



Black economic empowerment and economic performance in South Africa

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Focus is on BEE impact on growth

Outline

- Theory: BEE and growth
- BEE Phase I, 1993 – 1999: Narrow-based BEE
- Shift to new phase: BEE Comm 2000, Brenthurst
- BEE Phase II, 2003 – 2023: Broad-based BEE
- BEE performance: transformation
- BEE performance: growth
- Now need to shift to new Phase III – proposed Transformation Fund
- TF positives
- TF negatives
- TF potential growth impact
- Conclusion

- Inefficiency of economy under apartheid shown by 1970s/80s crisis & by 1990s globalisation
 - Resources supported rents for white-owned firms & for whites
 - But market failures – in capital, labour markets & education – could reproduce apartheid inefficiencies post-apartheid
- Need public action – Big Push – to disrupt existing equilibrium
 - Improve black asset accumulation to secure property rights
 - And improve black social mobility by increasing numbers of managers & skilled workers
 - Escape low growth trap & address political stability & threat of populism
 - *Big Push is by definition a temporally-limited process of coordinated change*
- Rents – incentives which change distribution, but what is impact on growth?
 - Process is as important as actual distributional change – need conditionalities
 - BEE firms receive rents, and corporates may also get rents from BEE benefits (procurement, etc) while BEE may affect dividends & investment
 - BEE also has transactions & monitoring costs
 - So BEE can raise or lower individual firms' productivity & profitability
 - And may raise or lower broader property rights
 - Net effects on growth unclear from theory

Theory: BEE and growth

- Limited concern in ANC on changing corporate ownership as opposed to addressing corporations monopoly power – little coordination between government and big business
- Initial BEE process was business-led, driven by individual firms, *not* by policy
 - Focus on ownership & board of directors
 - Voluntary, decentralized, & incremental
- Affirmative action and enterprise development were initially both separate from BEE
 - 1996 EE Act – reporting but no sanctions
 - Diverse ED initiatives which had low priority and little success

BEE Phase I: Narrow-based, 1993-99, i

- Provisional securing of property rights during transitional period
 - Due to narrowly-based deals – small politically-connected elite brought into corporations
 - Provided some access to contracts, regulations & policy processes
 - Notwithstanding deals’ subsequent financial unravelling in 1998
- Growth: No data on impact of BEE but investment & growth remained low
 - From growth perspective, flaw in institutional structure of rent bargain: no reciprocity mechanism from *ex ante* rent receipts linking to re-investment for productivity growth/expansion of productive knowledge and capability
 - Rent provided not by state, but by corporate vendors & financial institutions, a decentralised process reflecting private rather than public interest,

- BEE Commission set up in May 1998 and reported in 2001
 - Partly in response to 1998 financial crash but also to lack of broad-based empowerment
 - Quasi-statutory - formally under Black Business Council, not government
- But recommended government policy action – support for Big Push
 - “Although BEE has been a fundamental pillar of Government policies, it has not been implemented in a co-ordinated and integrated fashion. ... There is a need for a coherent and uniform BEE policy, with guidelines and targets... ”
- Argued for ten-year time horizon
- Return to 3/4/5/6 targets across multiple dimensions
 - For directors, equity ownership, procurement of inputs, and management
- Sequence of BEECom report was very important
 - Chapter 1 was ‘Investment for growth’: target investment to reach 25% GDP
 - Then chapters on ‘An integrated HRD strategy’ and on ‘Access to financial services and capital’
 - Both with broad-based focus
 - BEE focus – ownership, control & management – addressed only in Chapter 7
 - Voluntary sector-based deracialisation targets & mechanisms

Shift to new phase: BEECom, 2000-01

- Brenthurst Initiative – Anglo American, August 2003
 - Argued BEE was essential – to lower risk – but argued for growth focus for BEE
 - Implicitly supportive of Big Push
 - Wanted to link BEE & corporate investment: BEE-compliant firms would get tax cuts
 - This would shift cost of BEE rent from corporations to taxpayers
 - Problem: mechanism proposed was *ex post* incentive, not *ex ante* reciprocity
 - So no compulsion to invest after tax benefit received
 - Fixed time frame – 10-15 years – & fixed scorecard
 - Raise BEE compliance levels over time, penalise untransformed corporations
 - Argued for strong focus on finance as part of Big Push
 - “need to draw on all available sources, be creative and innovative”: compulsory savings, prescribed assets, institutional SPVs, individual investments & *private equity*
 - Also international capital inflows: grants & private
 - More BEE transformation would enhance FDI *ex post*
 - Surprisingly little public debate – Mbeki wrote foreword but not taken up by government
 - Maybe worried about lower tax revenues

Shift to new phase: Anglo/Brenthurst, 2003 6

- Government adopted Big Push policy without adhering to growth-oriented approach of either BEECom *or* (later) Brenthurst/big business
- Approach shifted from business-led in Phase I to market-led (sectors) in Phase II
 - Business accepted policy shift since it eliminated competitive advantage amongst firms
 - Despite shift to Broad-based BEE, ownership still remained headline focus
- Scorecards and charters developed from 2001
 - Act January 2004, Codes of Good Practice April 2004, revised February 2007
- Levers were procurement by both public and private sectors – Procurement Act 2000
 - Cascading process of backward linkages to incentivize BEE
 - More limited incentive to promote & mentor black entrepreneurs, especially as suppliers
- Phase IIa – 2013 code adjustments, implemented May 2015 – bringing in ESD (40% weight)
- But Phase II had little policy focus on
 - Financing BEE
 - Linking with investment & growth
 - Time frames

BEE Phase II: Broad-based, 2000-2019

- Ownership & management *targets* are largely addressed, but BEE % is very low (*Gauge 2023: 14542 companies*)
 - Ownership: target is 25% shift – 80.8% achieved
 - Large transactions down as most deals done: 272 (2017-19) to 41 (2022-23)
 - Net ‘stock’ value of deals in 2015 R317bn for beneficiaries, but ‘flow’ value down from R253bn to R36bn 2019/20 to 2022/3 (*Krutham 2015; 2025*)
 - Management: target is 20% shift – 69% achieved
 - And only 20% of firms with Level 1 rating, while 20% non-compliant, incl 42% public agencies
- BEE performance mixed in terms of ownership & management targets
 - And there appears to be deep division between those who argue that the policy must be extended including on these targets, and those who are concerned with some of the governance issues around public policy interventions in the arena

- Employment equity – use 71point4 & BER summary of 27502 firms’ EEA2 reports
- Representivity lags as employee seniority rises
- Averages: 34% top / 47% senior / 68% professionals (total 81k employees, 12% total 7.21m workforce)
- Private sector lags public sector
 - Private sector: 32% / 42% / 58%
 - Public sector: 75% / 78% / 83%
 - Women under-represented on average and in both private and public sectors
- Banking more representative at top levels than manufacturing, retail or ICT
- Banking 41% / 49% / 69% (designated women overrepresented amongst professionals)
- Manufacturing least representative 29% / 41% / 53%
- Need to look in more detail at race & gender representation by occupational/functional arena
 - Designated: more in HR, marketing, social, especially women? fewer in production??

- BEE has not helped to build successful black-owned SMEs
 - ESD: target is 3% after-tax profits – 75.6% achieved (*Gauge 2023*) – but this is input, not output
 - 2% for supplier development, 1% for enterprise development
 - But only 46.5% of ESD funds of R26 billion were spent in 2021 (*B-BBEE Comm 2021*)
 - And only 62% of corporate entities have an ESD strategy (*B-BBEE Comm 2022*)
- Individual incentives – black tax, large obstacles facing new business (labour, infrastructure, market concentration, access to finance) – have pushed talented young black people into management/professions rather than entrepreneurship
 - Large salary packages preferable in short-term to long-term enterprise-building
 - Supporting affirmative action but not a class of black-run businesses

- Look at three econometric efforts to examine BEE impact on economic growth
 - Provided little evidence that BEE either promotes or obstructs growth
- 1. Acemoglu Gelb Robinson 2007 (for National Treasury) 159 JSE companies, 2004-07
- JSE firms' performance – investment, labour productivity, profitability
 - Using Empowerdex BEE data – overall & ownership (20%)
 - Different IV options but focus on dominant shareholder (exogenous) & on industry charter (but need 'theory' of charter origins). Plus 1993 dummy
- Weak evidence that BEE may lower investment and productivity
 - No data on firms' transaction costs, but BEE is costly
 - Firm-level evidence cannot assess impact on political stability
- Time frame is very short
- 2007 recommendations – ignored
 - Raise ESD/skill weights
 - Impose 10-year time limit
 - Improve BEE data by linking reporting & auditing

2. Busse/ Kupzig/ Vogel (2025): 258 JSE companies, 2004-19 data

- Focus on turnover, not investment; also operating profit & labour productivity
 - Small positive BEE impact on turnover, though mainly due to larger firms
 - But no significant effect on profit (as in AGR), maybe due to BEE costs
 - Results on productivity not robust
 - Unclear impact on growth

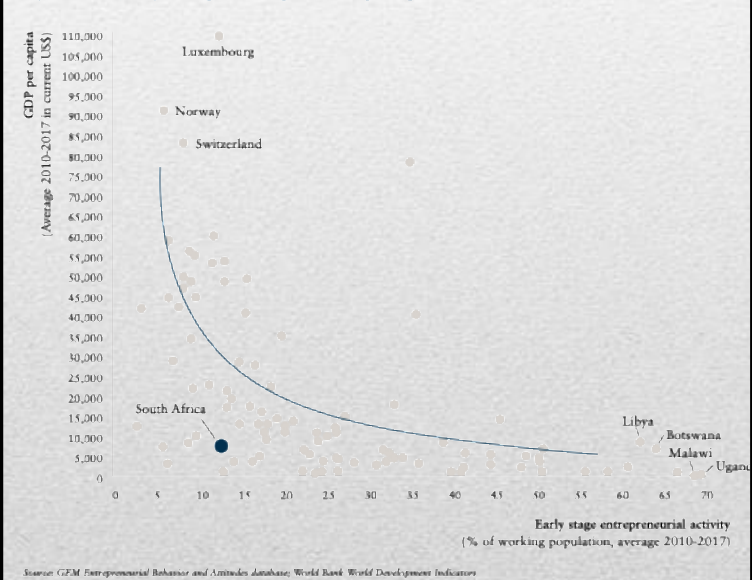
3. Dreyer/ Viviers/ Mans-Kemp (2021): 379 JSE companies, 2004-15 data

- Look at economic growth-based measures, financial market-based, risk-based and value-based
- No significant relationship between total BBBEE scores, or any BBBEE elements, & economic growth-based measures, including % change in turnover & returns on sales/assets
 - In line with BKV
- Significant relationship between total BBBEE & 3 financial health variables
 - P/E ratio (-), default risk probability (+), & cost of equity (+):
 - Shareholders' negative perception of BBBEE, suggesting less emphasis on ownership
- Busse et al & Dreyer et al were better econometric analyses than ours, & over longer period
- But also showed no clear connection between corporate BEE & growth, +ve or -ve

- Poor performance on both economic growth and inequality/redistribution has again brought to the fore socio-political instability resulting from inequality
 - The black middle class' own long-term fate depends on addressing this instability
 - So creation of successful black-owned businesses is core to its 'class defence' process
- South Africa has fewer MSMEs than its economic size warrants, partly due to limited early-stage entrepreneurship

- IFC 2017: 816k formal
 - 131k med, 382k small, 303k micro
 - About 2.1m informal
- Finscope 2024: 837k formal
 - 60k med, 425k small, 352k micro
 - 475k semi-formal, mainly micro
 - About 1.7m informal, mainly micro
- TIPS 2024: 692k formal (463k employ others)
 - 1.65m informal (300k employ others)

Figure 5. Early-stage entrepreneurship and GDP per capita



Need more black SMEs & more links to growth 13

- B-BBEE Comm already signalled in 2021-22 need for new BEE phase with ESD focus
 - Centralized, collective, approach to enterprise development
- In March 2025, government (the dtic) published a draft Concept Document to address this, proposing a Transformation Fund (TF) to aggregate & use existing ESD donations
- Draft sketchy & undeveloped but indicated approach: to set up a functioning VC ecosystem
- Substantial public criticism: Is it a tax? Is it too focussed on inputs, rather than outcomes? Will it be wasted by corruption? What about phases & trials?
- Slide show in Parliament in June 2025 – responding to criticisms of March draft
- Much more polished & nuanced draft in late 2025
 - Growth-focused, rather than broadly redistribution-focused
 - Not in public domain, though seen by some journalists
 - Supposed to have had public launch, but cancelled
- New codes gazetted Jan 2026 for comment, but TF not mentioned explicitly in Feb SONA
 - Gazette: 20—25 points for TF contribution, replacing ESD spend
 - Other sources: 30 points, enough to move firms to level 3 compliance (Werksmans, Motsoeneng/BD)
- African ExIm Bank \$3bn loan to TF, plus smaller pledges of R0.5bn from state entities
- Unclear where the political process is now

Shift to new BEE phase

- Voluntary corporate payments to TF of current ESD contribution in exchange for BEE points
 - Funds also from public entities, EEIPs of MNCs, and foreign/local donors
- Aim to greatly *simplify* process for corporations – they pay the money, they get the points, without engaging directly in supplier & enterprise development, unless they want to
 - “Added incentive for participation” – & earn ESD points immediately (Paton, News24, 051125)
- Use TF funds to build/expand venture capital ecosystem, and reduce reliance on banks
 - Need blended finance, to lower risk

- Different categories of SMEs: black industrialists; mid-size firms; informal/startups: township, rural, youth, women; co-ops
- Different debt/equity products
- Three tiers of support – finance, mentorship, market access
 - Mentioned in March 2025 draft, elaborated in late 2025 draft
 - With support from IT system, to monitor progress and assess milestones
 - With public/private governance process
 - Need for agglomeration to share infrastructure costs
 - Phased process
- Expanded VC ecosystem sorely needed in SA, including use of blended finance/patient capital
- Draft raises issues also relevant to African SME funding by market-based, blended finance, systems

- Some practical problems pointed out in public comment on first draft, are addressed
 - Focus now shifted from inputs to outputs
 - Need for phasing recognised, but no indication of time frames
- But many problems still to be addressed
 - Different categories of SMEs require different ecosystems: opportunity/necessity
 - No discussion of ‘pie split’ (resource allocation) across categories, or enterprise ‘graduation criteria’ connecting across ecosystems
 - Limited discussion of borrower performance milestones linked to capabilities & to actual performance
 - Sales, employment, exports, administrative capability, & - crucially – fixed investment & skills development
- Scaling up limitations
 - Mentorship & borrower auditing needs vs national capacity (Exxaro example)
 - Possible mobilisation of retired businesspeople both in SA & *in diaspora*
 - Contract management & IT – very demanding systems
- Transformation Index – details, confidentiality,

- Corruption – amongst loanee enterprises, & for BDSP entities – need independent and random audits, and criminal sanctions for both
- Governance process – needs substantial elaboration
 - Document sometimes presents TF as statutory institution receiving government funds, and other times as private institution seeking private sector and donor funds
 - Who chooses board reps? Will there be an independent oversight committee? Who selects latter? Split of roles between board & committee?
 - Oversight body should be independent investigative agency answerable to board, not another committee – follow IMF & WB, not German corporate model
 - Is NEF the right institutional home? Public/private direction of TF suggest operational independence from NEF – what about role of IDC?
- Cooperation & agglomeration – shared use of infrastructure facilities (energy, transport, water) – may depend on shared location, and possibly shared sector
 - Need to construct much new infrastructure – not mentioned
- Competition in VC market, with private & public entities, and in BDSP market, discussed but still a concern
 - But SA needs more funding & mentorship processes across different entrepreneur ecosystems
- BEE content – an interesting passage on non-discrimination (page 65)

- Lots of issues to sort out – need more public discussion, especially with big and small business
- TF rent structure – loan tranches based on performance milestones, tracked via IT,
- But milestones not spelled out: Output? Employment? Most crucial is SME fixed investment & skills development
 - Should *not* be formalisation ie tax status which is mentioned
 - Discuss Transformation Index to measure progress, but *growth index* also very important
- TF could encourage considerable investment in fixed capital & skills by MSMEs
 - Which should in turn support growth in GDP, and in employment, exports and consumption
- Depends in part on complementary investment by large corporations and on broader macro policies especially in relation to international economy
 - Not all that positive right now, given global economic & security situation, *but ...*

- Need to start with small & medium formal enterprises, *not* with micro & informal enterprises
 - With bank accounts, financial records, and a performance track record
 - Low-hanging fruit – best to build overall ecosystems downwards
- Work out sub-systems (mentoring, IT, etc) & governance structures
 - Achieve a track record for the process
 - Assess its wider economic impact
- Develop separate systems for micro & informal enterprises – distinguish *clearly* between formal SMEs - already opportunity entrepreneurs, micro ‘potential opportunity’ entrepreneurs and micro necessity entrepreneurs
- Corporate compliance – including donating ESD funds to TF – should be encouraged by additional *ex post* tax incentives for investment
 - Draw inspiration from BEE Commission 2001 report and from Brenthurst idea
- TF document a good start, but needs *lots* more discussion: – should be in public domain
- At least a chance that it could move BEE on to Phase III – self-sustaining market-driven empowerment without direct policy – which should ideally follow Phase II Big Push

Thank you

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