

ERSA-SARB CONFERENCE

Finding a Path to Growth and Employment in South Africa

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SESSION REPORT

Session 9: Black Economic Empowerment and Performance in South Africa

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Note: This report synthesises the key arguments, ideas, and exchanges from the session. It reflects the substance of what was presented and discussed, not necessarily the settled views of all participants. Panellists participated in their personal capacity. Time constraints meant that not all points could be fully debated or responded to. By convention, individuals are identified only on the title page; arguments and ideas in the body of the report are not attributed to named speakers. Video recordings of the session are available on YouTube, where viewers may find nuance in the views expressed that a written synthesis cannot fully capture.

Key Takeaways

- BEE has been structurally disconnected from economic growth since its inception. The institutional framework has never established a reciprocal link between the redistribution of ownership and rents on one hand, and investment, productivity, or enterprise development on the other.
- Ownership and management targets have been partially met - roughly 20% of ownership and 17% of management have shifted - but these are redistributive mechanisms. The elements most likely to drive growth and employment, enterprise and supplier development (ESD) and skills development, remain the weakest performers on the scorecard.
- South Africa has far fewer SMEs than its economy warrants, and BEE has not succeeded in building a viable base of black-owned small and medium enterprises. Individual incentives favour managerial careers in large corporations over entrepreneurship, reinforced by the obstacles facing new businesses and the financial pressures of the so-called black tax.
- The DTIC's proposed Transformation Fund, in its revised but unpublished form, represents a significant improvement over the initial draft and is explicitly growth-focused. But the failure to release it for public discussion, combined with gazetted codes that appear inconsistent with the fund's spirit, has created confusion and undermined buy-in.
- There was broad agreement across the panel that BEE is due for a serious review - not of the principle of transformation, which was not contested, but of the application: how the policy is designed, what it incentivises, what it measures, and how it connects to the real economy.

The Anchor Presentation: BEE and the Missing Link to Growth

The anchor presentation framed BEE through the lens of its relationship with economic growth - a relationship that, it argued, has been absent from the outset and has never been successfully constructed. Two theoretical propositions were laid out. First, a distributional shift of the magnitude South Africa requires demands a "big push" - deliberate public action to disturb an inherited equilibrium. Market processes alone will not redistribute assets from an almost entirely white-owned base to broader black ownership. Second, what BEE does in practice is alter the distribution of rents within the economy: to new black owners, managers, and skilled workers, and to the corporations that gain access to contracts through compliance. The critical question is what recipients do with those rents - and the answer,

repeatedly, has been that there is no institutional mechanism linking the receipt of rents to investment, productivity improvement, or enterprise development.

The history of BEE was traced through three phases. The first, from 1993 to 1999, was narrowly based, business-led, and focused on ownership and board representation. It served a political purpose - securing property rights for white-owned corporations during the transition by bringing politically connected black figures onto boards - but it set a tone of disconnection from growth. When the JSE crashed in 1998, many of the early deals went underwater. The second phase, broad-based BEE from 2003 onward, introduced the government-led big push through scorecards and sector charters. But it departed from the growth-oriented recommendations of both the BEE Commission's 2001 report - which had placed economic growth as its first chapter and proposed a 10-year time frame - and the 2003 Brenthurst Initiative, which had proposed linking compliance to corporate investment through tax incentives. Neither the time frame nor the growth linkage was adopted.

The presentation reviewed the available evidence on BEE's performance. Using data covering roughly 14,000 companies, ownership targets are around 81% achieved - meaning approximately 20% of ownership has shifted to black people. Management is at about 70% of target, or 17% in absolute terms. Only 20% of firms hold a level one BEE rating; 20% are non-compliant. Strikingly, only 42% of public agencies, state-owned enterprises, and universities are compliant. Employment equity has shown progress, particularly in the public sector and banking, though performance weakens at senior levels and gender representation remains poor.

The enterprise and supplier development picture is particularly concerning. The ESD target is 3% of after-tax profits, and 75.6% of the target has been achieved in terms of inputs - money spent. But 54% of the R26 billion allocated in 2021 was unspent, and 62% of corporate entities had no ESD strategy at all. The measurement framework focuses on inputs rather than outputs: how much money was spent, not how many enterprises became viable. BEE has not built a functioning pipeline of black-owned SMEs, and the presentation argued that individual incentives work against this - the combination of the black tax, the obstacles facing new businesses, and the availability of relatively high-paying managerial positions in large corporations makes entrepreneurship an unattractive choice for many talented black professionals.

Three academic papers examining BEE and growth were reviewed, including the presenter's own 2007 work. None found a robust connection between BEE compliance and productivity or growth at the firm level. The conclusion was that the link between BEE and growth is not going to be found by studying ownership changes in JSE-listed firms - it can only be built through a fundamentally different mechanism focused on growing black-owned enterprises that invest, export, and create employment.

The presentation then turned to the DTIC's proposed Transformation Fund. The initial draft concept paper published in March 2025 was described as sketchy and undeveloped; a revised and much more detailed version, not yet in the public domain, was assessed as a significant improvement. The revised document is explicitly growth-focused, proposes voluntary corporate contributions in lieu of current ESD obligations, and aims to build an expanded venture capital ecosystem. It identifies three tiers of support - funding, mentorship, and market access - and discusses phasing, governance, and monitoring. However, it does

not adequately differentiate between categories of SMEs, lacks detail on performance milestones, underestimates the mentorship capacity required, and has unresolved governance questions. The failure to publish the document for public discussion was identified as a significant barrier to progress.

Panel Discussion

The Missed Opportunity of Review

A strong theme across the panel was the failure to build in a review mechanism from the outset. Had the government adopted the BEE Commission's recommendation of a fixed 10-year period followed by a comprehensive assessment, the country would have had an evidence base for adjusting what works and discarding what does not. Instead, the policy continued without systematic evaluation, and what could have been corrected was not. The growing frustration - among the broader population, within black business, and across the political spectrum - was attributed in part to this absence of iterative learning.

At the same time, it was acknowledged that BEE served an important stabilising function. Whatever its limitations as an economic instrument, the perception that something was being done to address the legacies of apartheid helped hold the social fabric together during a period of transformation. The challenge now is that this function is fraying as results fall short of expectations.

Where Growth Actually Sits in the Scorecard

The panel offered a granular analysis of which BEE elements have growth potential and which do not. Ownership was characterised bluntly as a redistributive mechanism that will never generate economic growth - it transfers shares from white to black shareholders, funded by banks, without creating new productive capacity. The observation was made that no BEE loan from any bank has ever been impaired, confirming that the financial risk to banks was always low and the economic transformation minimal.

The growth-linked elements are procurement, enterprise and supplier development, and skills development. Procurement, by making BEE compliance a business imperative rather than merely a legal one, created the hook that drove actual behavioural change in corporations. Employment equity was described as having been a dead-on-arrival policy when it stood alone - firms preferred to pay small fines rather than comply - but became effective when linked to BEE scorecards that affected procurement access. The tax revenue effects were cited as evidence: pay-as-you-earn collections and VAT have grown as black professionals entered higher-paying positions and increased their consumption. But the scorecard's design encourages gaming - firms seek the minimum effort for maximum points - and the most impactful elements, employment equity, skills development, and ESD, are also the hardest to achieve.

The Transformation Fund and the Codes

The panel's assessment of the Transformation Fund was cautiously positive in principle but sharply critical of the implementation pathway. The business community had warmed to the revised document, seeing it as a workable basis for a more effective approach to building black-owned enterprises. But the gazetted codes, published in January, are not aligned with

the spirit of the revised fund document. In particular, the codes allocate more BEE points to contributions to the Transformation Fund than to companies that continue running their own - in some cases effective - ESD programmes. This incentivises directing money toward a fund with no track record over existing programmes that are already delivering. The concern was that the fund as announced is framed around inputs - how much can be collected - rather than outcomes.

The Political Environment

The panel situated the BEE debate within a political environment in massive flux. The DA has launched a campaign against BEE from within the Government of National Unity, risking alienation of black voters while attempting to maintain its base. The ANC at its National General Council doubled down on the policy in response to mounting opposition. International pressure has intensified, with the new US ambassador reportedly carrying an agenda item from the US President requesting that American companies be exempted from BEE compliance. The Zondo Commission's findings on the manipulation of BEE in enabling state capture, and the ongoing Madlanga Commission, add further pressure. The President has announced that the policy will be reviewed, but whether this will be a genuine process or a formality remains to be seen. The ANC's own leadership transition in 2027 adds another layer of uncertainty.

An important observation was that polling suggests younger South Africans are more supportive of BEE than older generations - and that the cohort about to assume ANC leadership is more invested in maintaining the policy. This suggests that the politics of reform may be more complex than the economics would warrant.

Audience Discussion

The BEE Commissioner, present in the audience, made a significant contribution. He confirmed that the President has committed to a policy review and argued that the principle of transformation is not in dispute - the issue is the application. He supported a comprehensive review of the framework, agreed that enterprise and supplier development is the element most likely to deliver real economic results, and acknowledged that there has been a disconnect between BEE compliance and real economy dynamics. He cautioned, however, against burdening BEE with expectations that it solve all of South Africa's economic problems - the policy should be assessed on its contribution to growth and employment, linked to but not substituting for broader economic reform.

A challenge was put from a different perspective: that the broader conversation about empowerment needs to be freed from the constraints of the current legislative framework. The point was made that transformation is the national project, but it must be linked to an expanding economy. Evidence from the construction sector was cited: it is one of the most transformed industries on the scorecard, but the industry itself is in severe decline - transformation of a shrinking pie helps no one. The argument was for a wider conversation that connects BEE to economic growth, labour absorption, skills, education, and access to cities and opportunity, rather than treating it as a standalone compliance exercise.

The discussion also highlighted practical barriers facing black entrepreneurs. Interviews with black industrialists who have built real manufacturing businesses revealed that the primary

constraint is often not finance or capacity but market access - the inability to get products onto retail shelves or into corporate supply chains despite meeting quality standards. The three-pillar model in the revised Transformation Fund document - funding, mentorship, and market access - was seen as addressing the right issues, but the failure to put the document into the public domain for discussion was viewed as a significant missed opportunity.

Implications for Growth and Employment

This session confronted one of the most politically sensitive dimensions of South Africa's growth challenge. The evidence presented makes a clear case that BEE as currently designed is not contributing to economic growth and is not succeeding in its most growth-relevant element — building a base of viable black-owned enterprises. Ownership and management changes redistribute existing assets and positions; they do not create new firms, new investment, or new jobs. The enterprise and supplier development system, which could in principle help to build the missing middle of black-owned SMEs, is undermined by a compliance culture that measures inputs rather than outcomes, and by corporate entities that allocate resources without strategy.

The session also illustrated a theme that ran through the entire conference: South Africa's tendency to overload individual policy instruments with multiple objectives. BEE has been asked to redistribute ownership, transform management, develop enterprises, build skills, achieve procurement targets, and contribute to social stability - all through a single scorecard framework. The Tinbergen problem is as acute here as in competition policy or industrial policy.

For the growth and employment agenda, the most actionable ideas to emerge included: undertaking a genuine, inclusive review of BEE that focuses on application rather than principle, with stakeholders beyond government at the table; publishing the revised Transformation Fund document for public discussion and ensuring that the gazetted codes are aligned with its intent; shifting the weight of the scorecard toward enterprise and supplier development, skills development, and procurement - the elements with the strongest growth linkages - and away from ownership; introducing time-bound targets with sunset provisions and systematic review, as originally recommended by the BEE Commission in 2001; measuring ESD by outcomes rather than inputs, with performance milestones linked to investment, employment, and exports; designing the venture capital ecosystem to differentiate between categories of SMEs and to include mechanisms for firms to graduate from smaller to larger as they grow; and connecting BEE reform to the broader agenda of reducing barriers to entry, improving the business environment, and expanding the economy within which transformation occurs.