Funding Agency (NEFA).[83]

5.6.1 The NEFA will operate alongside the DFIs as a structure providing oversight and ensuring co-ordination of financial and non-financial support, thereby facilitating black ownership. The objective is to ensure there is a single, co-ordinated DFI system which provides an efficient pipeline of products and services that systematically meet the needs of black entrepreneurs.[84]

- The NEFA will be located within the Department of Trade and Industry (DTI).

"But the realisation of economic empowerment necessitates a long-term consolidation of these institutions as well as their refocusing" (Economic Empowerment Strategy, a discussion document prepared for the DTI)

- The NEFA would segment the market according to sector, size and type of entrepreneur. Institutions would have to agree upon which segment to focus. Targets should be set which each NDFI should aim to achieve.

- Government is already in the process of setting up a number of new institutions – including the National Empowerment Fund (NEF), NEF Ventures, the Umsobomvu Trust and three Khula regional equity funds. Where necessary, these institutions must pool and co-ordinate financial and human resources to streamline mandates and avoid duplication of efforts and resources.

- The NEFA should source additional support through strategic partnerships with the private sector and the donor community, locally and internationally.

- Each of the four arms of NEFA (described below) should be encouraged to find strategic equity partners that have demonstrated international best practice.

- The NEFA should monitor the performance of the DFIs against the predetermined targets agreed upon by all DFIs .

5.6.2 NEFA should consist of four arms:

- NEFA 1 should address the segment of funding aimed at black businesses that require debt and equity funding of more than R5m. It will also provide non-financial support services. It could incorporate the Isibaya Fund and the IDC's empowerment funds.

- NEFA 2 should target small and medium businesses requiring debt and equity funding in the R50 000 to R5m range. It could incorporate the following: Khula Regional Equity Funds, NEF Ventures and the PDCs. In addition, these funds could receive funding from the Isibaya Fund and the Umsobomvu Trust. Funding could also be sourced from the private sector and the donor community. Non-financial support services should be provided as well.

- NEFA 3 should incorporate Khula with the objective of strengthening their services to the micro-enterprise sector. Support services should be re-aligned to bring them in line with the needs of the clients of Khula's RFIs. The micro sector can continue to be served by the Khula RFIs with interventions focusing on the need to expand the capacity and reach of these organisations. A three or five-year plan for the sector could include outreach targets and the consolidation of the RFIs under one brand. Khula must therefore must focus on promoting a development oriented micro-finance sector.

- NEFA 4 should address broad-based ownership through support and infrastructure to facilitate and administer collective enterprise schemes (retail offers, community and large employee share ownership vehicles, worker-owned enterprises and co-operatives) within the public and private sector. NEFA 4 could provide advisory services and clear guidelines for co-operatives, ESOPs and retail schemes.

The BEECom recommends that the National Empowerment Fund fall under NEFA 4 (in its capacity to promote savings and wealth creation for individuals, black consortia and collective groups). The venture capital component of the NEF, however, would fall under the segment supported by NEFA 2. The feasibility of providing for a special allocation of the funding available from the NEF (matched with grant-based funding) to assist community and worker groups to acquire stakes in restructured SOEs, listed and unlisted companies needs to be investigated.

"The National Empowerment Fund, currently run by a board of Trustees, needs to be operationalised with a comprehensive investment strategy to unlock value. The objective of the NEF is to create wealth for the nation through investment in venture capital, private equity and listed investments, in the public and the private sector. It is the intention that the NEF Trust be capitalised primarily through receiving shares of SOEs undergoing restructuring. It has received shares with a nominal value of about R2 billion, and may receive up to10 % of the shares of other SOEs, with a nominal value of between R10–20 billion, making it potentially one of the most significant investment entities in the South African financial markets."[85]

5.6.3 Each of the above agencies should ensure that appropriate non-financial support services are available to different types of entrepreneurs.

Support may be provided in-house or through professional companies that provide business advisory and/or strategic management services for small and medium business, including black investment companies.

The costs could be priced into the loans or cross-subsidised through selling the services at market-related prices to the private sector. The NEFA will draw up a detailed business plan to determine the type and cost of the range of support packages. However, the NEFA could also source donor funding to support its independent advisory divisions.

5.6.4 The NEFA will stimulate the development of a new industry providing independent advisory capacity.

Advisors could be accredited by an appropriate authority. This process should allow for skill transfer to take place and the establishment of credible black-driven advisory businesses.

5.6.5 The restructuring of the PDCs should urgently be investigated to ensure that these institutions are integrated into a national framework on empowerment funding.

The NEFA should oversee the rationalisation and restructuring of the Provincial Development Corporations. There is a dire need to address regional and local availability of funding, which, at this point, is primarily focused on large urban centres - through the restructured PDCs, Khula regional equity funds and the LBSC and RFI network.

5.7 The BEECom recommends that Government should introduce Community Re-investment (CR) legislation as part of a package of instruments to restructure the financial sector and to ensure affordable finance for households and entrepreneurs.[86]

The BEECom believes there should be a partnership between government, the banks and community organisations. A conducive environment is imperative for a successful CR strategy in SA. The investment of banks in deprived and black areas should not necessarily be dependent on the total absence of social threats such as crime and lack of security. The government and effected communities should play a leadership role in containing pronounced anti-business tendencies and contraints.

The CR legislation could include the following: forbidding discrimination in lending[87], providing for disclosure of lending information; agreeing on targets for extending services and finding mechanisms to use CR Act ratings when a bank requires regulatory approval.[88]

There is, furthermore, an urgent need, in our view, for a uniform system of disclosure that will allow the performance of particular institutions in providing SME finance and other national priority activities to be measured and compared to that of other institutions. The Committees are of the view that this will require legislative and regulatory intervention. There was, in fact, virtual unanimity amongst presenters that uniform disclosure requirements allowing for such measurement was necessary." (Report of the Parliamentary Committee of Trade & Industry, June 2000)

CR ratings should be published to increase consumer awareness about bank activities. This information could result in campaigns by civil society organisations against banks with poor CR ratings. It could also promote peer pressure within the industry to improve ratings. CR reporting should indicate the following:

- The value and number of all loans by race, gender, region and sector.
- Reasons for turning down loan applications.
- Plans to achieve specified targets for funding to black and women- owned enterprises.
- Plans to reach a specified target of loans to underdeveloped regions.
- The value and content of CSI spending.
- Location of branches and plans to expand the network to underdeveloped regions.
- Plans to improve mentoring and training of borrowers.
- Support for new entrants into the financial services sector, particularly second and third tier banks.
- Plans to build relationships with support providers such as LBSCs.
- Funding structures and conditions .

5.7.1 Commercial banks could help develop and support financial co-operatives as a means of complying with CRA.

The CRA should have a high weighting (in its rating system) for banks that support MFIs. This support could be provided in various ways, for example through the creation of a Community Development Fund (in the United States, large institutions contribute to a US Treasury Community Development Financial Institution Fund that provides a wide variety of assistance to emerging financial institutions). The banking sector could also provide infrastructure, information technology and human resources.

5.7.2 An amendment of the Banks Act (Act 94 of 1990) and other legislation would ensure CR ratings are considered when a bank requires regulatory approval. For example, the Competition Commission should consider a CRA rating. Application for banking licences should consider CR plans.

5.8 The BEECom recommends that all financial institutions should be required to submit and annual Empowerment Report to the Financial Services Board (or to the Reserve Bank).

This disclosure and reporting system would enable the State to systematically evaluate financial institutions against the above indicators when awarding contracts. This would apply to all contracts entailing the provision of financial services to the State, including banking, fund management, corporate finance advisory work and capital-raising.

Government must use its significant power and influence in the financial sector to develop new black players in the industry, depositing funds in companies with good BEE credentials and awarding capital raising and advisory work to these companies. The BEECom suggests that Government conducts a study of its influence in the sector and sets aside a fixed percentage of contracts to BEE companies. In the event that there is inadequate supply, black professionals should be encouraged to enter into joint ventures with established companies to tender for such work.

5.9 BEECom recommends the State continues to promote a regulatory environment that can facilitate the emergence of sustainable development oriented Micro-Finance Institutions (MFIs) that can extend financial services to the poor on a large scale.[89]

At present the regulatory and supervisory environment for organisations attempting to establish themselves, as developmental MFI's is fragmented and confusing. The tendency has been towards regarding such institutions as exceptions to a set of rules designed for qualitatively different institutions. Exemptions are provided through subordinate legislation.

The BEECom proposes a review of existing and planned legislation for the developmental MFIs and co-operatives. There are a number of legislative impediments to the growth of the development-oriented MFI industry. For example:

• A deposit ceiling within the Banks Act exemption. Current legislation stipulates that deposit taking can only be undertaken by public companies that are registered as banks with very narrow exemptions. Most financial NGOs and community structures could reduce their cost of capital by taking deposits from the public and, thereby stimulating broader access to capital. The aggregate amount of minimum capital and reserves to be retained by banks has been raised from R50 - R250m.

•Taxation of co-operatives: SACCOs in South Africa are among the minority of credit unions in the world that are subject to income tax and among a smaller minority (13%) of the world's credit unions that do not receive any kind of tax break. The BEECom, therefore, calls for a review of tax on co-operatives.

A friendly regulatory environment is a necessary but not sufficient condition for the emergence of a sustainable and developmental micro-finance industry on a large scale. The other main constraints on the realisation of this vision are cost structures and distortions in South African markets generally. A relative advantage in South Africa is the advanced financial services sector and the ability to utilise ICT to enhance access. Given the need for institutional innovation, such legislation should not cater simply for the credit co-operative model, but should in addition accommodate other approaches to micro-finance.[90]

5.10 The BEECom believes there is a need to enhance existing state capacity to allow for the establishment of a State Bank, that focuses on ensuring access to affordable financial services.

The infrastructure of the Post Bank should be assessed, including the plans to rollout new infrastructure, (and the incorporation of existing financial services units in SOEs) with the objective of determining the requirements for transforming this entity into a development-credit funding and savings institution, that could be closely linked to NEFA.

Current efforts to corporatise the Post Bank must take into account its potential developmental role.

5.11 Government should develop criteria to enable the accreditation of Targeted Development Investments (previously SR funds) with a view towards substantially growing the sector's funds under management. The rating would enable the state to give preference to such companies when awarding contracts.

5.12 The BEECom proposes the review of the functions and regulation of credit bureaux.

Concerns were raised by the National consumer Credit Forum in 1997 and subsequently the DTI had initiated an investigation.

5.13 The BEECom believes that the State should implement a programme aimed at broadening the ownership base in the interest of promoting savings and of encouraging a wider ownership in the economy. The programme would be part of the activities of NEFA, focusing on providing advisory support and guidelines as well as mobilising funding for the following forms of ownership: retail schemes employee share ownership schemes and co-operatives.[91]

Retail schemes are an important contribution to broadening the ownership base and encouraging savings. They are generally characterised by the following:[92]

- A reasonable up-front payment and a'savings period' of typically three years during which participants can accumulate the balance.
- A special-purpose holding company or vehicle, as an administrative organ during the savings period.
- A single exercise date: (This has exposed participants to the risk that the share price is temporarily depressed on that particular date. It can also result in an overhang of shares on the market depressing the share price on that date. There are models that allow for a series of exercise dates.)
- No trading of the options/rights until the exercise date. (This exposes participants to greater financial risk: the participant loses his entire initial investment if the option is 'out of the money' at the exercise date; There are new trading models which encourage long-term ownership by offering bonus shares for participants who hold on to their shares.)

Employee Share Ownership (ESOPs) have been used across the world for many decades with mixed levels of success. Effective schemes have generally been those that combine ownership with meaningful influence. The use of ESOP models should be expanded significantly in both the public and private sectors. ESOP's may contain the following elements:[93]

- Liquidity: Employees need the option to enter or exit contracts as their circumstances change. An easily comprehensible procedure should be in place, should the employee leave the employ of his employer.
- Tax Implications: Employees should be certain that the tax payable as a result of the scheme will be minimised.
- Funding: A funding mechanism should be built into the scheme.

- Simplicity: The scheme should be easy to understand. There should be ongoing employee education programmes. Trustees must be given sufficient training to adequately fulfil their role.
- Administration: The administration implications of the transaction should not be excessively complicated and time-consuming, especially if there are a large number of employees participating in the scheme. The scheme should be linked to performance target that workers can influence – e.g. profits or sales - rather than the company's share price to maximise productivity benefits.
- Participation: ESOPs should facilitate mechanisms for worker participation and real voting rights at executive levels of the company. Employee groups should be involved at the outset so that they have an opportunity to affect the outcome and not have their fate determined by dynamics entirely beyond their control.
- Ownership percentage: Management should not pre-determine (or dictate) the permissible level of employee ownership. employee groups should be allowed to determine the best feasible deal (not necessarily the largest ownership percentage)
- Trust: The ESOP component should be preserved by a trust mechanism to allow employees to exercise their collective power and gain a better sense of participation in the business than they would as individual shareholders;
- Fairness and flexibility: The scheme should be flexible enough to permit an expansion of employee participants in the scheme. It should also ensure fairness of opportunity so that all employees have an equal opportunity to acquire stock.

Co-operative ownership and employee buy-outs present new opportunities to enhance ownership, these have only been applied on a very small scale in South Africa and could be important instruments for broad-based empowerment. A co-operative is an autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned, democratically-elected enterprise. They are avenues of collective activity that allow an enterprise to extend beyond the reach of the market. Co-operatives may be characterised by:[94]

- Co-operatives are based on values of self-help, self-responsibility, democracy, equality, equity and solidarity.
- Community- based co-operatives (or trusts) include producer co-operatives, consumer co-operatives, mutual companies and not-for-profit firms.
- Most are collective purchasing arrangements to provide members with economies of scale to increase bargaining power in the market or to share overhead costs more efficiently.
- Co-operatives also take the form of providing a vehicle to pool savings so that members can afford to borrow a much larger amount than would otherwise be available to individuals from a commercial financier. Pooled savings can be used to ensure the provision of a service, for example electrification of rural areas, which would not be available to the individual consumer.
- There are also many opportunities for producer co-operatives: Private sector firms, especially those with operations in rural areas – for example, in mining and tourism - could explore outsourcing certain opportunities to community-based co-operatives.
- Rural communities seeking solutions to food security and infrastructure backlogs could use a co-operative approach to development. Land reform programmes offer numerous opportunities for co-operative-type arrangements.

5.13 The BEECom believes that Financial institutions and established business should ensure that future BEE transactions are guided by what is in the long-term national interest and the principles of integrity, equity, sustainability and effective ownership. The components of a successful BEE transaction should include the following:

- Clearly-defined objectives and the alignment of interests.
- Appropriate pricing, preferably at a discount to market value.
- Effective skills development beyond the BEE Act minimum requirements
- Creative financing structures including vendor financing, claw-back and earn-in (i.e. BEE equity holding linked to value-add).
- Expected value should be quantified up front, where possible.
- Clearly defined and easily measurable growth targets.
- Involvement of a focused and entrepreneurial BEE group that stands to lose more than its reputation.
- Effective participation at the highest level of decision-making, including the executive committee.
- Long-term commitment by both parties.

5.14 The BEECom believes that the Johannesburg Securities Exchange (JSE) should be a key institution in the promotion of black participation in the economy. To this end the JSE must design and implement a BEE policy framework which provides for:

- The development of black advisors and brokers and the removal of all barriers to entry.
- Training programmes and learnerships.
- The adoption of a JSE BEE strategy which includes reporting mechanisms for all JSE listed companies.
- The promotion of savings and investment on a massive scale through an education and information campaign.

AFFIRMATIVE PROCUREMENT

Problem Statement

Systematic and institutionalised racism in South African society continues to restrict black business access to the public and private sector contracts required to grow black businesses into a new and dynamic force in the economy.

Government departments (national, provincial and local) and SOEs procure goods and services worth more than R110bn a year. Government has recognised that these budgets could be utilised as a powerful mechanism to promote the development of small and medium businesses and the broader objectives of the RDP.

However, current Government procurement policy and legislation has proved inadequate. Firstly, it is difficult to estimate what portion goes to small and medium businesses and black entrepreneurs because of poor, and in many instances, non-existent monitoring and evaluation of contract awards.

Secondly, there are inconsistent definitional yardsticks against which to monitor performance. Government departments and SOEs use different definitions of a black company. Thirdly, there are major institutional weaknesses within tender boards, procurement offices and Government departments which contribute to abuse of the system and ineffective empowerment outcomes.

Government's current approach is to create a decentralised system. However, the system is too reliant on a formula, with little attention paid to providing guidelines or mechanisms aimed at revamping the system. Institutionalising a formula – as has been done in the Preferential Procurement Act – will not eradicate obstacles in the way of increasing black participation in the economy.

Developing black business should involve comprehensive strategies aimed at supporting the growth of suppliers. It is not simply about procedures and formulas.

Findings

Government's initiatives in the procurement arena have been one of the drivers behind the development of black-owned businesses since 1994.[95]

Government has recognised that its procurement budgets could be utilised as a powerful mechanism to promote the development of small and medium businesses and the broader objectives of the RDP.

The Department of Public Works' Emerging Contractor Development Programme (ECDP) has been active in defining and implementing plans specific to procuring services from black entrepreneurs.

Via Ntsika Enterprise Promotion Agency, 18 tender advice centres (TACs) have been opened. In 1999, these TACs facilitated business linkages worth R130m between Government and 300 black suppliers. Most of these suppliers were contracted as part of the Public Works ECDP.

At an institutional level the Government created new Tender Boards and redefined inherited tender boards. Government's current approach is to create a decentralised system. However, the system is too reliant on a formula, with little attention paid to providing guidelines or mechanisms aimed at revamping the system.[96]

Despite the above, Government procurement initiatives have encountered a number of difficulties:

- Firstly, it is difficult to estimate what portion goes to small and medium businesses and black entrepreneurs because of poor, and in many instances, non-existent monitoring and evaluation of contract awards.
- Government only tracks procurement by the State Tender Board and Provincial Tender Boards. Most departments enter into their own contracts, which are not monitored. The State Tender Board handled only R8bn of the Government procurement in 1999.
- At local government level no estimates are available and few have mechanisms in place to effectively monitor procurement spend. The possibilities at local level to promote black SMEs are vast. Total expenditure at local Government level for 1999/2000 is estimated at R44bn, with 60-70% of expenditure possibly related to procurement. (A large portion of this is infrastructure).
- Although SOEs are now able to report on procurement spend relating to black companies, numerous definitions are used, making assessment difficult.
- Government departments, again, use different definitions of BEE, resulting in extreme difficulty in evaluating figures.
- There are major institutional weaknesses within tender boards, procurement offices and Government departments along with a chronic lack of the appropriate skills required to procure effectively. There are currently few courses that offer training in procurement, contract management and supplier development. This has allowed for inefficiencies and abuse

of the system, including fronting. There is widespread evidence of continued racism among tender board, Government department and SOE purchasing officials.[97]

- There is a weak approach to contract and supplier management, resulting in inappropriate evaluation at all stages of the contract cycle. This can result in cost escalations and abuse, including fronting, and restrict the development of all suppliers, especially black companies.
- Partly as a consequence of poor contract management, the procurement process is still unfriendly towards SMEs. For example, many black businesses have experienced severe financial difficulties while waiting for payment.

The Preferential Procurement Framework Act (PPFA) is inadequate as an instrument to achieve Government objectives in the procurement arena for the following reasons:

- Although the regulations make the Act applicable to state organs the legislation is not mandatory.
- It places excessive reliance on a formula that should be part of the regulations and not the substance of the legislation. Institutionalising a formula – as has been done with the Preferential Procurement Act – will not eradicate obstacles in the way of increasing black participation in the economy.
- The Act elevates price above all other factors, with the result that tender adjudications are essentially revenue-based, preventing a more comprehensive analysis of competing suppliers.
- The Draft Regulations published by the former Department of State Expenditure do not give any guidance against which to evaluate the complexities involved in the deracialisation of ownership. These include complex funding structures and control arrangements that are used to disguise fronting.
- The penalties stipulated are not onerous enough to prevent the deliberate manipulation of the Regulations.

Recommendations

6.1 The BEECom recommends that there should be an overhaul of the entire public sector procurement system with a view towards ensuring that procurement meets the objectives of the RDP. To this end a National Procurement Agency (NPA) should be established within the Department of Trade and Industry. The NPA must ensure the transformation of the procurement system into one rooted in effective supplier development and contract management.

- The NPA must set policy guidelines and targets for all Government departments, national, provincial and local, and SOEs. It should monitor performance against the set targets and build capacity within Government.

- The Preferential Procurement Framework Act ("PPFA"), should be substantially amended to bring it inline with the Integrated National BEE Strategy. It is further proposed the PPFA be amended to allow for the establishment of the NPA.

- Government departments could still use centralised purchasing agencies to reap the benefits of bulk buying and to ensure uniformity in systems. Centralised agencies could be constituted at provincial and local level as is currently being piloted in Gauteng. An example would be the State IT Agency (SITA). The SITA is mandated to integrate all Government IT services and to act as a procurement agent for such services.

- Procurement targets and set-asides for black companies and SMEs for all Government organs and SOEs should be designed. There are various options which could be pursued, including setting aside a minimum percentage of contracts for black companies to perform. Another route is to set aside certain contracts in their totality only for black groupings.

- Special attention needs to be paid to local Government structures given the high level of procurement spend. Uniform guidelines and systems need to be set.

- A system of contract cessions needs to be designed to enable entrepreneurs to fund initial contract activities through provision of contract guarantees.

6.2 An Accreditation Unit should be established as a joint venture between the public and private sectors, with a mission to stimulate private sector procurement from black suppliers and to broaden ownership structures.

- The Unit should be incorporated into the NPA and it should establish a national database of black suppliers.

- The Unit should encourage the private sector to procure from black companies by providing an accreditation of these companies. The Unit should also provide an appraisal of the capacity of black suppliers. This appraisal could guide Government support to SMEs.

- The unit could also provide an empowerment accreditation for any company that submits an empowerment report to it. Incentives for submitting reports to the Unit could include Presidential awards for outstanding performers, recognition of rating in adjudication procedures undertaken by State and SOE tenders and licenses, publication of results in an accreditation register and positive sentiments from clients and consumers.

6.3 Current initiatives to reform public sector procurement need to take into consideration the following:

- The ongoing process of decentralising the tender function to departmental levels needs to be appraised in terms of its ability to meet national objectives. Tender Boards should be transformed to include an increasing amount of procurement officials. A comprehensive evaluation should be undertaken to ensure readiness to dissolve Tender Boards and to determine time frames to do so.

- The implementation of a central monitoring system which enables ongoing evaluation of procurement spend to ensure it meets national objectives, including BEE.

- Uniform adjudication criteria, guidelines and targets should be set at a national level to be applied by all Government institutions.

- The review and complaints capability must be enhanced. The feasibility of establishing review panels and incorporating constituency representatives in the panels could then be investigated. These panels could act as a final review of the tender process in the event of complaints.

- There is an urgent need to overhaul and implement a turnaround strategy for procurement offices/agencies through a comprehensive skills audit, training programmes and an institutional capacity building strategy. Training for procurement officials needs to be fast tracked to enable them to procure in a manner which furthers all Government objectives.

- Tender Advice Centres for potential suppliers should be improved.

- The private sector should be able to access all these services at a fee in the interest of promoting private sector support for affirmative procurement policies.

- A National Procurement Framework must incorporate a definition of BEE and of a black company; it must be applicable to all Government organs and SOEs. A new system of preferences for qualifying companies should be increased to a maximum of 20%.

6.4. Government and the South African Management Development Institute (Samdi) should investigate the possibility of drafting a skills plan, that will facilitate the upskilling of existing staff and training of new staff as part of an HRD Strategy for Procurement. This can be carried out via the NPA.

- The programme must consider and adjust existing training programmes in the National Treasury. The training should include the evaluation of funding and ownership structures (for example the difference between ownership and control) to prevent fronting and the development of a comprehensive understanding of empowerment indicators.

- Government must help design an HRD Strategy for the sector to meet the requirements of a revamped procurement system.

- The HRD Strategy will include estimates of personnel needs after conducting a skills audit of existing capacity.

- Training could be done in partnership with the private sector (for example an IT company that specialises in supply chain management) and an existing educational institution.

- Training costs could be recouped through developing private sector skills.

6.5 Given the numerous structures and mechanisms used to facilitate black entry into the economy, the BEECom is presenting the following analysis and a definition to assist in the creation of uniformity in the tender system.

6.5.1 In this regard, the first question is whether priority should be given to control or ownership.

- Control is not directly related to ownership. Control has strategic importance because it can contribute to the deracialisation of the political economy. However, control in itself cannot be the most important indicator since it is only useful insofar as it can be used to achieve BEE objectives, including the deracialisation of business ownership.

- There is, therefore, an emerging consensus that ownership (as measured by economic interest), rather than control, is the key indicator to evaluate success in deracialising business ownership. It is an unambiguous indicator and refers to a situation where the BEE company has paid for its full portion of an equity stake.

- The evaluation of a funding mechanism should focus on how long it will take to achieve this objective and the manner in which this will be attained. This is because most black companies do not meet this stringent (economic interest) criterion because they do not have the funding required. There are numerous funding structures achieve this (economic interest) objective to varying degrees.

- They do not require third party (e.g. bank or financial institution) funding. The BEE company that does not have to give away the bulk of the financial benefits to a third party funder. The full economic interest will eventually accrue to the BEE company. These models can, ideally, be combined with voting pool arrangements to ensure that the BEE company has a meaningful influence, which is at least commensurate with the equity stake.

- For these reasons, in such cases the BEE company should be regarded as having an economic interest. Where an option model has to be combined with third party funding – for example, in licensing and concessions where new projects have to be financed – the same could apply and the criterion should, again, be how fast the equity (and voting interest) will translate into economic interest.

- Other models – for example, N-shares, pyramids and special purpose vehicles (SPVs) – do not have built-in mechanisms to match the voting interest with full economic interest. Such arrangements can, however, enhance black influence and control in strategic sectors of the economy and do not deserve outright condemnation.

- Black influence in the form of board positions and minority equity stakes remain an important instrument towards achieving the objectives of BEE. This suggests that SPVs should continue to play a role in the BEE funding arena because, as stated before, board positions and minority stakes can contribute towards the deracialisation of the political economy.

- Furthermore, the financing instruments used should reflect attempts to achieve the kind of optimal capital structure that is commensurate with empowerment objectives, i.e. reasonable term structure of the loans at affordable interest rates. This is important not only as a way of lowering uncompetitive and historically generated barriers to entry but more significantly to ensure sustainability of the black business projects.

6.5.2 Given the imperative of attaining economic interest, the BEECom is proposing the following definition to be applied by the public and private sector in initiatives aimed at deracialisation of ownership. The BEECom submits the following proposal - to be used when awarding price preferences - for further discussion.

- A "black company" is one that is 50,1% owned and managed by black people. Ownership refers to economic interest. Management refers to executive directors. A black company should receive an "A " rating for Accreditation purposes, allowing it to qualify for set-asides and a 15% price preference.

- A "black empowered company" is one that is at least 25,1% owned and managed by black people. Ownership refers to economic interest. Management refers to executive directors. This is whether the black company has control or not. Such a company should receive a "B" rating for accreditation purposes, allowing it to qualify for set-asides and a 10% price preference.

- A black influenced company is one 5-25% owned and managed by black people. Such a company should receive a "C" rating for accreditation purposes and a 5% price preference. Such a company would not qualify for set-asides.

- An "engendered company" is one with at least 30% representation of black women within the black equity and management portion. Companies in any of the above three categories, with at least 30% representation, will receive another 5% price preference. Therefore an "engendered black company" will get a 20% price preference. An "engendered empowered company" will get 15% etc.

- To qualify for any of the above preferences and ratings, companies must submit a number of regulatory documents and policies such as SARS returns, Employment Equity Plans and Proof of adherence to bargaining Council Agreements.

THE ENABLING FRAMEWORK

Problem Statement

Most black people remain at the periphery of the economy, confined to low-value-added activities. The major impediments to increasing black participation include access to funding and markets.

Although BEE has been a fundamental pillar of Government policies, it has not been implemented in a co-ordinated and integrated fashion. For this reason the private sector was able to set the BEE agenda. The private sector's participation in BEE has been inadequate and in some instances self-serving. The activities in which it has engaged, have not resulted in meaningful economic participation of the majority of our people.

There is also a lack of capacity to implement and monitor empowerment across all sectors of Government. This is partly to due to the lack of a uniform and commonly accepted definition of BEE.

Given the need to substantially increase black participation in the economy to enhance our growth prospects, BEE must become a national priority, integrated into all Government policies. An obligation should be placed on all stakeholders to implement strategies aimed at transformation. The engine of the Integrated National BEE strategy should then be located in the highest office possible to enable effective integration, continued engagement with the public and private sectors and monitoring.

The BEECom believes the absence of a coherent BEE framework from Government and the lack of commitment from the private sector to implementing real change were important factors behind the inability to make significant gains in empowerment.

"The added problem which we face is that in the post-1994 period, many private sector companies, including banks, which had been jilted into some planning for BEE, suddenly became complacent on realising that there was no clear and decisive policy in place which was either punitive or reward-oriented to compel or motivate them into action. This is an error which must be corrected in our future programmes, if we are to realise this economic empowerment revolution that is being called for here." (ANC Mafikeng Conference, 1997)

There is a need for a coherent and uniform BEE policy, with guidelines and targets, to encourage further private sector participation in BEE. Government and the private sector should provide the institutional support and capacity to ensure sustainable black participation.

Findings

During the early 1990s, black business organisations adopted BEE targets to be achieved by the year 2000. However, the country is still far away from the goals that were set.

In 1990, NAFCOC adopted its "3-4-5-6 programme" for BEE. The goals of the programme that were set to be achieved by the year 2000 were as follows:

- Blacks should hold 30% of seats on boards of companies quoted on the Johannesburg Stock Exchange (JSE)
- Blacks should hold 40% of equity of companies quoted on the JSE.
- 50 % of inputs should be sourced from Black enterprises; and
- 60 % of managerial posts should be held by blacks (NAFCOC, 1994).

In 1993, the BMF adopted its affirmative action blueprint. The BMF proposed that the South African corporate sector must achieve the following targets by the year 2000:

- 30% of senior managers should be black.
- 20% of executive directors should be black; and
- 30% of non-executive directors should be black (cited in Nkuhlu, 1995:5).

None of the targets have, however, been achieved. All sectors of the economy remain dominated by white companies and white skilled people. Black penetration in most sectors (in terms of ownership) of the economy is still minuscule.

Black companies dominate the lower end of the SME spectrum, particularly the survivalist and micro categories. There is an extremely low incidence of entrepreneurship in the black community. It is estimated that about 1,4% of the black population are entrepreneurs compared with 7,5% among whites. A 1991 survey of two South African townships found that the percentage of entrepreneurs or self-employed blacks was significantly lower than that of other sub-Saharan countries.[98]

In a sector such as the advertising industry which has very low barriers to entry in terms of skills levels and capital required, there is only one black-controlled firm among the top 20 advertising agencies. Elsewhere in the industry, there are only a handful of black companies.[99]

Empowerment at the level of ownership and operational control in the tourism sector is almost non-existent. A recent study found that blacks owned two of 1056 tourism enterprises in South Africa.

In tourism, black equity participation is primarily in casino projects. Even here the equity is mostly in the casino holding company, not the management entity. There have been some significant community-based initiatives (addressed in our ISRDS section). These have however been constrained by access to capital.[100]

In ICT there are more than 170 black IT companies with a combined turnover in excess of R4.5bn - in a market of R62bn – with one company accounting for half the figure. Black firms dominate the lower value-added end of the sector.

In the R35bn per annum petroleum industry, it is widely accepted that to be a sustainable integrated player a 10% market share is critical – however, only 5,5% of the industry is black-owned and only 3,2% of the industry's total operational profits of about R5.5bn per year accrue to blacks. There are three established black oil companies, with more than 90% of the black market share accruing to one company. The other players are in the retail, wholesale and marketing ends of the industry.[101]

Only 15 services with a total value of about R448m (or 9% of total operational costs) are currently outsourced to local black enterprises. The industry and Government formed a six-member task team in September 2000, to conclude an implementation plan for the achievement of a 25% BEE equity ownership target in the industry over a 10-year period.[102]

There has been limited transformation in the mining sector where barriers to entry include capital-intensive nature of the industry, the limited life span of mines, the lack of exploration of beneficiation opportunities and the difficulty in sourcing funding for mining ventures. Black participation is primarily at the level of outsourcing of non-core activities, with very little participation in operations.[103]

There are numerous projects at the level of the small exploration and mining sectors and of mining activities in underdeveloped regions, where the State is ensuring the optimal exploitation of smaller mineral deposits.

Empowerment activities on the JSE initially focused on financial services, information technology and media sectors, but the limited early gains were wiped out by the 1998 market crash. Sustained gains in BEE have been in regulated sectors such as gaming (including the lottery), cellular telephony and broadcasting.

Gender, as a critical component of BEE, has not been addressed by the private sector. Furthermore, while the State has provided preference for women-owned companies in its tender guidelines, there are few dedicated instruments aimed at enhancing the participation of black women in the economy.[104]

A survey conducted by the CGE showed that 40% of 103 companies had a gender policy, 13% were engaged in formulating one and 47% did not have one. Two-thirds had implemented the policy by integrating it with another policy and a third had mainstreamed it. Elements of the policies included equal opportunities, benefits in recruitment and advancement and remuneration policies.

The private sector is yet to proactively implement affirmative procurement policies. Most companies procure to black suppliers only when required to do so in terms of a tender or licensing agreement.

Recognising the need to address small business development, the Corporate SME Development Forum (CSDF) was established in 1996 as a Section 21 Company promoting affirmative procurement. The forum is open only to parastatals and private sector companies - with a turnover of more than R250m - that actively support small business development.

Recommendations:

7.1 The BEECom recommends that the Integrated National BEE Strategy (INBS) is adopted as a cabinet approved policy position.

7.2 The BEECom proposes that Government promulgate a 'Black Economic Empowerment Act', which should define BEE and establish necessary infrastructure and support.

7.3 The Act should provide for the following:

7.3.1 The definition of BEE as:

It is an integrated and coherent socio-economic process.
It is located in the context of the country's national transformation programme, the RDP.
It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens.
It seeks to ensure broader and meaningful participation in the economy by black people in order to achieve sustainable development and prosperity.

7.3.2 The Act should allow for the establishment of the relevant implementation agencies.

7.3.3 Provide for the National Empowerment Commission (NEC), which will report to the Office of the President and Parliament. The NEC should champion and oversee the implementation of the Integrated National BEE Strategy.

7.3.4 The Act should provide for the promulgation of regulations dealing with targets to be met by the public sector over a period of time. These targets should aim at enhancing the level of participation by black people and women in state-related tenders, licenses and even incentives.

7.3.5 The Act should require all Government departments to submit an annual economic empowerment report to the NEC. The report will give details on success and failures in meeting of targets.

7.3.6 The Act should provide for a framework within which the private sector can implement strategies aimed at BEE.

The consensus view of black business during the BEECom's research and consultation process was that the requirements of the Act should be mandatory on all private sector companies with more than 50 employees. This reflects extreme frustration stemming from a sense of continuing disempowerment and limited opportunities for black people to realise their economic potential. The negative market sentiment over corporate BEE transactions has dampened the confidence of black entrepreneurs, hence the demand for a powerful legislative instrument to give further impetus to the process. The perceived failure of corporate BEE has spilled over into civil society and continues to undermine all efforts to increase black participation in the economy.

This situation must be reversed and demands decisive action. This report proposes a legislative instrument that requires and challenges the private sector to agree on targets and mechanisms aimed at deracialisation of business ownership. The Act should be rooted in a spirit, which encourages the private sector to arrive at competitive and creative solutions to black participation in the economy. The private sector will then be able to benchmark themselves against these solutions and thereby promote vibrant support for BEE.

The BEECom recommends that Government reviews the voluntary nature of the requirements if there has been no success in reaching industry targets after a specified period.

7.3.7 The Act should require the private sector to agree on industry-specific targets for a number of BEE indicators within the guidelines and targets provided for by the Act. These would be incorporated as Industry Empowerment Charters.

These Industry Empowerment Charters could define targets for black participation and the mechanisms for achieving that participation. They could also specify monitoring and evaluation (M&E) mechanisms.

This could require an expanded role for Sector Education and Training Authorities (SETAs) and sectoral summits (between labour and business) to agree on and incorporate BEE targets within Industry Empowerment Charters. (There have been similar initiatives in the energy and defence industries.)

7.3.8 The Act will require companies bidding for Government contracts to submit BEE reports (to the relevant tender office - which will evaluate the report against uniform guidelines issued by the NPA) supplying details of successes in implementing BEE objectives – for example, procurement to black suppliers, employment equity and black ownership. The Act should provide for incentives to encourage private sector to implement BEE.

7.3.9 The feasibility of making the empowerment reporting requirement applicable in the following instances needs to be explored:

- Competition Commission evaluation of mergers and acquisitions
- License applications
- Application for any DTI incentives
- JSE listing
- Banking license application
- SETA benefits
- Application for a mining and exploration license
- Government Contracts

7.3.10 A final incentive to submit an Empowerment Report will be to win a Presidential Award for outstanding performance in the various categories of empowerment. Furthermore, the NEC could publicise a register of good performance, which will benefit companies and inform consumers.

AN EMPOWERMENT FRAMEWORK FOR PUBLIC SECTOR RESTRUCTURING (PSR)

Problem Statement

The democratic government inherited a massive, inefficient and costly state machinery, including national, provincial and local Government and State Owned Enterprises (SOEs).[105]

The restructuring and transformation of the public sector has been a top priority for the democratic Government. This is a complex task that has required constant innovation and adaptation to international best practice.

After the 1994 national elections, Government had a huge debt burden and budgetary constraints. Therefore, it did not have the financial resources to make the critical investments in infrastructure that are required to increase the country's growth rate without attracting private sector capital.

A significant portion of the country's capital stock was tied up in under-performing SOEs, many of which were generating negative returns.

SOEs in particular had reduced investment spending, resulting in large infrastructure backlogs could not be financed from internal resources alone. The SOEs had skewed development aims, and were not aligned with the broader objectives of Government. Their policies contained only vague references to social responsibility. Many SOEs lacked up-to-date technology and skills, which made them uncompetitive. There was, therefore, a need to improve competitiveness, efficiency and delivery of services by attracting foreign and domestic skills and technologies.[106]

The Public Service was characterised by:[107]

- A general lack of resources (knowledge, experience, funds, technology, equipment, etc) to effectively address the numerous developmental needs of South Africa.
- Organisational cultures, structures and practices that were not conducive to effective, efficient and productive service delivery outputs.
- Widespread malpractices such as nepotism, corruption, and crime.
- Huge debt burdens and Capex backlogs, that have acted as a drain on the economy and been one of the major contributors towards the decline in gross domestic fixed investment.
- The public sector was designed to serve a minority of the population.

Findings

The RDP defined an approach to PSR that said Government would, on the balance of evidence, decide when the public sector would either be expanded in strategic areas or reduced in a manner that would enhance efficiency.[108]

A White Paper on the Transformation of Public Service (1997), entitled 'Batho Pele', is the basis of action to transform the Public Service. Several other restructuring and transformation policy initiatives emanated from the White Paper, most recently:

- The DPSA's policy on Improving Efficiency and Service Delivery
- The Department of Finance's Framework on Public-Private Sector Partnerships (PPPs)
- The Department of Public Enterprise's Policy Framework

The objectives of the restructuring and transformation of the Public Service, as encapsulated in the above documents, include:[109]

- The integration and rationalisation of the previously separate administrations.
- Their reorientation towards reconstruction and development.
- Internal transformation to improve the skills levels and representivity of the public service.
- Measures to introduce modern management and organisational development structures.
- Improving cost efficiencies and reducing the drain on scarce public resources.
- The use of more Government funds to achieve socio-economic objectives.
- The improvement in the quality and efficiency of the delivery of services such as roads, water, health, housing, education and welfare to increase access and help eradicate poverty

The restructuring and transformation of the public sector has been a top priority for the democratic Government. This is a complex task that has required constant innovation and adaptation to international best practice. To deepen the current PSR and transformation programme, Government is developing a new approach that encapsulates a wide range of instruments, a mechanism commonly referred to as Alternative Service Delivery (ASD)[110].

The Presidential Review Commission (PRC) argued that implementation of all policy programmes or projects should not proceed without the consideration of a systematic appraisal of the most feasible alternative service delivery strategy. These various ASD options include[111]:

- Asset sales (privatisation)
- Management contracts
- Long-term leases
- Concessions
- Outsourcing and procurement
- Deregulation, self-regulation and licensing
- Franchises
- Community corporations
- Public-private partnerships
- Vouchers
- Corporatisation
- Service and operating agencies

Often, Government departments use approaches that are hybrids of the above, mixing characteristics of various options to achieve particular public policy objectives.

The Department of Public Service and Administration (DPSA) has argued that all Government's service delivery operations should be subjected to a regular process to determine which form of ASD would be most conducive to improve service delivery. The DPSA is developing a tool-kit, which provides guidelines on ASD.[112]

PSR must balance the need to improve service delivery against social interests and the interests of workers. The challenge for all stakeholders is to avoid the negative impact of restructuring through tight shareholder contracts and effective social planning.

The BEECom recognises the need to fundamentally restructure the public sector, including local, provincial and national Government departments and State-Owned Enterprises (SOEs). The PSR programme, particularly the ASD strategy, presents a significant opportunity for facilitating meaningful black participation in the economy. However, PSR must weigh the need to improve service delivery against social interests and the interests of workers.[113]

The ASD route is ideally suited for the promotion of empowerment and SME development. Many ASD options could provide a cheaper alternative to large-scale privatisation with its inherent bias towards large financial institutions and debt-financed transactions. They present an opportunity for innovative programmes to involve workers and communities in the PSR process.

The potential for worker buy-outs appears to be greater at provincial and local levels. (For example, the DPSA is considering outsourcing non-core functions such as security and cleaning. These opportunities can be used to facilitate broader forms of ownership that accommodate workers.)

The public service, the single largest employer in the country, is influential in the overall national labour market. Restructuring can result in huge job losses in the least industrialised provinces, such as the Eastern Cape and the Northern Province, which already have high rates of unemployment and poverty and where Government is a major employer.[114]

The proportion of employees in SOEs accounts for approximately 5% of non-agricultural employment. The restructuring of SOEs is unlikely to have a major impact on overall employment trends – except in the case of the six largest SOEs.[115]

Social planning must be boosted to include guidelines on financial advice and support, retraining and the development of SMEs. Government should consider tax breaks on retrenchment pay-outs.

An Accelerated Agenda for Restructuring was presented to stakeholders at the end of 2000. It argues that a number of elements are critical to the success of restructuring. These include governance, competitiveness and empowerment amongst other issues.

The Big Four SOEs - Eskom, Transnet, Telkom and Denel – account for approximately 91 % of estimated total assets, provide 86% of turnover and 94% of net income and employ 77 % of all employees in the top 30 SOEs. The six largest SOEs – that also include the Post Office and Sapekoe – account for about 91% of the employees of the top 30 SOEs.

On empowerment the DPE argued that restructuring should emphasise broader ownership benefits, skills transfer and operational empowerment, especially through the use of alternative service delivery mechanisms such as outsourcing.

Table 5: Top state-owned enterprises[116]

Firm	Total Assets (Rm)	Turnover (Rm)	Net Income (Rm)	Employees
Eskom	69 975	21 071	2 750	37 311
Transnet	42 779	21 680	2 165	100 592
Telkom	27 107	20 160	2 427	57 496
IDC	17 049	3 567	765	502
DBSA	12 002	925	423	465
Land Bank	5 775	2 377	371	98
Denel (1997)	4 253	3 013	82	14 200
Impofin	3 297	220	9	-
Rand Water	3 212	1 900	258	4 000
Findevco	2 770	485	21	-
Konoil	2 337	82	180	-
Post Office	1 793	2 469	-272	29 195
Airport Co	1 695	710	228	1 718
SABC	1 617	2 474	105	3 217
Foskor	1 323	1 297	135	2 163
Safcol	808	569	9	5 362
Atlantis	683	907	80	2 275
Sapekoe	201	119	0	11 000
Alexcor	200	175	-23	1 078
Abakor	115	290	-55	2 200
Aventura	111	146	-8	1 610
Total	174 102	84 636	9 650	274 482
Total (non-financial)	130 872	76 980	7 881	273 417

So far, Government's programme to restructure SOEs has not resulted in a meaningful transfer of economic ownership to blacks, despite a clear commitment to achieve this objective.

In privatisations to date, empowerment has been addressed either by requiring bidders to satisfy a certain minimum level of empowerment equity ownership/participation (e.g. Safcol) or setting aside a tranche of shares for empowerment investors (e.g. ACSA). Restructuring initiatives involving management contracts and concessions have had little or no BEE at the equity level.

"Widely different conditions have prevailed in the existing SOE empowerment deals. None have been unequivocally successful and some have been disastrous. A new approach is required."[117]

At the end of 2000, the following SOE assets had been sold to BEE interests.
(Note: Calculations of SOE assets sold to BEE interests include ESOPS, which are for all employees, black and white).

Table 6: SOE Assets Sold

SOE		**% Sold to BEE**
Telkom[118]	May 97	3 (BEE); 2 (ESOP); 5 (NEF)
Airports Company	Jun 98	4,2 (BEE); 9.0 (ESOP)[119]
SABC radio stations	Mar 97	6 radio stations
Sun Air[120]	Nov 97	75%
SAA	Aug 99	5% (NEF)
Production House (Transnet)[121]		100%
Connex	Aug 99	51%
Telkom Directory Services[122]		10%
Debis (Denel)		50%

Restructuring initiatives involving management contracts and concessions have had little or no BEE at the equity level.

A BEE consortium was awarded a two-year management contract to operate diamond-mining and exploration company, Alexcor.[123]

A proposed transaction to sell Aventura to BEE interests fell through and the Protea Hotels group (which has no BEE partners) was awarded a five-year management contract.[124]

The long-term lease of the forestry assets of Safcol and the ex-homeland forests was reissued after unattractive bids were submitted to the government. The KZN package was awarded.[125]

A strategic management partner is being sourced for the Bophuthatswana Broadcasting Corporation.

New Zealand Post International and Royal Mail (UK) were appointed as the management partner for the South African Post Office. There is no black partner as part of the management contract.

Government has announced its intention to issue concessions on the following Spoornet subsidiaries: Main Line Passenger Services; Coal Link; Oryx; General Freight; Link Rail and; LuxRail.

Government has awarded Build-Operate-Transfer concessions for the N4-Maputo and the N3-Durban highways. The N4 only acquired a black equity participant after the contract was awarded. The N3 had a consortium of black companies as part of the winning bid.

The Department of Public Works has begun its restructuring programme by outsourcing and/or contracting out the building and management of prisons and hospitals.

The reasons for the relatively low value of assets that have been transferred to empowerment interests are varied:

- There were few outright sales of SOE equity stakes during the democratic Government's first five years. The significant sales were Telkom, Airports Company, Sun Air and SAA.

- BEE consortia lack adequate financial resources. (In some cases the price of the shares was set too high for BEE consortia to raise affordable funding.)

- Financial institutions are reluctant to finance BEE consortia investing in privatised assets without Government guarantees.

- There has been insufficient Government facilitation and support of BEE interests bidding for SOE stakes. Post-restructuring, there has also been inadequate attention by Government to issues relating to after-care and transitional arrangements to ensure sustainability.

- An obvious reason for the failure of empowerment in the past restructuring initiatives has been the absence of any clear policy framework within which to achieve black empowerment.

The BEECom recognises the need to restructure Local Government. However, there does not appear to be a comprehensive framework within which to achieve empowerment at local level.[126]

BEE should be an important component of the country's new system of local Government. All tiers of local Government must design and implement BEE plans that incorporate guidelines, targets and reporting systems to monitor progress in achieving goals such as affirmative procurement. These BEE plans should form part of the new councils' Integrated Development Plans.

The Greater Johannesburg and Cape Metropolitan councils have designed restructuring programmes aimed at reducing huge debt burdens and improving service delivery and cost efficiency by attracting local and foreign participation.[127]

The Igoli 2002 plan incorporates four forms of ASD: Utilities, Agencies, Corporatisation, and Privatisation. The Agency proposal caters for the creation of agencies, which involve the establishment of a council-owned company entrusted with carrying out the operations such as water and roads.[128]

The regulator is the client (the Mega-City) which retains significant power over the private operator or management partner. The client is responsible for policy, allocating the budget, determining the specific work being contracted to the company and the benchmarks by which unit costs and performance will be measured.

It appears that black equity participation will only occur in the privatisation exercises. It is unclear whether there will be black equity involvement in the management companies participating in the utilities. The emphasis is on training and skills transfer.

Outsourcing is a major opportunity for black participation at local Government level, especially for workers and communities. There is a need to move beyond the current stalemate – between sections of the labour movement and local Government – and to reach consensus on a clear framework through which BEE can occur.

Government has deregulated certain sectors of the economy – for example telecommunications, broadcasting and gaming. These strategies attracted local and foreign investment, infrastructure development, new skills and technologies, jobs and opportunities for black business while increasing levels of choice for consumers.[129]

In all cases, deregulation facilitated the entry of new black investors into new industries. In telecommunications there have been successes with the Vodacom and MTN stakes achieving financial gains for black investors.

In gaming, early indications, particularly in Gauteng, suggest that the casinos have performed above expectations, delivering financial gains for black investors. Gaming licences also have the potential of creating downstream opportunities for black SMEs. However, the inevitable consolidation of the industry could affect BEE consortia.

It appears that the lottery is financially sustainable, with numerous possibilities to enhance BEE participation at equity, management and downstream levels.

In all cases, licensing has been used to bring foreign capital and skills – for example, Vodafone, Warner Brothers, MGM Grand, Saudi Oger, GTE, Caesar's Palace, G-Tech, Tattersalls and Camelot.

The deregulation has increased consumer choice, resulting in further growth in certain industries – for example, YFM has been used to develop a new industry (Kwaito Music).

The licensing arena has encountered a number of stumbling blocks, particularly during implementation, with weak regulators unable to effectively carry out mandates, resulting in negative perceptions about the process. There have been a number of other shortcomings:

There is a lack of uniformity in policy, particularly in gaming, with provincial regulators applying different interpretations of BEE and different guidelines to monitor progress.

The provincial gaming boards have operated in the absence of a clear national framework with little black participation in Bingo licenses awarded in Gauteng. (This issue requires urgent attention given the ongoing bingo licensing process and the upcoming route and site operator licensing awards.)

There have been high levels of uncertainty as a result of delays in issuing license awards and the legal processes instituted by losing consortiums, for example, the recent third cellular license bid - with severe delays hampering investor confidence and the future success of the preferred bidder. In Mpumalanga, it took more than a year for preferred bidders to go ahead and build permanent casinos because the award was contested. In other provinces legal actions against regulators are delaying the award of new licenses.

There is a lack of capacity in many regulators to effectively monitor and evaluate performance in meeting BEE indicators, including ownership, employment equity, affirmative procurement, job creation and training. The ad hoc manner in which monitoring and evaluation takes place often results in little attention being paid towards all or some of these indicators. There is concern across all sectors about the extent to which licensees are implementing affirmative procurement policies.

Ownership in BEE consortiums has been very fluid, with changes occurring at the bidding stage and after the award. These changes may be prompted by black groupings being in a position to sell their stakes to raise capital for other investments more suitable for their portfolios. For example, in media some have wanted to strengthen their media interests while others have wanted to move out of the sector.[130]

BEE consortia may need to introduce new shareholders to improve financial viability of a project. In some cases, initially broad consortia have consolidated around the most financially viable black partner because of constraints in small groups raising funding, particularly for greenfields initiatives. This has resulted in one dominating BEE company within a consortia.

This places an onus on the regulator to invest significant resources in skills that enable it to monitor and evaluate such ownership changes. (ICASA has been unable to set clear policy on the manner in which BEE objectives could be met, given the constant ownership changes in the sector.)

While there is a need for clarity and guidelines against which to monitor such ownership changes, a flexible approach is required to ensure black business success.

The regulators have emphasised the need for operational involvement of BEE consortia. However, a number of factors inhibit effective black shareholders' participation at executive decision-making levels. Firstly, there are financial arrangements that promote dependency on a shareholder who has funded the black consortia. This has given rise to parallel black and white decision-making structures with the former having less power.

Secondly, there are management contracts given to operators who usually do not have black shareholders. This further inhibits the ability of black shareholders to enforce black participation in downstream opportunities such as outsourcing.

Thirdly, there are structural problems in broad-based consortia that limit their ability to exercise effective control over their assets. Some regulators have emphasised the need for broad-based consortia. However, by their very nature, disparate ownership groups result in a situation where there is no clear controlling or lead shareholder.[131]

Recommendations

8.1 The BEE recommends the adoption of an Empowerment Framework for Restructuring that outlines empowerment guidelines to be applied in the event of restructuring. The key principle of the framework is that it should have at its core the facilitation of meaningful and sustainable empowerment at all levels. The components of the framework could be as follows:

8.1.1 The PSR programme must aim to improve delivery of services and enhance the rollout of infrastructure to underdeveloped and rural areas.

8.1.2 The BEE believes that the following process should be followed when considering potential job losses, that may be the outcome of restructuring exercises:

- Retrenchments should be avoided at all costs.
- Aggressive training and skills development programmes must be introduced.
- Management should have the responsibility to facilitate financial and non-financial support for employees starting their our business.
- Management should have the responsibility to seek alternative employment for workers in the event redeployment and retention options fail.
- A fixed percentage of restructuring proceeds should be earmarked for social plans.

8.1.3 The PSR programme should be a key pillar of the BEECom's proposed Investment for Growth Strategy. The BEECom believes the PSR programme should be used to:

- Finance an agency that focuses on rural development. A portion of the proceeds from the sale of State assets should be used to stimulate the economies in rural areas by building social and economic infrastructure. The BEECom suggests a cap on Restructuring proceeds that are aimed at debt reduction.
- Stimulate further infrastructure expansion through attracting new foreign and domestic investment to the country.

8.1.4 The BEECom believes black equity and management participation in the restructuring process must not be relegated to second-tier opportunities. We therefore recommend that black involvement must occur at all levels, including large divestitures, SEPs, concessions and strategic management partnerships.

- Every form of black equity participation can be an effective instrument to drive empowerment. The negative sentiment around black investment holding companies creates the misconception that this vehicle is always ineffective. Such approaches de-emphasise the importance of ownership. In fact, black investment companies, given the right support in a conducive environment, can be an effective instrument to ensure de-racialisation of ownership and control.
- To realise the objective of effective black equity and management participation, the State will have to play a facilitative role through the provision of favourable and preferential funding mechanisms and information, support and independent advisory capacity. To increase the equity and management participation of black entrepreneurs in the restructuring process, the following measures should always be considered: Discounts, deferred payment terms new BEE funding mechanisms including claw-back, earn-in and vendor funding.[132]
- The NEF should play a key role in facilitating affordable transfer of shares to black companies.
- The trend in BEE transactions is to clearly define up front the nature of the black equity partner's (BEP) participation, including expected value-add, with clearly defined performance indicators. There is a need to ensure that the Black Equity Partner is supported by the State (through its DFIs) and the SEP in performing its obligations.[133]

Table 7: Opportunities for black participation in PSR. (The table presents only some of the opportunities. More time should be spent designing a detailed programme to facilitate black participation at all levels.)

State Asset	**Restructuring Initiative**	**Empowerment Opportunities**
ACSA	IPO	Corporate Advisory Services; Retail Schemes, ESOP, NEF
Air Chefs (Transnet)		51%
Air Traffic Control		Corporate Advisory Services; BEP
Apron Services	SEP	Corporate Advisory Services; BEP
Aravia.com		Corporate Advisory Services
Autopax		Corporate Advisory Services; BEP
Coallink	Concession	Corporate Advisory Services; BEP; outsourcing
Denel		Corporate Advisory Services
Denel Aerospace	SEP	Corporate Advisory Services; SEP must have BEP
Denel Ordnance	SEP	Corporate Advisory Services; SEP must have BEP
ESKOM		Corporate Advisory Services; BEP
General Freight	Commercialisation	Corporate Advisory Services; Outsourcing; BEP
Genfreight	IPO or SEP	Retail Schemes, ESOP, NEF; Corporate Advisory Services; BEP
Linkrail	Concession	Corporate Advisory Services; BEP; outsourcing
Luxrail	Concession	Corporate Advisory Services; BEP; outsourcing
Mossgas		Corporate Advisory Services; Outsourcing; BEP
Orex	Concession	Corporate Advisory Services; BEP; outsourcing
Petronet	Corporatisation	Corporate Advisory Services; BEP
Port Operations	Privatisation	Corporate Advisory Services; Outsourcing; BEPs
Portnet	Corporatisation	Corporate Advisory Services; Outsourcing
Protekon (Transnet)	70%	Corporate Advisory Services; BEP
SAA	IPO	Retail Schemes, ESOP, NEF; Corporate Advisory Services; BEP
Sasria		Corporate Advisory Services
SNO	License	Corporate Advisory Services; Majority BEP; NEF, ESOP, Retail Scheme
Telkom	IPO	Corporate Advisory Services; Retail Schemes

8.1.5 The BEECom recommends that Government should use the restructuring process to help develop black corporate advisory companies - across a wide spectrum of disciplines - with the potential to compete against established firms.

- Where possible, black advisors should be appointed as lead advisors and project managers with the ability to include SEPs within their consortia in the event that they have insufficient capacity to execute an entire contract. (Black advisors include lawyers, merchant banks, investment banks, management consultants, accounting firms and stockbrokers)
- Government should encourage black professionals to pool their skills and bid for advisory contracts. This could give them the springboard from which to launch successful firms.
- Where a contract is awarded to an established firm, Government should stipulate conditions demanding targets for ownership changes, skills transfer and the inclusion of black sub-contractors during the execution of a contract. The same should apply to black advisors appointed as lead advisors or project managers.
- Other options would be to set aside a portion of each contract exclusively for black suppliers, or a total percentage of all contracts awarded to be awarded to black suppliers.

8.1.6 All PSR exercises should investigate the feasibility of incorporating ESOPS and where possible other schemes aimed at enhancing worker participation, for example worker buy-outs and co-operatives.[134]

- The existing ESOP schemes in privatised companies struggled to get off the ground. There was no agreed framework between labour and management to ensure worker involvement and financial empowerment. (See section on National Empowerment Funding Agency.)
- PSR must promote the development of worker and community-owned businesses through the increased use of a mix of outsourcing and other ASD models.
- Government must utilise the Social Planning process to agree with unions on clear guidelines within which worker and community-owned enterprises will occur. As far as possible, outsourcing initiatives must involve assisting workers and communities to establish companies and to support their ongoing development.
- Agreement must be reached on the nature of financial and non-financial support to be provided for business and co-operative development.

8.1.7 Procurement and outsourcing targets should be set for all SOEs and uniform procurement guidelines must be applied across all SOEs.

- The BEECom recommends that within ten years at least 50% of SOE procurement should go to black- owned companies as defined in this document.
- The BEECom further recommends that at least 30% of this procurement should go to black owned SMEs

8.1.8 The BEECom believes that every IPO of an SOE must have a significant retail scheme with a discount to encourage black participation.

- Internationally, various schemes have been used to encourage broader ownership via government-owned equity. These include retail schemes and unit trusts.
- The NEF (NEFA 4) could manage the retail schemes and on-sell shares to black individuals, companies and consortia. The infrastructure to administer the schemes should be established in partnership with the IPO office in DPE. Distribution networks of organisations such as Cosatu, The Post Office, nation-wide banks and/or sales outlets and The National Lottery Network should be utilised.
- The schemes could use Ikageng-type option models, perhaps adjusted to allow for tradeability. The NEF could undertake to pay Government on a deferred basis (as and when it receives the proceeds). Participants could be encouraged to retain shares via "bonus shares" and other innovative incentives.

8.1.9 In the area of an empowerment framework for PSR, business can deliver in the following ways:

- Business can provide appropriate channels for the distribution of shares, warrants or certificates, which give ownership of privatised Government assets to a large portion of black South Africa. Banks can fund the purchase made by individuals, using the assets themselves as a guarantee.
- Stockbrokers can provide flexible trading mechanisms that will allow individuals to choose how long they invest for and when they wish to receive any proceeds.
- Business can provide market-making abilities in the listed certificates or warrants, in the same way that certain banks make markets in Government Bonds, or in existing listed warrants.
- Business can provide for the retraining and upskilling of workers in the public sector through their participation as new shareholders in restructured SOEs and local utilities.
- Business can provide for training through partnerships with Government in new sector-based training institutes such as an ICT institute.

8.1.10 There is a need to design and implement an effective communication and support strategy that facilitates real participation of communities, workers and entrepreneurs in the restructuring.

8.1.11 Training and skills transfer programmes must form a substantive component of the Empowerment Framework for each SOE and in the public sector.

- Comprehensive skills audits must be conducted to determine skills levels and to design new skills development programmes. New investors should perform extensive training of current and new workers.
- Shareholder contracts must incorporate key performance indicators relating to training skills development and affirmative action strategies.

8.2 Regulators should direct far greater resources towards ensuring that licensing becomes an even more powerful instrument to advance the BEE agenda.

- There is an urgent need to boost the capacity of regulators to monitor and evaluate BEE during the licensing process.
- There must be greater scrutiny of financial arrangements related specifically to black consortia to determine how they may be improved to achieve BEE objectives. This evaluation should be flexible enough to ensure the sustainability of black consortia.
- Regulators should have effective systems with clear outlines of objectives and criteria to monitor and evaluate BEE during the licensing process.
- Regulators should introduce stiffer penalties for companies that do not meet BEE criteria.
- Uniform BEE evaluation guidelines need to be developed for each sector. This should be done within the context of a sector strategy for BEE – for example, the BEECom’s Industry Empowerment Charters.
- Broader empowerment should always be an objective during the licencing process. Government should always consider allocating a stake to the National Empowerment Fund, as has been done in the National Lottery.

RURAL DEVELOPMENT AND ACCESS TO LAND

Problem Statement

Centuries of Colonial conquest and, subsequently, Apartheid policies that included forced removals of millions of black people and the Bantustan system condemned the majority to lives of utter deprivation in overcrowded and impoverished reserves, most of which are in rural areas.

In 1860, over 80% of the nearly 500 000 hectares of white-owned lands was farmed by black tenants who proved to be as efficient as large-scale farmers. White farmers argued that they could not compete with their black counterparts who were an important source of product supply to new mining towns.[135]

During this period, the Government did not intervene in the market. In 1913, the Land Act designated 8% of the country's farmland as the only areas that could be legally farmed by blacks. The following five decades saw the passing of more than 80 acts of parliament aimed at assisting the white commercial farming sector. The result is that today 12% of agricultural land supports 72% of the rural population.

Furthermore, the country's rural areas, where just over half of the country's population lives, are devoid of basic infrastructure and economic activity. Factors such as the lack of access to land, water, markets, finance, communications infrastructure and flows of information into these areas prevent local entrepreneurs from making any progress. They also impede effective economic development initiatives.

These rural economies, ex-Bantustan areas and small towns are largely dependent on the income transfers from relatives working in urban areas and inadequate social security payments, including pensions. Much of this income is then spent on transport to and from towns and cities where employment, social services and consumer goods are available.[136]

The millions of blacks living in rural areas have been denied opportunities to develop their human potential. As a result, there are high levels of illiteracy and low levels of formal education. The majority of rural people are either unemployed or engaged in marginal activities. Migration (of mostly males) has resulted in these areas being populated by women, the young and elderly, sickly and unemployed people.

This gives way to a vicious cycle of crushing poverty, under-developed markets, dismal rates of public and private sector investment and a lack of infrastructure that reinforces the cycle by impacting on the ability of rural communities to engage in economic activities. In addition the natural resources base is eroded and under-utilised.

The struggle for liberation and freedom was, in many respects, centred on the need for restoration, redistribution and restitution of land dispossessed during Colonialism and Apartheid. The challenge facing Government is to promote a new class of sustainable black entrepreneurs in a deregulated, more competitive environment that has seen the dismantling of tariff barriers and other forms of State support that helped build the white commercial farming sector.

However, this is just one component of a comprehensive rural development strategy. There is a need for other interventions that improve the livelihoods of the rural poor, for example:

- Establishing a framework for increased State intervention in rural areas aimed at breaking the cycle of underdevelopment and stimulating rural economies. This will require targeted initiatives that meet the needs of rural communities.

- Substantially improving the economic and social position of women in rural areas through specific programmes aimed at women and targets in all other development initiatives.

- Increasing levels of food security in rural areas. While there is adequate food at national level, some 30 – 50% of the population has insufficient food or is exposed to an imbalanced diet due to low incomes.

- Empowering rural people to unleash their full potential by providing increased access to schooling and adult basic education and training (Abet). Skills development and entrepreneurial capacity should be promoted within existing schools, tertiary institutions and SME support agencies.

- Giving rural communities real ownership of productive assets by increasing access to financial services and through land reform programmes.

- Enabling rural communities to utilise land productively through appropriate extension services, including technical support, marketing and product development.

- Providing access to the information and communication technology (ICT) infrastructure to improve the delivery of Government services, enhance the use of productive assets and to improve access to affordable financial services and markets.

- Increasing levels of state welfare to rural households through a Comprehensive Social Security System.

Findings

The country has extremely high levels of poverty – with 30%-50% of the population classified as poor. Poverty levels are the highest in rural areas with women the most affected.[137]

Using a household poverty line of R800 a month, the percentage of poor is put at 28,5%. However, when use is made of income figures returned in the 1996 census, the portion of those living in poverty is 52,2%.[138]

Most of the country's poor people live in rural areas with about 71% of rural people classified as poor.[139] Rural households account for 72% of the total poverty, although they make up just over half the population. About 53,4% of South Africans (20,3m people) live in rural areas.[140]

The poverty rate amongst female-headed households is 60% compared with 31% for male-headed households, and female-headed households are more likely to be in rural areas where poverty is concentrated.

The total poverty gap was about R28bn in 1995. (The poverty gap refers to the annual amount needed to uplift the poor to the poverty line by means of a perfectly targeted transfer of money).

Incomes earned by black women in rural areas are much lower than those earned by black men for comparable work. Women dominate seasonal agricultural and domestic worker wage categories where they have no access to wages for 5 – 6 months a year. The daily wage rate of these women is about one-third of that received by permanent male farm workers.[141]

Black illiteracy and inadequate access to educational facilities in rural areas are far worse than those found in urban areas. There is a difference of about 30% in the literacy levels of urban and rural dwellers. There is a very strong correlation between the level of education and the standard of living. The poverty rate among people with no education is 69% compared with 54% among people with primary education, 24% among those with secondary education and 3% for those with tertiary education.[142]

The rural poor face the twin problems of unemployment and the low quality of the jobs they occupy. Poor people are relegated to secondary labour markets (unregulated, with low skill requirements) and the informal (survivalist) sector where wages are frequently below the poverty line. The rate of formal employment creation has weakened furthest in the provinces where poverty levels are highest.[143]

Attacking poverty requires a wide range of policy interventions to create the conditions for the poor to realise their full potential and create viable and sustainable rural economies.

"Poverty goes beyond lack of income. It encompasses economic, social, and governance dimensions. Economically, the poor are not only deprived of income and resources, but of opportunities. Markets and jobs are often difficult to access, because of low capabilities and geographical and social exclusion. Limited access to education affects the ability of the poor to get jobs and to obtain information that could improve the quality of their lives. Poor health due to inadequate nutrition, hygiene and health services further limits their prospects for work and from realising their mental and physical potential." (Global Poverty Report, July 2000. The report was submitted to the G8 Okinawa Summit by the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, International Monetary Fund and the World Bank.)

Eliminating poverty requires a co-ordinated offensive that will mobilise the full weight of Government resources and programmes towards this objective. It requires the integration of policies and programmes across a wide range of Government departments – for example programmes relating to spatial development initiatives, municipal infrastructure, housing, mining and energy, public works, land reform, agriculture, tourism, SME development, education and health, including HIV/AIDS awareness.

One of the BEECom's key recommendations is to ensure that programmes effectively reach the poor. This section will make further recommendations in areas relating to:

- Land reform
- Enhancing economic opportunities and promoting community ownership
- Access to finance
- Investment in rural infrastructure.

A comprehensive land reform programme to reverse the injustices of Apartheid land policies should be an essential element of an integrated rural development strategy. Government has implemented numerous policies and initiatives to support land reform.[144]

The first piece of legislation passed by the democratic Government was the Restitution of Land Rights Act of 1994. Since then the Government enacted relevant laws such as the Provision of Land and Assistance Act of 1998, The Land Reform (Labour Tenants) Act of 1996, the Interim Protection of Informal Land Rights Act of 1996, the White Paper on South African Land Policy and the Extension of Security of Tenure Act of 1997.[145]

The programme hinges on three pillars: targeted land redistribution, restitution and tenure reform. Other strategies have addressed investment promotion, land-use, technical support and infrastructural development.

The South African Constitution (1994) provided for restitution or redress of property dispossessed after 1913. It also provided for security of tenure or comparable redress. The Constitution placed a responsibility on the State to avail resources towards this end.

The democratic Government adopted a market-based approach to land reform and land-use. Initially black people could qualify for a grant, commonly known as the settlement and land acquisition grant (SLAG), to purchase and develop farmland. However, these grants were discontinued.

During the first five years, the Government's efforts have resulted in the redistribution of only 1% of the country's farmland - a long way from the 30% target that was initially set in the RDP. The SLAG funds have been subject to misuse.

Since the start of the land reform programme in 1994, 354 more people have gained access to 654 998 hectares of land in the Redistribution, Restitution and Tenure Reform programmes.[146]

Settled restitution claims by the year 2000 amount to 12 623 households and 268 306 hectares of land. There were 5 407 households that were awarded compensation, as opposed to land. The total number of settled restitution claims was to 6 523, benefiting 18 030 households, at a total cost of R275m.

By the end of 2000, not a single claim has been settled in Gauteng and Mpumalanga, and only one has been completed in the Free State. About 1600 claims have been settled in other provinces. Many of the current 63 455 restitution claims are likely to be rejected on the grounds that they did not comply with the legal requirements for restitution.

For many rural households, SLAG was the only way to acquire farmland. In practice, beneficiary households have to pool their meagre grants in order to buy land from a willing seller - a process made possible by the Communal Property Associations Act.

In most cases, farms financed with land grants and settled by groups of households are too small to support all of the beneficiaries as full-time farmers. The Department of Land Affairs anticipated that emerging farmers would use the grant to leverage loan finance for additional land. However, research has shown that most creditworthy farmers did not qualify for the SLAG because the means test applied to potential beneficiaries precluded individuals with a monthly household income greater than R1 500.[147]

A considerable number of private land transactions have taken place without the grants. Recent studies in Kwazulu-Natal show that there were five times as many private land acquisitions by black farmers than similar transactions where the Government was involved. In the Northern Province a total of 62 transactions were recorded where black people acquired farmland outside the land reform programme during 1997 while only three common property associations acquired their land during 1997.

Against a background of rising interest rates and obsolete legislation prohibiting the sub-division of agricultural land into affordable farms, it is remarkable that private transactions played any, let alone the dominant, part in redistributing farmland during 1997 and 1998.[148]

Disadvantaged women were poorly represented in all land transactions. In aggregate, they gained less than half of the area gained by disadvantaged men and, after excluding inheritance transactions, gained less than half of the land value gained by their male peers.

Agricultural production is an important economic activity in rural areas; it accounts for 5% of GDP and just over 10% of employment. The sector however, continues to reflect apartheid era patterns with limited black involvement.[149]

About 58 000 white commercial farmers own about 80% of the land (82,8m hectares) and produce more than 90% of its product. These farms employ 914 000 people. In the white farming areas with the most arable land, only 51% is fully utilised.

Black farmers are however, relegated to farm in marginal lands with limited water supplies and manufacturing resources. About 72% of the 1,4 million households engaged in subsistence or small-scale crop farming cultivate areas of less than 2 hectares compared with the average 1 349 hectare size of commercial farms.

Only about 26% of black rural households currently have access to a plot of land for crop cultivation, while 24% of black rural households own livestock. Ownership of agricultural and other productive equipment is limited to 18% and 8% of black rural households respectively.

About 30% of households engaged in farming activities survive on monthly incomes of R400 or less, including income from remittances, employment and other sources. 72% of farm workers receive an income below the poverty line, and the average monthly farm wage is R457.

Although agricultural production makes a small contribution to household income, over one third of rural households continue to engage in agricultural production, making it the third most important source of livelihood in rural areas after remittances and wages from low-skilled jobs.

There was insufficient attention to ensuring that land reform programme promotes the economic potential of rural areas. In fact, land reform has often resulted in uneconomic land settlements.

Emphasis was initially placed on broadening access to emerging and previously disadvantaged farmers in the agricultural sector, through provision of support services such as credit, extension, marketing, training, input supply and farming infrastructure.[150]

Farm equity schemes on private and public sector land, are part of a range of partnerships between beneficiaries of land reform – communities and workers – and the private sector. These schemes involve the purchase of equity, ownership of the land and sharing of risk.[151]

Beneficiaries have traditionally utilised the R16 000/person SLAG fund to acquire their equity. However, there is evidence that the use of SLAG funds for equity purchases was abused by white farmers to help pay off their debts. There was seldom any commitment to meaningful ownership or management of the farm by workers or communities.[152]

The Mid-Term Review of the Land Reform Pilot Programme found that the beneficiaries had not been sufficiently empowered. In general beneficiaries have not been put in the forefront of negotiations with the private sector and there is little evidence to suggest that farm workers are perceived to be partners in the venture. In addition, there is insufficient post-transfer development support designated for beneficiaries. For instance, farm workers have limited access to financial services and as a result have little capacity to address financial issues.[153]

Since the 1999 elections there has been new energy and a shift in policy to accelerate sustainable land reform.

The policy is aimed at promoting access to land for productive use, specifically for agricultural purposes. The policy's objectives are to:

- Transfer about 30% of the country's agricultural land over 15 years
- Improve nutrition and incomes of the rural poor.
- Expand opportunities for rural people, especially women and youth

The mechanisms to achieve these objectives focus around:

- A more flexible grant system where beneficiaries can make a contribution in kind or in cash and define the type and size of farming projects they wish to pursue. The programme allows people to leverage their resources using a grant to enable productive use of land. The grants range from R20 000 to R100 000 depending on the project size and the amount of own contribution. The minimum contribution is R5 000, which triggers a grant of R20 000. The new approach is tied to the productive value of land, minus past state subsidies.[154]

- Implementation is decentralised to district level staff; audits and monitoring takes the place a previously lengthy approval process.

- The new schemes enable participants to engage in food crop production to improve household food security, common grazing, purchasing equity in an agricultural enterprise and to engage in commercial agricultural activities for those with a high level of farming expertise. Residential projects will not be supported unless participants want to start household gardens.

Recommendations

9.1 The BEECom believes there is an urgent need for Government to implement the Integrated Sustainable Rural Development Strategy.

The BEECom has made suggestions in respect of four areas:

- Accelerate Land Reform
- Promoting of community ownership
- Improved access to finance
- Investment in rural infrastructure.

9.2 The BEECom recommends that Government should speed up the design and implementation of a comprehensive social security system, including a basic income grant to alleviate poverty, especially in rural areas. A comprehensive social security system would help stimulate rural economies.

9.3 The BEECom recommends that government should use a portion of privatisation proceeds to stimulate rural economies by investing in labour-intensive infrastructure development projects. The Commission recommends that there should be a cap on privatisation proceeds going towards debt reduction reflected in the medium term expenditure framework.

9.4 The BEECom recommends the identification of a dedicated "Agency", which will ensure co-ordination and appropriate focus on rural development.

The Agency would work closely with the Office of the President of South Africa, NEFA and other DFIs and Government departments. Activities would be funded from a portion of the proceeds from the sale of State assets. It will also mobilise funding and other support from NEFA, the private sector and the donor community. Implementation of projects could be done with joint public-private sector participation. The Agency's mandate will be to:

- Assist in advocacy of rural development initiatives
- Promote infrastructure projects in rural areas
- Co-ordinate and streamline existing DF initiatives in rural areas
- Source funding for land acquisitions
- Increase rural access to affordable finance through vehicles such as the Post Office network and the PostBank.

9.5 Government should streamline the mandates and devise guidelines and targets for the Land Bank and other institutions involved in rural development. There should be a concerted effort to scale up the activities of these institutions.

Government must set transformation targets for the Land Bank to achieve, including:

- The value of micro-loans to emerging farmers, small and medium-sized black farmers and large black farmers.

- The value of loans advanced to finance land acquisitions. The Land Bank and the Agency should consider establishing a dedicated mechanism to finance land acquisitions under the land reform programme. This vehicle could consolidate the efforts of other organisations involved in funding land acquisitions and leverage their resources.

- In addition, the Land Bank should impose conditions on all recipients of new loan funding. This will ensure that white farmers have progressive labour relations policies and participate in BEE initiatives such as farm equity schemes.

9.6 The BEECom recommends that Government develop a framework for the transfer of public and private land to black people with clear guidelines and time frames.

9.6.1 State assets available for land reform must be transferred to workers, communities and black companies.

- Innovative funding mechanisms enabling broad-based ownership, are critical. They must be combined with non-financial support. When transferring state land, substantial discounts, innovative vendor-financing schemes (such as deferred payment and options), and other mechanisms ensuring majority worker and community ownership should be considered.

- The involvement of black companies in partnership with communities must also be considered to enhance the growth potential of these assets.

9.6.2 The BEECom believes that where blockages to land reform exist Government should utilise the property clause in the constitution, which allows for expropriation to transform land ownership patterns.

- The constitution requires the payment of "equitable", not "market value" compensation. So far Government has not used this and continues to rely on a "market-based willing-buyer-willing seller" approach.

- The State should consider foreclosing the land of white farmers who have accumulated unsustainable levels of debts and use this land for redistribution.

9.7 An Integrated Sustainable Rural Development Strategy must provide instruments to:

- Improve access to affordable financial services for the rural poor. This will require co-ordinated efforts to extend the reach of DFIs, the banking sector, developmental micro-finance institutions (MFIs) and organisations such as the Post Office and the PostBank to rural areas.

- Increase the rollout of ICT infrastructure in rural areas, thereby improving the delivery of services and creating opportunities for business development. This could be brought about by means of targets; for example, all schools should have electricity, telephone lines and computers which local communities can use.

THE ROLE OF BUSINESS ORGANISATIONS

Problem Statement

Business organisations should play a central role in economic growth and development. However in South Africa business organisations have come to reflect the apartheid past and they have therefore had limited impact on the economic landscape. South Africa has various types of business organisations. These are constructed along racial lines making interaction with Government extremely difficult and mobilization on national issues even more so.[155]

A combination of Voluntary Associations and its apartheid past has left the country with a highly fragmented, racially and ethnically divided business sector. There is now widespread agreement that if business is to emerge as a credible partner in the social and economic transformation of the country, it needs a unified and stronger voice than it currently has.

There are differing views on how this should be structured but general agreement that recent creations – the Black Business Council and Business South Africa – provide the best opportunity to move ahead in creating a united business voice. A specific proposal is put forward on how this can be attained operating at local, provincial and national level – chambers of commerce and industry, industry associations, business federations, and special-purpose business formations.[156]

Findings

SA's Business organisations are based on the Anglo Saxon or voluntary association model, with mixed membership within certain organisations. They are characterised by:

- Generally low membership as most enterprises – large and small – remain outside organised business bodies;
- Some areas (in business support services) are covered by several organisations while others are covered by one weak organisation or none at all.

South Africa's business organisations are structured along racial and ethnic lines. As a result there are three national chambers and a national business federation:

- The South African Chamber of Business (SACOB), representing predominantly English-speaking chambers and large corporations.
- The AHI, representing predominantly Afrikaans-speaking chambers.
- NAFCOC, representing predominantly black chambers and FABCOS, a federation of mainly trade associations.

The organisations representing white-owned businesses are financially strong and have well-developed and organised membership support infrastructure. Consequently, they are in a position to offer a wider range of services to their members compared to their counterparts in the black business community.

Chamber systems around the world follow one of three models:

- The Continental Model, found in most European countries such as Germany, France and Italy.
- The Anglo-Saxon Model operates in virtually all English-speaking countries such as the United Kingdom, the USA, Canada, Australia and most developing countries.
- The Mixed Model operates in countries such as Japan and Korea.

The Mixed model, such as is found in countries like Japan and Thailand, is middle of the way between the Continental and Anglo-Saxon models. While chambers are established and regulated under public law, a Continental model feature, membership is voluntary.

In countries such as Japan most public support services for enterprises are delivered through the chambers, thus making it attractive and worthwhile for enterprises to take up membership. Some believe that this is the model that is best suited to the needs of developing countries where membership is voluntary and, for various reasons, organisations struggle to attract members.

Table 8: Features of the Continental and Anglo-Saxon Chamber Models

	Continental	Anglo-Saxon
Legal sanction	Chambers established and regulated under public (chamber) law.	No specific regulatory legislation. Chambers must adhere to local laws of incorporation where they are registered.
Membership	Obligatory - with regular and mandatory financial contribution to the local chamber.	Voluntary but not legally defined, thus membership can include more diverse sectors including trade, industry, agriculture, services, banking, insurance and service professionals like lawyers, accountants and consultants.
Role in public policy	Governments are legally obligated to consult with chambers before ruling on legal and economic matters. Regional coverage is regulated, ensuring that there is only one chamber in each major town or district.	Role largely through lobbying and voluntary consultation by government.
Delegation of public tasks	Government delegates certain public functions, e.g. education, examinations, and business registration.	Regional coverage is not regulated.
State supervision	State authorities supervise chamber activities.	Chambers do not have to fulfill functions delegated to them by the state.
No state supervision	Anyone is free to establish a chamber.	As a result, there may be several chambers competing for membership or no chamber representing the business community in a given area.

Source: Based on "National Chambers of Commerce: A Primer on the Organisation and Role of Chamber Systems," 1995.

In countries that follow the Continental Chamber Model, there are business organisations that operate along the lines of the Anglo-Saxon model with its hallmark voluntary membership and private law status.

The United States represents perhaps the epitome of the Anglo-Saxon model. Thus, an examination of the organisational set-up in that country should provide one example of how business representative organisations are organised and operate under the Anglo-Saxon model.

There are a number of different types of organisations in the US:

- Industry or trade associations
- Sectoral associations (such as manufacturing associations)
- Business federations
- Chambers of Commerce: Other organisational types (such as various types of business "clubs" and large business policy think-tanks such as the Conference Board).[157]

With the exception of business federations, all these organisations try to attract individual businesses into membership, either as members of an industry or sector specific group or members of a broader grouping such as a Chamber of Commerce. Inevitably, competition among various organisations is rife and those organisations that best attend to the needs of enterprises are typically more successful in attracting members.

American Chambers of Commerce are organised at federal, State and local levels. Membership of local level chambers typically comprises individual enterprises. At State level, membership comprises local level chambers. There is also a myriad of other organisations that operate only at one level. In addition, there are a few organisations, particularly those representing small businesses, which are organised at a regional (cross-state) level.

Chambers of commerce typically claim that they represent the interests of all businesses regardless of size. Indeed, it has been observed that small businesses are better off within a chamber than under their own separate organisation.

This type of arrangement, namely a separate small business association within a federation of large and small enterprises, might provide the benefit of the increased financial resources available from the contributions of the larger members. At the same time, it can guarantee that the needs and special characteristics of small businesses are fully taken into account in the activities of the bodies.

The benefits of an organisation combining both small and large enterprises are more than just the greater financial resources that would result. The presence of large enterprise members guarantees a quality of leadership that is usually not available from the small business community.[158]

However, the experience in the United States shows that a significant number, if not the majority, of organised small businesses is organised under independent small business- only membership organisations rather than within chambers of commerce.

The key reason behind this is that the interests of small and large members of the same organisation frequently conflict. This is primarily because many chambers are controlled by the larger businesses, which may pay most of the dues income to the chamber or may be organised more effectively to control the organisation. Small business issues are often not carried forward by the chamber in these cases, and the focus is on large business policy issues. Small and large businesses are frequently diametrically opposed on important legislative and regulatory issues. In many cases it appears that the policy position of the U.S. Chamber of Commerce is determined by large business members. Other organisations representing small business often find themselves in opposition to the position taken by the U.S. Chamber of Commerce.[159]

For this reason, one finds a number of small business only or predominantly small business membership organisations in the United States. The majority of these are organised and operate at local and state levels and a few operate at regional and national level.

Voluntary membership ensures that chambers have a strong incentive to fulfil membership needs since members are free to withdraw their membership and to discontinue paying contributions if they are not satisfied with the chamber's performance.

Without mandatory membership, income from membership fees is not guaranteed. Therefore, chambers under the Anglo-Saxon model are generally under strong pressure to work efficiently and provide effective services to satisfy existing members and attract new ones. To achieve this, they generally place more emphasis on marketing their services and being responsive to membership needs.

The freedom of association principle ensures that chambers are established only on the initiative of entrepreneurs themselves. Also, it means that entrepreneurs are free to join any chamber of their choice, which increases potential competition amongst chambers and forces them to respond effectively to member needs for their own survival. Also, entrepreneurs are free not to be members of any representative body, meaning that only those bodies that promise and deliver value-adding services are likely to appeal successfully to prospective members.

Because the scope of chamber activity is not regulated by law, chambers do not have to assume any tasks delegated to them by government and are free to decide the range of their activities. Thus, chambers can act more flexibly to survive and grow and be motivated to solve entrepreneurs' problems. This "profit-orientation" means that chambers are, theoretically, managed as if they were businesses, with an eye on their bottom line.

Freedom of association may lead to an unlimited and unregulated number of chambers being created. This could lead to a fragmentation of chambers, creating a situation wherein each business organisation is too small to fulfil its service and representation tasks.

It is possible that, given voluntarism under this model, some locations or regions could have no chamber representing their interests. Areas outside of urban areas tend to be the main victims of this kind of neglect.

Voluntary membership means that entrepreneurs cannot be prevented from choosing the free-rider strategy. As a result, chambers with relatively small membership bases can face three major problems. Firstly, there could be insufficient income generated from membership fees to operate efficiently. Secondly, they may become dependent on big and powerful single members. Lastly, their political influence may be limited as they represent only part of the business community.

Because chambers are not regulated by a special law or under special public supervision, there is no obligation on behalf of Government to consult them on policy matters. Chambers therefore have to "earn" the right to be heard. This is indicated by the number of entrepreneurs represented by a chamber. As these numbers are often low, most chambers' credibility is therefore negatively impacted.

Small business development is an important component of the economic empowerment of economically excluded or inactive groups world over. It is thus important to examine the role of organised business within the context of small business development.

It has been observed that: "Most support for SME from private sector organisations in developed countries is from associations, federations and chambers of commerce, in other words, representative "self-help" type organisations in which the small businesses themselves are members."[160]

However, it has been noted that these organisations suffer from a number of weaknesses that make them unable to service their members adequately. Key among these weaknesses are the following:

- Low membership is a problem that is common to all countries, including the industrialised ones, where membership is voluntary. It is generally held that only about 10 per cent or even less of small businesses are members of representative bodies as against perhaps 50% or even higher that are members of trade associations, bodies which have a direct relationship to the commercial activities of the enterprise.

- To a very large degree, low membership reflects small businesses' perception that there is little to benefit from becoming a member of advocacy organisations. The organisations offer narrowly focused services that, for the most part, revolve around representing the interests of small business and lobbying the Government, generally on a reactive basis, to improve the environment for small business. However, to the individual enterprise, improving the environment for small business is an insufficient reason for joining, since any benefits the organisation may achieve in this area will accrue to all small businesses, whether or not they are members.

- Associations are often run by small groups of people with individual aims who manipulate the organisation for their own ends. Their leadership seldom consists of persons with a vision to create and build up strong organisations to serve the sector. This also harms the associations' credibility.

- The smaller organisations generally have no employed staff at all, and rely on their office bearers to do all the work of running the organisation. A major problem faced by many of these organisations is the quality of their paid staff. Typically, staff members are viewed as unenterprising time-servers with limited professionalism or enthusiasm.

- Most associations are run by part-time managers/administrators who operate their own businesses and therefore can only devote limited time to association matters. Conversely, the full-time, paid employees who are on staff generally lack training and experience in operating an association.

- Low membership reduces the credibility of small business membership organisations in the eyes of the policymakers whom they are trying to influence. Because the organisation has weak contacts with the small business sector, it has little influence within policymaking circles. This lowers the enthusiasm of enterprises for participating actively in the organisations.

- Insufficient financing is a major constraint preventing most organisations from offering effective services to their members. In reality, however, lack of financing is a symptom of a combination of factors: Poor leadership and lack of vision result in inadequate services, which in turn leads to low membership and insufficient financing with which to employ full-time, trained personnel and provide high-quality services.

- One study found that 9 out of 10 small business development organisations in a number of developing countries in Asia and Africa identified finance as a major constraint to their ability to expand services to members.[161]

As noted earlier, South Africa, like most other developing countries, follows the Anglo-Saxon model.[162] Business organisations are products of voluntary action by businesses and membership is voluntary. Many of the weaknesses of business organisations are similar to those in other countries that follow the Anglo-Saxon model.

A combination of Anglo-Saxonism and the effects of apartheid in the formation of business organisations in South Africa has resulted in a number of weaknesses among the country's business organisations.

Moreover, while certain challenges - such as lack of finances - face virtually all predominantly small business membership in most developing countries, in South Africa this problem has a racial rather than a business size dimension.

Organisations representing black-owned businesses have an extremely weak financial base, partly because of the poor state of black business following centuries of restrictions on their ability to conduct business. Therefore, they lack capacity to serve the needs of their members. As such, these organisations are hardly able to attract and keep any meaningful number of small businesses as members.

Although it has been noted that some of the black businesses that emerged after 1994 could do more to support their representative organisations, it should be remembered that the BEECom has found that these businesses are far fewer than many people realise. Black businesses are still at the periphery of the economy. Therefore, their representative organisations will never have the financial clout of their white counterparts.

Failure to intervene will have disastrous consequences with market forces tending to re-enforce current inequalities. This suggests the need for State funding – intelligent interventions that will create incentives for black business representative organisations to increase the range of services offered to their members.

Given its fragmented nature, organised business in South Africa is considered by many within its ranks to be structurally weak. It lacks a unified voice to play any meaningful role in the public policy arena in the democratic South Africa. By and large, local business formations face the kind of problem experienced by many small business organisations in developing countries – lack of political credibility.

Consequently, while efforts are made by various business formations to influence policy, for instance through NEDLAC and other forums, business organisations acknowledge that they are a weaker policy partner compared, for instance, to labour organisations.

At NEDLAC level, for instance, where business is represented through its caucus, Business South Africa (BSA), its position is weakened by the fact that one key player, NAFCOC, insisted on its own representation outside BSA. The result of this, besides splitting the business vote within NEDLAC, is lack of unity on policy positions within the business constituency as BSA and NAFCOC do not always caucus their positions beforehand, a major strength attributed to labour federations.[163]

Business acknowledges that if it has to play any meaningful role in influencing the economic future of South Africa, these internal weaknesses have to be overcome as a matter of urgency. While, for various reasons, most organisations clearly favour retaining their independent status, there is general agreement that there is a need for re-alignment within organised business in order to better position business as a whole to play a more meaningful role in public policy.

Various initiatives have been undertaken by organised business recently in an effort to deal with the historical divisions within the business sector and work towards a unified business voice. These range from the NAFCOC-SACOB 'merger' to the formation of BSA and the Black Business Caucus(BBC), both efforts to pull business together for greater social and economic impact.[164]

Established in 1994, BSA is a confederation of 19 business organisations under a single umbrella. Each member pays an annual membership fee of R85 000 to finance the operations of the organisations. BSA, whose day-to-day operations are run by a small 4-person Secretariat, focuses its efforts only on national and international policy issues and does not deliver membership services, as it does not have companies as members.[165]

Many within organised business circles see the organisation as the country's most representative business organisation – encompassing white and black business organisations. BSA is a member of the International Organisation of Employers (IOE), an international employers body that recognises only one representative body per country as member.

BSA is the main business representative at NEDLAC. The organisation acknowledges, however, that it is still perceived as a voice of big business. This is due to the fact that unlike small organisations that have limited human and financial capacity, big business seconds its personnel to committees that formulate business positions for tabling at NEDLAC.[166]

Also, positions are not always sufficiently caucused, if at all, for instance with NAFCOC which is not part of BSA, before they are tabled at NEDLAC, thus losing out on the input of smaller organisations and those not members of BSA. Inadvertently, the views of big business come through strongly in business positions at NEDLAC.

Various business and professional organisations such as the AHI, FABCOS, BMF and ABASA view BSA as a development that marks a promising move towards the creation of a unified business voice at national level.[167] So much so that the AHI, for instance, took a decision at it last annual congress to further strengthen BSA by passing some of its resources, such as dues from corporate members, to BSA.[168] The AHI is also taking steps to promote BSA within its networks and encouraging them to support the organisation.[169]

BSA has also held discussions with the BBC to work towards a unified business caucus encompassing the two organisations. While the unification has not occurred yet, the two organisations do hold regular joint caucuses on matters affecting business.

The BBC brings together 11 black business and professional organisations.[170] While some see the BBC as being structurally weak and largely ineffective in terms of influencing public policy, its main virtue is seen to be its representativeness of black business organisations and "bringing unity of purpose" among these organisations. If sufficiently capacitated and strengthened, BBC would play an influential role in public policy.

Strong caution has been sounded that in moving toward a unified business voice, lessons would have to be learnt from the experiences of the now-defunct National Small Business Council (NSBC), a body set up by the Government to become the "voice of small business" in the country. A number of lessons can be learnt from the demise of the NSBC:

The NSBC and Ntsika had overlapping mandates with regard to their policy advisory roles. This led to institutional confusion and fighting for turf between the two institutions.

Councillors should have been appointed on the basis of their small business involvement rather than as representatives of their organisations. This would have eliminated the pursuit of organisational interest which was partly the undoing of the NSBC.

There was no partnership between the NSBC and small business organisations, particularly in terms of setting up operations in rural areas and small towns. The NSBC’s 40 Towns Programme was an overreach on the part of the organisation.

The NSBC lost it role and digressed from its mandate as policy advisor and got involved in programme implementation.

Perhaps the overall lesson from this experience for the proposed move towards a unified business voice is that whatever new institutional mechanism is set up should:

- Avoid organisational interest taking precedence over the common good of all business
- Clearly delineate the role and mandate of the combined structure vis a vis the constituent organisations
- Utilise the constituent organisations as much as possible wherever feasible

Key players in organised business are in agreement that there is a need for a unified business voice. This arises from an increasing realisation amongst business organisations that they are increasingly becoming weak in terms of influencing policy and that continued fragmentation exposes them to the risk of getting even more marginalised in policy processes.

Moreover, inside some major organisations, particularly white business organisations, there is an increasing push to re-align with the realities of a democratic South Africa.

However, many do not agree that this necessarily means a single business body, as there still exists considerable capacity, ‘ideological’ and structural differences between black and white business and business organisations.

In keeping with experiences elsewhere under the Anglo-Saxon model, various business organisations see no harm in maintaining their independence. What is needed, some point out, is to act in concert on key social and economic issues.

Under this set-up, individual organisations would still be let to exist and operate largely as before, allowing only natural processes of change to bring about greater structural unification that could lead to a rationalisation of the number and structures of organisations. They would remain free to attend to the specific interests of members.

Organisations with a predominantly small business constituency would continue to tend to the needs and interests of small businesses without relying on the support of and joint action with organisations representing predominantly large businesses, a situation that experience elsewhere shows is difficult to achieve.

For purposes of creating a unified business voice, the establishment of a mechanism that allows business to formulate and articulate policy positions that are fairly and adequately representative of South African business as a whole, is required.

There is a general view that the best opportunity for establishing such mechanism is presented by BSA and BBC, the two organisations that, between them, are seen as broadly representative of South Africa’s organised business.

Table 8: Membership of BSA and BBC

Business South Africa (BSA)	Black Business Council (BBC)
1. Agri South Africa	1. Association for the Advancement of Black Accountants of Southern Africa (ABASA)
2. The AHI	2. Association of Black Securities and Investment Professionals (ABSIP)
3. The Banking Council	3. Black Information Technology Forum (BITF)
4. Building Industries Federation of South Africa (BIFSA)	4. Black Lawyers Association (BLA)
5. Chamber of Mines of South Africa	5. Black Management Forum (BMF)
6. Chemical and Allied Industries Association (CAIA)	6. Congress of Business and Economics (CBE)
7. FABCOS	7. FABCOS
8. Insurance Industry Employers Association (IIEA)	8. Islamic Chamber of Commerce & Industry (ICCI)
9. Life Offices' Association (LOA)	9. National Black Business Caucus (NBBC)
10. National Association of Automobile Manufacturers of South Africa (NAAMSA)	10. South African Black Technical and Allied Careers Organisation (SABTACO)
11. Printing Industries Federation of South Africa (PIFSA)	11. South African Institute of Black Property Practitioners (SAIBPP)
12. South African Chamber of Business (SACOB)	
13. Retailers' Association	
14. South African Federation of Civil Engineering Contractors (SAFCEC)	
15. South African Foundation (SAF)	
16. South African insurance Association (SAIA)	
17. South African Petroleum Industry Association (SAPIA)	
18. Steel and Engineering Industries Federation of South Africa (SEIFSA)	
19. Sugar Manufacturing and Refining Employers Association (SMREA)	

Recommendations

10.1 The BEECom believes that the following process should be followed in moving towards a unified business voice:

- There needs to be an agreement that the unified BSA/BBC would be more than just a business caucus, but the voice of business mandated by the constituent business organisations. The new entity would need to operate under a CEO who articulates business' positions.

- The new entity itself would have two levels – a "Co-ordinating Council" and a full-time Secretariat. The Council would comprise 50:50 representation between BSA and BBC. The Secretariat, which would remain small, would also be constituted on a 50:50 basis initially and gradually progress towards a generally agreed structure.

The Co-ordinating Council would focus on three issues:

- Advancement of BEE;
- Working towards greater unity within business; and
- Support for transformation.

Consultation with various business bodies represented by BSA and BBC "to test the feasibility of a single organisation taking the character of BSA but not the name." A component of testing this feasibility would be to assess how BSA and BBC member organisations could be rationalised and restructured to avoid unnecessary duplication of operations and services.

- Design programmes aimed at building capacity in business organisations to enable them to deliver services to their members.
- Develop criteria to accredit member organisations for state-funding purposes.

The **Secretariat** would focus on "pursuing common purpose," that is, acting on issues that are generally agreed via the Co-ordinating Council. It would be responsible for day-to-day administrative operations. In addition it would, over time, develop the capacity to undertake research and compile policy papers that would inform the deliberations and ultimate policy positions of business.[171]

1 BEECom has consulted with a wide range of stakeholders. These include financial institutions; black business organisations; black business people; established business organisations; the ANC; the SACP; Cosatu; Nedlac; the Parliamentary Committee of Trade and Industry and on Restructuring. The ANC Economic Transformation Committee at a workshop held on March 3, 2001 adopted the definition. ANC, Cosatu and SACP representatives who attended the meeting where supportive of the broader approach.

2 The NPs drive for statism involved the creation of a multitude of new state and semi-state bodies and institutions. The lucrative employment opportunities created in the public sector and the parastatals for mainly Afrikaners not only wiped out all the remnants of the poor white problem, but also made a considerable contribution to the quick embourgeoisment of the Afrikaners in the third quarter of the 20th century. Afrikaners were empowered through management of state owned industries and nationalised services: Iscor; Eskom; SAA; SAR; SABC and Sasol. The new development corporations in the homelands gave the Afrikaner elite well paying jobs. The Industrial Development Corporation established in 1927 went into direct competition with the private sector in favour of Afrikaner nationalists, instead of assisting it. The percentage Afrikaner ownership in the private sector (excluding agriculture) increased from ±5 per cent in 1938/9 to 9,6 per cent in 1948/9. In 1960 the Oppenheimer family allowed the Afrikaner Federale Mynbou to gain control of General Mining with Anglo as a minority shareholder. For the first time in 80 years an Afrikaner group owned a large stake in SA major industry (9%).

3 Everyone’s Guide to the South African Economy by Andre Roux, 6th Edition, 2000

4 This discussion appears in "Commanding Heights and Community Control: New Economics for a new SA" by Patrick Bond, 1991. He elaborates on other explanations for the crisis, including the state of the world economy at the time.

5 South Africa’s Economic Crisis (1991), S. Gelb

6 S. Gelb in a submission to the BEECom, 2000

7 S. Gelb in a submission to the BEECom, 2000

8 Extract from a paper prepared by James Heintz Department of Economic University of Massachusetts; TIPS conference Sept. 2000. Heintz argues for four areas of engagement that are consistent with sustaining relatively high levels of investments. These are: Asset -based redistribution; Expansionary macro-economic polices; Targeted industrial projects and public infrastructure projects and Shared productivity enhancement.

9 The RDP emerged from an extensive process, rooted in the participatory traditions of the Freedom Charter. These traditions were taken up with growing intensity in a series of conferences, workshops and policy-making forums led by the ANC in the late 1980s and the first half of the 1990s.The RDP proposes core values and methods to achieve national democratic transformation: Meeting basic needs, Developing human resources, Building the economy, Democratising the state and society.

10 The NYC's main objectives are to co-ordinate and develop a national youth policy that is sensitive to the needs and aspirations of the youth. The NYC established the Interdepartmental Committee on Youth Affairs in 1997. Incorporating 38 Government departments and chaired by the NYC, the committee is meant to co-ordinate all Government youth programs, oversee program implementation and facilitate collaborative program planning and review across all relevant departments.

11 The White Paper on the Transformation of the Public Service (1995) argues for the creation of a "genuinely representative public service". It sets as its key targets that within four years, 50 % representation of blacks at management level, and that during the same period, at least 30 % of new recruits to middle and senior management levels are to be women. Numerous other strategies have been adopted to transform the public service. These include the work done by the PSC.

12 The Innovation Hub (CSIR and DTI); the Department of Communications Telecoms Policy and the Saitis Strategy being developed in DTI are examples of these initiatives.

13 The OSW, established in January 1997, is located in the Presidency with a mandate to undertake internal and external transformation of Government. The OSW functions through gender focal points and structures at Government departmental level. The CGE is charged with changing the culture and mindset of society. It developed a plan of action after a series of workshops with Government departments and organisations in civil society.

14 Recent private sector inclusion in various advisory panels and industry working groups has the potential to promote sustainable partnerships aimed at long term development and investment.

15 The Business Trust has committed itself to raising about R1bn over five years through a donation of 0.15% of market capitalisation of participating companies listed on the JSE and 2% of a year’s profit over five years from participating unlisted companies. In September 2000, R388m had been transferred to the trust and R800m (of the projected R1bn) has been committed (Auditing Business’ Contribution to the Poor: Financial Mail (22 September, 2000). Business is also involved in the National Business Initiative (R85m); Business Against (R20m a year since 1996); Joint Education Trust (Launched in 1992 with donations worth R550m; and the Business Council Against Aids (no value). Corporate Social Investment is estimated at R4 – R5bn a year, including sports sponsorships.

16 These statistics have been extracted from a range of sources, including: The 1998 & 1999 October Household Survey; Stats SA Rural Survey, 1997; Gender and the Private Sector, Commission on Gender Equality (1999); RSA Stats in Brief (2000) ; ILO Report on the Social Impact of Globalisation (February, 1999); ANC Mid-Term Organisational Report to the National General Council (July 2000); Stats SA:The Survey of Employment & Earnings; 2000 & Stats SA : Pilot Labour Force Survey 2000.

17 Gender and the Private Sector; GAPS: Commission on Gender Equality:1999; Ntsika State of Small Business 1999.

18 Business Map Update (August 2000)

19 Globalisation does not occur in a similar manner across countries, in fact the reality is a much less discontinuous process of change with the old and the new economy continuing to exist alongside each other. This new world order is characterised by high quality export manufacture aimed at specific consumer niche markets. It has as its important ingredients the global flows of technology; finance capital and human capital. Innovation, flexibility and responsiveness are at the heart of this new system - the ability to continuously reinvent products and add value to existing designs through reconfiguring new information and knowledge about product and process. (Discussion at Castell’s lectures, Gauteng 2000; Dexter, P: The Role of the State, 2001).

20 This has been the case with the Pacific Rim countries, which despite temporarily being subject to the vagaries of world financial markets, have fared exceptionally well under globalisation precisely because they have shaped their own destinies through effective national economic and human resource development planning and co-ordination. Gelb, S quoted by Kraak A at Castells lectures in Gauteng, 2000

21 The RDP stated that laws should be passed which stipulate a certain part of all pension and provident funds must go into certain Government endorsed projects, in the event that financial institutions do not voluntarily go for socially desirable and economically targeted investing.

22 Kraak, A.A conceptual overview of the field of HRD, 2000 (pages 16 &17)

23 The White Paper on Education and Training (1995) clearly states the democratic Government's commitment to providing lifelong education and training for all South Africans. Some policies are geared towards skills transfer, others focus on widening access to those who were historically disenfranchised on corrective action and equality of opportunity. The responsibility of the Department of Education is largely on formal primary, secondary and tertiary levels, the responsibility of the Department of Labour is mainly on human resource development for employed and unemployed workforce.

24 ANC Mid-term Organisational Report to the NGC, 11 –15 July, 2000: The curricula in schools, adult and further education is being progressively transformed through the substitution of new learning programs based on the approach of outcomes-based education (OBE), under the brand name of Curriculum 2005. The new national curriculum and teaching methodology requires active participation by the learner, and places strong emphasis on group learning and self-assessment, with the teacher acting as facilitator and guide. A complete overhaul of the national system of learning assessment and examination is underway, to make it more supportive of the learning process and more able to function as a vehicle for quality promotion and enhancement.

25 Co-ordination at the national level will be concentrated in the activities of the proposed multipartite National Skills Authority (NSA) which is to emerge out of a revamped National Training Board (NTB). The functions of the NSA will be to advise the Minister on the development of a national skills development strategy and the implementation thereof

26 Co-ordination at economic sector level will be established through restructured Industry Training Boards. The SETA's are responsible for the design of workplace and sector skills plans. They report to the NSA and the DoL. The NSF will be distributed by the state in three key directions: (1) strategic industry training programmes; (2) learnership programmes which incorporate ABET, pre-employment training, SME training and target group training; and finally, (3) infrastructural development programmes for private sector providers of ET.

27 A series of policies and programmes have been drafted and implemented with reference to skills, affirmative action and education. The Department of Public Service Administration completed a White Paper on Affirmative Action in 1998, specifying mandatory requirements on the development and implementation of state affirmative action programmes. The central themes of the governments employment equity strategy (to address the inequalities associated with race and gender are): anti-discriminatory measures to protect individuals combined with measures to encourage institutional and cultural change by employing organisations; accelerated training and promotion for individuals from historically disadvantaged groups; as far as possible, mediation and arbitration to resolve disputes, with strong legal protection against discrimination and harassment. (Employment and Occupational Equity: Policy Proposals, p.30). Employment equity centres on eradication of unfair discrimination of any kind in hiring, promotion, training, pay, benefits and retrenchment, in line with Constitutional requirements (the government will give individuals easier access to remedies), and measures to encourage employers to undertake organisational transformation to remove unjustified barriers to employment for all South Africans, and to accelerate training and promotion for individuals and historically disadvantaged groups. (Chapter 1, Employment Equity Bill. 16 February 1998).

28 Figures extracted from various sources: Research conducted for the BEECom by Information Resources Group; HSRC reports; ILO Human Development Report; CHE: Shape and Size of Higher Education; CHE Annual Report 1998; 1999.

29 A National Enterprise Survey was undertaken, over 1400 South African firms were surveyed between October 1999 and February 2000, with data processing continuing until April 2000. The output of the National Enterprise Survey is being analysed together with other relevant data by a team of consultant economists from universities, public sector institutions and the private sector. This preliminary report provides early results from the survey, primarily in descriptive form, without rigorous statistical analysis.

30 Stats SA – Survey of Employment by Occupation, Gender and Race (October 1998)

31 Skills Needs of the SA Labour Market (1998 – 2003) HSRC

32 THRIP facilitates and funds the increased participation of higher education and science council researchers and students in industrial innovation, technological adaptation and commercialisation. It encourages the formation of stronger linkages between companies in undertaking joint research and development projects. THRIP also promotes technological development in the SME sector. The SPII programme aims at promoting technological development in manufacturing processes and products though direct financial support and project management assistance. Incubators or Hubs are controlled working environments designed to foster the growth of new and emerging SMEs especially in the critical start-up years. SMEs are provided with affordable work space, administrative, managerial and professional support services, and access to technologies that they cannot afford.

33 Saitis research revealed these stark realities of lack of ICT systems in schools. It has recommended the establishment of a nationally funded, private-sector-led executive agency that will operate at arms length from Government and work at national, regional and local levels to integrate skills and enterprise development strategies towards knowledge-based tools and systems.

34 Tourism investment projects include Lubombo, Wild Coast and Kalahari Gemsbok.

35 Andre Kraak: Human Resources Planning for the New Millennium, 2000.

36 The HSRC (with the support of its external partners) is proposing that it is the only research institute nationally with the necessary capacity and expertise to assist the Government to design this strategy.

37 Andre Kraak: Human Resources Development Planning for the New Millennium, 2000.

38 The SAITIS paper suggested that the President should appoint, for a four-year term, a senior individual to serve as "Ambassador for Skilled Enterprise", with the mandate to initiate processes to implement the SAITIS reports recommendations and to report progress annually to Government and involved stakeholders. A central component of the Integrated Manufacturing Strategy of the DTI is its policy on technology promotion and innovation support, where Government will intervene in the acquisition and absorption of technologies.

39 A Historical Overview of Women Entrepreneurs in SA (Commission on Gender Equality, November 1999)

40 The White Paper on National Strategy for the Development and Promotion of Small Business in SA. (20 March, 1995), established the framework and philosophy for the development of the small enterprise sector in the South African economy, articulates the institutional arrangements required and a broad timetable for implementation (Over 12 years and assessed every 4 years). Further the White Paper sought to address the problems associated with neglect of the SME sector by the Apartheid Government.The National Small Business Act (1996) provided for the establishment of the institutions and the definition of SMME.

41 There is a need for a focused film fund, consolidating existing efforts, to enable the production of medium budget films. Current funding initiatives are spread too widely

42 These figures refer to the cumulative financing authorisations over the 5 years to 30 June 99'. The IDC definition of an SME is a business with total assets ranging from less than R1m to R120m.

43 Financing authorisations to SMEs over the five years to June 30, 1999 amounted to R3244m or 14% of total authorisations. Black business accounted for 42% of this figure. Financing authorisations to black business have risen from 4% (of total SME authorisations) in 1994\95 to a high of 93% in 97\98 and 72% in 98\99.

44 Most of these loans were advanced during 1998/99. During 1997/98, loans to black business were R659m. During 1998/99 the figure was R506m, which accounted for 15,2% of total authorisations for the year. These figures indicate the progress made in increasing the authorisations to black business over the two- year period.

45 The IDC has introduced five empowerment schemes targeted at black companies, they are as follows: low interest rate empowerment scheme; take-over and acquisition scheme; fish harvesting scheme; wholesale finance scheme and the bridging

46 The Land Banks micro credit scheme,Step Up.

47 The Fund hopes to leverage existing resources to R3bn, it's CEO took office at the start of 2001.

48 The Fund originated from a Government decision to allocate 3% of the Government Employees Pension Fund to socially desirable investments. So far about R500m has been invested in approximately seven projects, but there is currently a moratorium on further investments. The investments are via preference shares in support of consortia which are: bidding for public corporations being privatised; involved in industries being deregulated; or helping black-controlled investment consortia to build up their portfolios. The investments include R100m in Midi Television; Lesiba Healthcare (R70m); Siphumelele (R25m for the purchase of Interleisure shares and R15m to buy PSG shares), Malesela (R20m to buy equity in Business Bank shares) and Kensani (R20.5m for Infiniti Technologies shares). The fund is managed as a consortium by Real Africa Asset Managers, Capital Alliance Asset Managers, Norwich Investments and Infinity Asset Management.

49 One of three trusts currently envisaged for the NEF (NEF Act).

50 The only Equity Fund operational is in the Cape (encompassing Western, Northern and Eastern provinces). Khula has committed R20 million at this stage. The Mpumalanga equity fund has been discarded; after it was proven that individual provinces will not provide a financial viable deal flow. This fund will be wound-up and the assets (approx: R50m) will be transferred to a new fund consisting of Mpumalanga, KZN and Northern provinces.

51 The Alliance of Micro Enterprise Development Practitioners, which represents most of the industry, has profiled its members' activities in micro finance. A directory identifies 38 such NGOs. Together, these NGOs have a total loan book of about R750m, most of which is used for housing. These NGOs have no more than 100 000 enterprise loans on their books, most of which are for amounts of less than R10 000. Clearly, this figure is far below the demand for such loans.

52 This figure refers to loans advanced by the RFIs during the 1998/99. Khula has 32 accredited RFIs, smallest loans are between R300 and R600, others are as high as R250,000. Recent closures of RFI's are not included in these figures.

53 As per DBSA definition of entrepreneurial development

54 Government plans to sell or transfer the 20% stake in Business Partners which has total assets of R1,2bn (1999) and attributable earnings of R92m.

55 This figure represents new loans advanced during 1999/2000

56 Mid-term Evaluation of the National Strategy for the Development and Promotion of Small Business in SA prepared for the DTI. (Page 50, September 1999)

57 Final Report of the Strauss Commission of Inquiry into the Provisions of Rural Financial Services 18 September 1996,

58 Mid-Term Evaluation of the National Strategy for the Development of Small Business in SA prepared for the Department of Trade & Industry (September, 1999).

59 "This. Performance has not been free of criticism in that it has been suggested that Khula's loan application assessment criteria are too conservative." (Khula chairman, Gideon Sam in the Khula 1998 Annual Report

60 Mid-Term Evaluation of the National Strategy for the Development of Small Business in SA prepared for the Department of Trade & Industry (Page 42, September 1999). It has been argued that problems of mismanagement and fraud have further impacted on Khula's delivery through RFIs. Khula is the major financier of enterprise finance and reported R108 million outstanding among about 26 lenders, accounting for loans to 66,000 micro enterprises.

61 Of the 32 accredited RFIs in May 1999, 17 were located in Gauteng alone with two each in KZN, Western Cape, Free State, Mpumalanga and Northern Province, three in the Eastern Cape and none in the North-West (Mid Term Evaluation of a the National Strategy for the Development of Small Business in SA, prepared for the DTI, Page 50, September 1999). Bukula, Memani and Falkudze: The Study of the SME Economy in Gauteng; Rogerson & Bukula, : The Study of the SME Economy in Gauteng; Economic Empowerment Strategy: A report prepared for the DTI; pg 28; (2000). KPMG Report on Private equity and Venture Capital (2000); BEECom Research (1999) Submission by Khula Enterprise Finance to BEECom (July, 2000).

62 Mid-Term Evaluation of the National Strategy for the Development and Promotion of Small Business in SA Page 42, (September, 1999).

63 Ntsika was registered in July 1995 and the first board meeting was held in April 1996. It has been through five chief executives over the past few years and for a long time did not have a leader. Ntsika is being integrated into DTI.There are two centres - one in Durban (DUMAC) and another in Port Elizabeth (PEMAC).The CSIR has played a role in advising and supplying a range of technology programmes for SMEs. CSIR Divisions provide numerous services and even incubation facilities aimed at assisting product development, testing and product enhancement.

64 Mid-Term Evaluation of the National Strategy for the Development of Small Business in SA prepared for the Department of Trade & Industry (September, 1999).

65 The participating banks are ABSA, FBC Fidelity Bank, First National Bank, Nedcor and Standard Bank. Certain branches have been nominated to participate in the Sizanani Scheme.

66 The SA Foundations Corporate Social Investment report

67 There are several different segments in the industry: Formal registered firms, Semi-formal money lenders, which include small unregistered money lenders who are doing it as their main livelihood and pawnbrokers and Purely informal moneylenders such as township moneylenders (mashonisas) and stokvels, burial societies, and Rotating Savings and Credit Associations (ROSCA).The source of repayment is the main differentiating factor between these lenders The MFRC has been set up to self- regulate the industry main purpose of setting up the MFRC was to make sure that all micro lenders register with the MFRC, and act lawfully in terms of its rules and ensure protection of the general public; M. Sachs, Issues in Microfinance, 2000.

68 DTI reference group on access to finance for SMME's.

69 Even though rural coops and village banks usually work with their own capital (deposits), the management costs often exceed the revenue from the product of the savings)

70 For purposes of clarification, private equity refers to investments in private companies with an established track record. Venture capital on the other hand, refers to investments in new projects/ideas, which do not necessarily have an operating track record.

71 Source: KPMG & SAVCA 1999 Private Equity Survey: In South Africa, the venture capital and private equity market is 1,5% of GDP or $3,3bn is relatively smaller than the US market 332,3bn or 4,1% of GDP, but larger (as a result of growth in the private equity sector over the past few years) than those in Sweden, the Netherlands and Australia

72 Institutions like the IDC have also contributed towards funding for equity transactions. In addition the Isibaya Fund was created. Funding for BEE equity transactions has therefore been sourced from these groups as well as Private Equity Funds, Merchant Banks, Corporate Finance Businesses and Social Responsibility Funds.

73 BEECom conducted extensive research on the successes and failures of SPV transactions and on specific BEE companies. This information is available as a resource from the BEECom.

74 Business Map Information.

75 Legae Securities, August, 1999

76 BEECom research, consultations and submissions from black companies, financiers and advisors; Legae Securities research.

77 In devising appropriate funding mechanisms for BEE transactions, the following factors were taken into consideration:The limited or non-existent capital resources of black investors;The inability of black investors to provide collateral; and The requirement of financiers to obtain a market-related return and insisting on participation in the equity upside.

78 Legae Securities (August 1999) According to one study, BEE companies would gain an average 7% share of the proceeds from the "in-the-money" SPV's if they were wound down. This amounted to R161m of a total market value of R2.3bn. The share would be spread amongst 8 black companies. This reinforces the fact that the funding mechanisms were not designed to effect real ownership.

79 Legae Securities and input during BEECom consultations.

80 It is important to outline the key role players in SPVs transactions. Specifically these were:Vendors – looking to sell a portion of an asset to a BEE grouping for strategic reasons;Vendor's advisors – looking to maximise value (tangible and intangible) achieved by vendors;BEE grouping – seeking viable business opportunities to become involved in economic mainstream; BEE grouping's advisors – advising BEE groupings on acquisitions and performing capital raising, primarily focusing on the structuring of appropriate discounts, etc. to ensure financiers will provide capital to the project; Financiers – looking for market-related returns (for risks borne) and where direct stakes in target unavailable willing to invest via SPV's; Auditors – performing due diligence reviews on targets; Attorneys – preparing legal agreements initially between vendors and BEE grouping and ultimately between BEE groupings and financiers.

81 While noting Government concerns about distorting effects of tax incentives, the BEECom has recommended incentives because of the acute market failures in the above sectors. Furthermore, there is overwhelming international research that tax incentives and direct Government support are critical to stimulating ESOPs, retail schemes and venture capital industries.

82 A report, "Executive Summary of Reports on Restructuring SA Development Finance System" prepared by the Ministry of Finance (December, 1995) called for the effective co-ordination and focus of DFIs through establishment of a statutory body called the SA Co-ordinating Council for DFIs. Furthermore, the Strauss Commission (September, 1996) also called for co-ordination and a coherent framework and basic structure.

83 BEE Com research comparing the Brazilian and Malaysian experiences of empowerment showed that the former had adopted a fragmented approach with limited state support that did not achieve significant success. In Malaysia the state adopted an unapologetic and interventionist approach to Bumiputera empowerment that achieved significant results. The key lessons of this research show that: There was strong political will, commitment and leadership; there was a national consensus and cohesiveness in terms of approach; The programme was driven by strong institutions and implementation capacity. From a mere 22 parastatals in 1957 (at independence) Malaysia deliberately created more than 1 000 parastatals over a 30-year period.

84 In a speech to the National Council of Provinces' National Conference on SMEs (May, 2000) DTI director general Alistair Ruiters said the department had learnt a number of lessons while implementing its SME strategy. These included the need to integrate all government activities that impact on SME development. He said there is a duplication of programmes in an uncoordinated manner. The way forward is to streamline the institutional framework by: differentiating institutional mandates, co-ordinating and prioritising the activities of all role-players and setting clear targets and performance measures.

85 An Accelerated Agenda Towards the Restructuring of SOEs (August 2000) Chapter5: The National Empowerment Fund (NEF) Trust was established by the 1998 National Empowerment Fund Act to "facilitate the redressing of economic inequality which resulted from the past unfair discrimination against historically disadvantaged persons". The NEF Trust will promote its objectives through three different investment vehicles. First, it will have an investment trust that will market investment units to historically disadvantaged investors. The portfolio of this investment trust will include SOE shares and other investments to provide a competitively marketable and balanced portfolio. Currently, the unit trust approach is being explored, among other collective investment mechanisms, to develop an instrument that can provide small investors with affordable and accessible investment products. Second, a portfolio trust will warehouse the shares of SOEs, which will thereafter be sold on to historically disadvantaged individuals and firms that seek a direct shareholding in these SOEs. Third, an equity management fund is envisaged to provide venture capital to encourage entrepreneurship among the historically disadvantaged groups through joint ventures, management buy-outs, outsourcing and other forms of spin-offs.

86 The CRA was enacted in 1977 in the US as a third component of a legal framework that forbade discrimination in lending. CRA encouraged banks to provide services, including loans, to low-income groups. The main leverage of CRA is through its impact on the review of proposed mergers and acquisitions. The promulgation and oversight of such an Act would likely be under the Department of Trade and Industry.

87 This Home Loans Disclosure Act is aimed at ensuring that banks do not discriminate against individuals on the basis of gender, race or geographic location

88 The Promotion of Equality and Prevention of Unfair Discrimination Act, obliges banks and other institutions to establish proactive measures to combat the effects of discrimination particularly in relation to race, gender and disability. Banking Council in its submission to the Parliamentary Committee on Trade and industry also drew attention to the Equality legislation and, in fact, invited aggrieved parties to use this remedy to deal with any discriminatory practices of banks

89 M.Sachs Issues in Micro Finance, 2000.

90 M.Sachs Issues in Micro Finance, 2000.

91 An Accelerated Agenda Towards the Restructuring of SOE's: Chapter 5; "Schemes to encourage retail participation", Deutsche Bank, April 2000; WipCapital research: M-Net Phuthuma; Johnnic Ikageng; Real Africa Durolink (RAD) Zenzeleni ; Barnard Jacobs Mellet (BJM) Masimo ; WIPHOLD

92 In SA in three retail schemes the up-front subscriptions were considered accessible, and even in the other two, an up-front subscription of only between R300-600 was required, still making them accessible to many from historically disadvantaged communities.

93 The Dept of Public Enterprises refers to the Mondragon region of Spain, Quebec and Sweden's Meidner Plan as successful schemes, which implemented worker influence together with ownership. Furthermore, in the United States firms like United Airlines, Starbucks, Crest, Ramada, Wal-Mart and others have majority or dominant worker ownership.In the United States, more than 10 million workers are part-owners of substantial stakes in their companies and more than one-third of stock market investors made their first share purchase through their company plan. By the early 1990s, 15 % of Wall Street's 7 000 listed companies had substantial worker ownership, averaging 12,2 % of the shares. In half of these firms, employees were the dominant shareholders. By 1998, an estimated 9 % of all shares in United States' stock markets were owned by workers. The United States' legislative facilitation of such plans dating to the mid-1970s included 15 % discounts on share purchases by employees and the use of a tax provision (s.401k of the Internal Revenue Code) to promote joint employee/employer pension investments in ESOPs. Before the favourable tax and pension legislation, American ESOPs numbered less than 1,000, but within a decade there were nearly 6,000. Share ownership offered by corporations in the US to workers was considered unsuccessful because of its transfer of ownership with little control; furthermore, during the Great Depression, employee shareholdings collapsed by 75 % in value from 1929 to 1932, and indeed fell to just 15 % of their 1926 value at a time when, facing mass unemployment, many workers were desperate to liquidate their shares simply to survive By the mid-1930s, 90 % of the employee share plans had closed.

94 The co-operative experience in SA has been mixed, largely because of the manner in which they were implemented. For instance, the Mine Workers Development Agency established 30 producer co-operatives between 1988 and 1992 that employed about 500 people. Of these only 5 have survived as viable worker-managed enterprises. The best-known exercise in co-operative utility enterprise is probably rural electricity in the United States, dating to the New Deal era, but continuing today through the National Rural Electrification Co-operative Association. Currently, two thirds of the US land mass is electrified by consumer-owned rural co-operatives. These are not limited only to retail end-users. Electricity generation and transmission co-operatives emerged to supply local distribution co-operatives, and increased their share of the latter's inputs from less than 20 per cent in 1960 to more than 50 per cent today.

95 The White Paper on Small Business (1995) identified government procurement as a vital instrument in ensuring market access for SMEs.A Green Paper was published in 1997 and guidelines in the form of a 10-point plan were released just prior to that. The plan aims to ensure that SMEs have improved access to tendering; that tender advice centres are established, that large contracts are broken up into smaller ones; tender documentation should be simplified; price preferences should be applied to all contracts less than R2m; A point preference system would be used to evaluate the tenders. The Department of Public Works endeavours to promote the use of the emerging contractors in mainstream construction activities through the Affirmative Procurement Programme and the 10 Point Plan, which complement each other. Since August 1996, 47,3 percent of tenders went to companies with Previously Disadvantaged Individual (PDI) equity (compared with fewer than 5 per cent before 1994. The ECDP has set help desk which targets emerging contractors; database; initial screening and categorisation of contractors; facilitation of available training and support. The Pilot Roaster System is another initiative through which previously marginalised professional consultants have been supported. The objective is to promote the appointment of such marginalised consultants and increase their capacity and also encourage and reward all firms that actively participated in human resource development programmes.

96 The Public Finance Amendment Act and a Local Government Municipal Finance Management Act seek to regulate financial management in national, provincial and local governments to ensure that all their revenue, expenditure, assets and liabilities are managed efficiently and effectively. The Public Finance Management Act is stringent in handling financial misconduct. It states that an accounting officer for a department or constitutional institution commits an act of financial misconduct if accounting officer he wilfully or negligently fails to comply with the responsibilities of his office or makes or permits an unauthorized, irregular, fruitless or wasteful expenditure. It spells out disciplinary proceedings, including criminal proceedings against offenders. The act demands accountability from the accounting officers and to ensure this it includes responsibilities in performance contracts. There will be improved control over risks and improved financial and non-financial information leading to improved decision-making. Evaluation of results will also be more accurate, leading to improved accountability.

97 As a result, the country has few Certified Purchasing Managers. The total number of certified Purchasing Managers in SA is 177. There are various option models, including earn-in and claw-back models facilitated by the vendor (the company in which the BEE stake has been acquired). These models allow the BEE company to use the dividends (and/or new business brought into the company) to pay off the acquisition cost over a specified period. (Some include creative means to facilitate faster repayment and cash retention of a portion of the dividends.)

98 The State of Small Business in SA by Ntsika Enterprise Promotion Agency (1997)

99 BEECom research on the advertising industry and BEE.

100 The Department of Environment Affairs and Tourism (DEAT) has designed strategies to increase black participation in service provision, at an SME level, at a community level and in the major hotel groups. For instance, legislation presented to Parliament requires changes in the qualifications for Tourism Guides to enable higher levels of black entry. Tourist Guide Bill May 2000 was an amendment to the Tourism Act 1993 (Act 72 of 1993, "the Principle Act"). The new Bill recognition of prior learning and experiential learning in accordance with applicable education and training legislation. The Bill also removes the tourist guide registration functions from SATOUR.

101 The White Paper aimed to deregulate the sector within 3 to 5 years and specified for the "Sustainable presence, ownership or control by historically disadvantaged South Africans of approximately a quarter of all facets of the liquid fuels industry or plans to achieve this." Yet exactly how deregulation should happen Ñ and especially how it will protect and nurture black activity Ñ remained unclear.

102 The experience of black companies in the sector has been characterised by the struggle for better-positioned and appointed stations. Changes to the Service Station Rationalisation Plan, a long standing voluntary agreement between government, the wholesale and retail industries, aim to redress this problem by specifying new petrol stations that may be built over the next two years. The Amef' proposed that a degree of re-regulation be introduced in retail through a quota-based allocation of fuel stations.

103 The state is seeking the return of private mineral rights to the government, in line with the rest of the world. Government's long-term objective is for all mineral rights to best in the State for the benefit of and on behalf of all the people in South Africa; Government will promote minerals development by applying the "use-it or lose it"/ "use-it and keep-it" principle. The right to prospect and to mine for all minerals will vest in the State provision will be made for: a. guaranteeing the continuation of current prospecting and mining operations in accordance with the "use-it and keep-it" principle . Government will promote the establishment of secondary and tertiary mineral-based industries aimed at adding maximum value to raw materials. Exploration of beneficiation opportunities is crucial to leveraged successful empowerment.

104 The Commission on Gender Equality explains Gender as the characteristics a society expects a person to have based on their sex. Gender therefore refers to the economic, social and cultural roles, behaviors, attributes and opportunities which are associated with being female or men.

105 The public service comprised 1 065 999 people at the end of 1999: The 30 largest SOEs employ 273 000 people, bringing the total number of employed in the public sector to more than 1.3 million people.

106 In a discussion document: The State and Social Transformation (September, 1996) the ANC observes that the historic and objective reality at this stage of development is that capital, as investible wealth, is in private hands, both domestic and international. The document further argues that the objective reality is that:

• being unable to meet their requirements to provide adequate services to the people, due to the limitation of capital in their own hands, governments reach out to the private owners of capital to contribute their share of capital to enable better delivery of infrastructure and services, leading to the formation of public-private sector partnerships.

• to enable state corporations to discharge their obligations, it is sometimes necessary to put privately owned capital at their disposal by arranging that they acquire private equity partners.

• the granting of concessions to the owners of private capital to manage publicly owned assets or public functions, to improve delivery of services to the people

107 Poverty and Inequality Report, pg 6, May 13, 1998.

108 Department of Public Enterprises: Restructuring of SOE's: Towards an Accelerated Agenda; December 1999.

109 PRC Report

110 PRC Report

111 RDP (1994), Johannesburg, Umanyano Publications; White Paper on Affirmative Action in the Public Service (1998); WP on Human Resource management in the Public Service (1997); White Paper on Public Service Training and Education (1998)

112 DPSA: Draft report on improving efficiency and Service Delivery; January 2000

113 Department of Public Enterprises: Restructuring of SOE's: towards an Accelerated Agenda; December 1999; DPSA: Draft report on improving efficiency and Service Delivery; Department of Public Enterprises: Restructuring of SOE's: towards an accelerated agenda; December 1999.

114 Presidents Poverty & Inequality Report: 13 May 1998; DPSA sector research: These provinces already have extremely high rates of unemployment and poverty, Reducing incomes or retrenching thousands of workers could have a devastating multiplier effect in local economies.

115 Many of the low-level employees in the former homeland areas did not receive pensions until between 1989 and 1994, so their accumulated pensionable service remains disproportionately low. As a result, if they retire or are retrenched, they will receive extremely low packages. Accelerating Public Sector Restructuring (Department of Public Enterprises, August 2000)

116 Financial Mail Special Survey Top Companies June 25 1999

117 Fourth Draft Policy Framework, Department of Public Enterprises 05/05/200 (page 45)

118 Business Day 1/12/99: The four BEE consortia that bought the 3% stake were: Ucingo Holdings, Mehaleng Investment Holdings, New Horizon Group. The stake was purchased at the SEP price.

119 Business Report : The BEE consortia were G10, SA Empowerment Fund, Telle Investments, Pybus Thirty Four, Brimstone Investment Corporation and Upfront Investments. (check internet) "Even small share options require expensive borrowed funds, given the lack of historic opportunities to for black bidders to accumulate capital." Fourth Draft Policy Framework; Dept of Public Enterprises; 05/05/00. Source: BEE Com Research. The value of the shares sold in the Airports Company was pegged at a 10% discount to the price at which Aeroporti di Roma (ADR) purchased the stake (which was about R200m more than the nearest bidder). Therefore, even with a 10% discount, financial institutions believed that this price was too high and were reluctant to finance BEE companies, especially given the uncertainty around the date of the Initial Public Offering. BEE companies were unable to raise enough capital to take up the entire 10% allocation given to them

120 Business Day 2/9/97. The BEE components that acquired 75% of Sun Air were: Rethabile/CNI consortium (55%); NEF (15%) and ESOP (5%). The ESOP was never implemented. The above consortia also agreed to take over Sun Air's R47m debt burden. The Sun Air transaction subsequently collapsed.

121 100% sold to black-owned Skottaville Publishers

122 The BEE consortia were CWU Investment Company and ATU Investment Company

123 Draft Report Privatization and Development Fund of SA: Deloitte & Touche; Page. 5; April 2000. BEE Com Research. Fourth Draft Policy Framework, Department of Public Enterprises: 05/05/2000.The contract for a management partner at Alexcor was initially hampered after calls from financial institutions to guarantee the investment. Source: BEE Com Research.

124 As regards Aventura the time delays in closing the deal, resulted in a fundamental erosion of value and according to the buyers this warranted a downward reduction in price. Government would not accept any reduction in the original price offer.

125 KZN was awarded to Mondi and Inbokodvo Lamabalabala.

126 Fourth Draft –policy framework 05/05/00 (Department of Public Enterprises)For instance, in the GJMC R90m of the R400 m allocated to Roads and Storm Water goes to actual delivery. The rest is consumed by Interest costs and salaries. (Igoli 2002 framework document)

127 Metro Bus Service and the property Portfolio are amongst those assets earmarked for Corporatisation

128 Rand Airport is an R87m a year business and losses at some R300, 000 a year.

129 The regulation of certain sectors through licencing has enhanced empowerment. The taxi-recapitilisation project aimed at regulating the industry should also have numerous empowerment benefits. The broadcasting sector has been at the forefront of empowerment. For example ICASA awarded the TV license to Midi on the basis of a number of criteria, not least a structure of black ownership, which supported broad-based representation (organised into consortia). The ICASA stated that the shareholding of Midi seen in conjunction with financing capabilities was significant. The participation of the Mineworkers Social Benefit and Invest Co and the Sactwu Investment group, as well as the Disability Employment Concerns Trust was highlighted by the ICASA. The ICASA however failed to interrogate the interaction of these groupings; the effect of the broadness and the downstream strategy in this regard. "Their (representative companies) inclusion was seen to represent wider distribution of dividends. It also contributed to the building of a strong corporate controlled by previously disadvantaged groups.

130 Quoted in research conducted by BusinessMap SA: The broadcasting sector has been defined into three tiers, namely public, community and commercial broadcasting. The White Paper on Broadcasting Policy (released by the Minister for Posts, Telecommunications and Broadcasting in June 1998) argues for radical changes that spread ownership, attract international investment and enhance competition while limiting cross-media ownership (South African Yearbook, 1999). Accordingly, the ICASA is required to prioritise empowerment in awarding licences so that "significant ownership of the broadcasting service by the previously disadvantaged" emerges. Other elements: diversity in control and formatting; local content commitment; limits on cross media control; fair competition; ensuring the licencee is not controlled by foreign persons/groups; and encouragement of investment.

131 The casino, lottery and broadcasting sectors have all encountered these challenges.

132 Chile allowed workers to borrow 50 % of severance pay to buy 10–5 per cent of shares in 15 SOEs at a discount

133 This would address the Public Enteprises concern that: operational empowerment strategies should be improved, to ensure that beneficiaries are not merely absentee owners, but gain meaningful access to state-regulated activities, through training and skills development, through affirmative action in management, through entrepreneurship opportunities arising from new opportunities for outsourcing, expanding partnerships, affirmative procurement and easier access to financing.

134 The Department argues that: alternative vehicles for empowerment such as ESOPs and community trusts should be piloted, so as to improve enterprise self-management and community involvement, and in the process to raise investment in and take advantage of social capital. In these latter cases, the full range of alternative service delivery models needs to be extended to develop new methods of involving those previously marginalised.

135 Agricultural policy in SA – A Discussion Document by Ministry of Agriculture and Land Affairs (1998) An Integrated Rural Development Strategy Report has argued that: " Should a broad definition of rural include the small towns outside the metropolitans, It could then be said that most of South Africa is rural." IRDSD, March 2000.

136 Agricultural Policy in SA: A Discussion Document by the Department of Agriculture and Land Affairs (1998)

137 Measuring Poverty; Stats SA, , 2000 Lipton (1993) in Adelzadeh et al 1998; In 1993 the Project for Statistics on Living Standards and Development (PSLSD) surveyed 9,000 households In the same year, the Central Statistical Service (CSS) initiated its annual October Household Survey (OHS). For each year since 1993, the CSS has undertaken a large-scale survey in October, on housing, employment, services, health and infrastructure. Significantly, in 1995 an Income and Expenditure Survey was run concurrently with the October survey of 30,000 households. With the release of the 1995 OHS, researchers were in a position to assess poverty in South Africa through both large-scale empirical surveys and smaller, more intensive, micro studies. The sources for the study include the 1996 census, an income and expenditure survey and the 1998 annual October Household Survey.

138 Poverty & Inequality Report prepared for the office of the Executive Deputy President (1998)

139 Poverty Elimination, Employment Creation and Sustainable Livelihoods in SA: A National Institute for Economic Policy (NieP) report for the UNDP. (1998)

140 Source: Intergovernmental Fiscal Review 1999

141 Poverty & Inequality Report prepared for the Executive Deputy President (1998). Making Democracy Work: A Framework for Macroeconomic Policy in South Africa (1993)

142 Poverty & Inequality Report prepared for the Executive Deputy President (1998). Making Democracy Work: A Framework for Macroeconomic Policy in South Africa (1993)

143 Poverty & Inequality Report prepared for the office of the Executive Deputy President (1998)

144 The RDP aims to improve the quality of rural life. This must entail a dramatic land reform programme to transfer land from the inefficient, debt-ridden, ecologically damaging and white dominated large farm sector to all those who wish to produce incomes through farming in a more sustainable agricultural system. (RDP 4.3.8) Development efforts must address the special position of women as they make up the majority of small-scale farmers and bear the brunt of poverty, overcrowding and hunger in rural areas. (RDP 4.3.9)A national land reform programme is the central and driving force of a programme of rural development. (RDP 2.4.2) The democratic government must provide substantial funding for land redistribution. (RDP 2.4.8) The programme must aim to redistribute 30% of agricultural land within five years. (RDP 2.4.14) The RDP aims to improve the quality of rural life. This must entail a dramatic land reform programme to transfer land from the inefficient, debt-ridden, ecologically damaging and white dominated large farm sector to all those who wish to produce incomes through farming in a more sustainable agricultural system. (RDP 4.3.8) Development efforts must address the special position of women as they make up the majority of small-scale farmers and bear the brunt of poverty, overcrowding and hunger in rural areas. (RDP 4.3.9)A national land reform programme is the central and driving force of a programme of rural development. (RDP 2.4.2) The democratic government must provide substantial funding for land redistribution. (RDP 2.4.8). The programme must aim to redistribute 30% of agricultural land within five years. (RDP 2.4.14)

145 RDP Audit; White Paper on South African Land policy

146 Andrew Graham and Mike Lyne of Natal University in Agrekon, Vol 38, December 1999. This paper's conclusions are based on a study conducted in KwaZulu Natal

147 Andrew Graham and Mike Lyne of Natal University in Agrekon, Vol 38, December 1999. This paper's conclusions are based on a study conducted in KwaZulu Natal

148 We have tended to reinforce apartheid dislocated rural settlement patterns that we have inherited.ISRDS

149 The White Paper on Agriculture (1995) recognizes a highly efficient and economically viable market-directed farming sector, characterised by a wide range of farm sizes, as the economic and social pivot of rural South Africa. Key recommendations include special attention should be given to the needs of small-scale farmers to ensure equitable access to markets; access to agricultural financing should be broadened to include previously disadvantaged and beginner farmers; and that access to existing institutional infrastructure such as the co-operative system should be broadened to include those previously denied access. It recognises that development of rural infrastructure is needed in order to open up agricultural opportunities. The aim is to ensure equitable access to agriculture and promote the contribution of agriculture to the development of all communities, society at large and the national economy in order to enhance income, food security, employment and quality of life in a sustainable manner

150 The agricultural markets have been liberalised and access to them broadened, through legislation and transformed National Agricultural Marketing Council, which is representative of all groups including small farmers and labour South Africa's. The Marketing Agricultural Products Act (Act No. 47 of 1996) and the Broadening Access to Agriculture Thrust (BATAT) Marketing Drive business plan were developed

151 Examples include Magwa Tea Estate And Inala Farms. Future opportunities include: Zebediela Estate; Gillimberg; Mununzwu; Mutale in the Northern Province. The plan is to place these assets in a holding company with 49% sold to a black consortium which could include emerging farmers, communities and private sector companies. Equity projects include: Burglars post; Cape Olive Farm; nelsons Creek.

152 Land Info (JanFeb/March 1998)

153 Land Info (JanFeb/March 1998)

154 The grants range from R20 000 to R100 000 depending on the project size and the amount of own contribution. The minimum contribution is R5 000, which triggers a grant of R20 000.

155 Research conducted by Upstart Business Strategies for the BEECom.

156 "Special-purpose" business organisations include, for instance, the South African Foundation, the Business Trust, the National Business Initiative, and the Black Business Council.

157 Several thousand large American businesses belong to the Conference Board, a research organisation that conducts research on a number of problems facing larger businesses. The CB does not lobby on behalf of members but provides members with quality information to enable them to lobby on their own or through industry associations or ad hoc committees.

158 Jacob Levitsky, "Proposals for a Private Sector Support System for Small and Medium Enterprises in Developing Countries," 1992, pp22-23.

159 Thomas A. Gray, "Private Business Organisations and the Legislative Process," June 1993, p13.

160 Jacob Levitsky, "Proposals for a Private Sector Support System for Small and Medium Enterprises in Developing Counctries," 1992.

161 Jacob Levitsky, "Proposals for a Private Sector Support System for Small and Medium Enterprises in Developing Counctries," 1992.

162 It has been argued that it would be futile to consider an alternative model for South Africa as the Anglo-Saxon model is well established over centuries now. Moreover, the freedom of association clause in the country's constitution would render the Continental model with its prescribed compulsory membership unconstitutional

163 NAFCOC has one-third of the vote and BSA has two-thirds.

164 Several observers have ridiculed the proposed NAFCOC-SACOB merger as an initiative by two desperate entities – one to stay alive (NAFCOC) and the other to gain political credibility (SACOB). The initiative has been dismissed as not worthy of attention in efforts to build a unified business voice. One observer put it crudely: the process of unifying business should not be "contaminated" by the "phoney" "so-called merger" between NAFCOC and SACOB.

165 FABCOS has been a member of BSA since inception and continues to play an active role. NAFCOC, which is one of the founding members, subsequently pulled out of BSA believing, as some point out, that it would "achieve more politically outside rather than inside BSA."

166 Interview with Friede Dowie, BSA Secretary-General.

167 Interviews with Jacob de Villiers (AHI), David Moshapalo (FABCOS), Bheki Sibiya (BMF) and Younaid Waja (ABASA).

168 Interview with Jacob de Villiers, AHI Executive Director.

169 According to Mr de Villiers, it was agreed in principle in September 2000 to unite the two organisations into a joint caucus. However, NAFCOC declined to relinquish its NEDLAC seat in favour of the joint caucus as it had not participated in the BSA/BBC discussions.

170 NAFCOC is one of the founding members of the BBC but has not been active in its affairs, leading to some speculation that there is disagreement between the two bodies. The BBC has denied the speculation but acknowledges that NAFCOC is not active in BBC affairs.

171 It has been observed that the two Presidential Working Groups, while understandable under the current status quo, contribute towards perpetuating division rather than helping to bring it to an end.

Every effort has been made to ensure the correct allocation and attribution of quotations and statistics referred to in this document. Should you have any queries or requests in this regard, please do not hesitate to contact the BEECom at beecom@netactive.co.za.

List of Acronyms

ABASA	Association of Black Accountants of South Africa
AHI	Afrikaanse Handelsinstituut
ASD	Alternative Service Delivery
BBC	Black Business Council
BEE	Black Economic Empowerment (BEE)
BEECom	Black Economic Empowerment Commission
BEP	Black Equity Partner
BITF	Black IT Forum
BMF	Black Management Forum
BOT	Build, Operate, Transfer
BSA	Business South Africa
CBO	Community-Based Organisation
CBPWP	Community-Based Public Works Programme
CPI	Consumer Price Index
CPPP	Community Public Private Sector Partnership
CR	Community Reinvestment
CRA	Community Reinvestment Act
CSIR	Council for Scientific and Industrial Research
DACST	Department of Arts, Culture, Science and Technology
DBSA	Development Bank of South Africa
DEAT	Department of Environmental Affairs and Tourism
DF	Department of Finance
DFI	Development Finance Institutions
DLA	Department of Land Affairs
DME	Department of Minerals and Energy
DoE	Department of Education
DoH	Department of Housing
DoL	Department of Labour
DPLG	Department of Provincial and Local Government
DPSA	Department of Public Service and Administration
DTI	Department of Trade and Industry
DWAF	Department Of Water Affairs and Forestry
EAP	Economically Active Population
EDI	Electricity Distribution Industry
EDSA	Entrepreneurial Development Southern Africa
ESC	Entrepreneurial Support Centre
ESOP	Employee Share Ownership Programme
FET	Further Education and Training
FSB	Financial Services Board
FSS	Feasibility Support Studies
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
GEPF	Government Employees' Pension Fund
GTZ	Deutsche Gesellschaft fur Technische Zusammenarbeit
HBDC	Highveld Business Development Centre
HEDC	Highveld Entrepreneurial Development Centre
HET	Higher Education and Training
HRD	Human Resources Development
IBA	Independent Broadcasting Authority
ICT	Information and Communication Technology
IDC	Industrial Development Corporation
IDRC	Independent Development Research Centre
IDT	Independent Development Trust
IDU	Investment Development Unit
IDZ	Industrial Development Zones
IPO	Initial Public Offer
IPP	Independent Power Producer
JSE	Johannesburg Securities Exchange
KEF	Khula Enterprise Finance Facility
KZN	Kwa-Zulu Natal
LBSC	Local Business Service Centre
LED	Local Economic Development
LOA	Life Officers Association

MAC	Manufacturing Advice Centre
MAP	Manufacturing Advice Programme
MDC	Maputo Development Corridor
MFC	Mpumalanga Finance Corporation
MFI	Micro-finance Industry
MFRC	Micro-finance Regulatory Council
MLC	Millenium Labour Council
MTEF	Medium Term Expenditure Framework
NAB	National Association of Broadcasters
NAFCOC	National African Federated Chamber of Commerce
NEDLAC	National Economic Development and Labour Council
NEF	National Empowerment Fund
NER	National Electricity Regulator
NGOs	Non-governmental organisations
NHBRC	National Home Builders Registration Council
NHFC	National Housing Finance Corporation
NPA	National Procurement Agency
NPI	National Productivity Institute
NQF	National Qualifications Framework
NSA	National Skills Authority
Nurcha	National Urban Reconstruction and Housing Agency
NYC	National Youth Commission
PATII	Priority Areas for Tourism Infrastructure Investment
PDC	Provincial Development Corporation
PII	Partnership in Industrial Innovation
PPFA	Preferential Procurement Framwork Act
PPP	Public Private Partnerships
PSBC	Provincial Small Business Council
PSR	Public Sector Restructuring
RDP	Reconstruction and Development Programme
REDs	Regional Electricity Distributors
RFI	Retail Finance Institutions
ROT	Rehabilitation, Operation and Transfer
RTT	Regional Training Trust
SABC	South African Broadcasting Corporation
SABS	South Africa Bureau of Standards
SACCOL	SA Credit Co-operatives League
SACOB	South African Chamber of Business
SAMDI	South African Managment Development Institute
SAMDP	South African Medical and Dental Practitioners
SAQA	South African Qualifications Authority
SBDC	Small Business Development Corporation
SDI	Spatial Development Initiative
SEP	Strategic Equity Partner
SETA	Sector Education and Training Authorities
SHF	Social Housing Foundation
SITA	State Information Technology Agency
SLAG	Land Aquisitions Grant
SME	Small and Medium and Enterprises
SOE	State-Owned Enterprise
SPII	Support Programme for Industrial Innovation
SPV	Special Purpose Vehicle
SR	Social Responsibility
TDI	Targeted Development Investment
THETA	Tourism and Hospitality Education and Training Authority
THRIP	Technology and Human Resources for Industry Programme
TLC	Transitional Local Council
TRAC	Trans Africa Concessionaires
TRC	Transitional Rural Council
USAID	United States Agency for International Development

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