South Africa: the fraud of "black empowerment"

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With less than two weeks before elections take place in South Africa, a share option scandal has broken out involving the country's biggest black-owned company, New African Investments Ltd (Nail), which has interests in financial services and the media.

The scandal has brought into sharp focus the African National Congress (ANC) government's policy of "black empowerment", which has enriched a tiny minority of black businessmen and government officials over the past five years.

Along with many companies in South Africa, Nail is in financial difficulties. Institutional shareholders objected when four company directors, who control almost all the voting shares, attempted to award themselves more than R130 million (£13 million) of share options in a subsidiary company. Two of the directors, Nthato Motlana, a Soweto doctor and one-time anti-apartheid activist, and Jonty Sandler, a white entrepreneur, were forced to resign. Motlana accused "white shareholders" of fomenting the revolt. Black financial commentators sprang to the directors' defence, arguing that lucrative option deals were normal in white businesses.

The two other directors involved, Dikgang Moseneke and Zwelakhe Sisulu, extricated themselves by making abject apologies. They have been discussing with financial institutions about how to turn around the company, which has a market capitalisation of R7 billion (£693 million). They both declared that severe cutbacks were necessary: "It will have to be surgery, not bandages and ointment."

The scandal follows the departure last month of Cyril Ramaphosa, Nail's deputy chairman, who was forced to resign by fellow directors for reasons not yet explained. Ramaphosa was the founder and former leader of the National Union of Mineworkers and general secretary of the ANC, who negotiated the end of white minority rule on its behalf. Today, he is one of the country's foremost super-rich black businessmen and is chairman of Anglo-American and South African Breweries.

On coming to power in 1994, the ANC government abandoned the "socialist" rhetoric it had used to mobilise the South African masses against apartheid. Instead, it insisted that "political liberation" should be followed by "economic liberation", i.e., that blacks should benefit from "affirmative action" in employment, government contracts and privatisations. The government programme of "black empowerment" was aimed at facilitating the "creation of large black-owned businesses". Hundreds of new companies have been launched in the past five years.

At least nine black-controlled investment consortia, or black empowerment groups, have been established. They have gained a stake in several of South Africa's biggest corporations: South African Breweries, Times Media, PO Holdings (information technology) and Metropolitan Life (insurance). Black boardroom involvement is a virtual necessity for bidding on big government contracts.

The government also recently passed quota-based affirmative action legislation in the awarding of government contracts, licenses and privatisation schemes. Companies deemed to have a substantial black ownership are awarded a 15 percent price advantage when bidding for public contracts. A condition for the new license to be issued in July to a cellular telephone company is that a black empowerment group must maintain a shareholding in the company making the bid.

Several local authorities are organising private sector partnerships with international companies like Saur International of France and Biwater of the UK, to help run water, sewage and other services. This means that black empowerment groups will be participating in the commercial supply of water in the townships, under conditions where many consumers cannot afford to pay water bills and are returning to traditional sources of water. The national transport department is also drawing up plans to bring private companies in to run the municipal airport and bus services.

In September 1995 only 1 percent of the market capitalisation on the Johannesburg Stock Exchange was under black control. Today, the figure has risen to 16.3 percent. Last year, black companies made 130 major investments worth R21 billion (£2.1 billion) compared with R5 billion (£0.5 billion) in 1997 and R1.6 billion (£0.16 billion) in 1996. A new generation of black tycoons has been created, including Ramaphosa, Moseneke and Sisulu, Nail's directors.

This has the backing of the most farsighted representatives of big business. In a *Financial Times* review of the book *Empowered but not yet enriched* Philip Gawith wrote of the importance of having more "comrades in business". "When the bright young blacks have turned their backs on politics and are intent instead on making a fortune, that will be the signal that South Africa has grown up," Gawith writes.

Harry Oppenheimer, a major shareholder in Anglo-American, a mining company that dominates the South African economy, said recently, "It was vital to make it possible for black people to control some of the big companies in South Africa. It was the right

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thing to do—part of a necessary response to the efforts for peace made by Mandela and his colleagues. You felt business had to match their efforts.... We owe an immense amount to Mandela. If it had not been for him, we would not have had the peaceful transition."

Anglo-American organised the finance for a spin-off company, Johnnies Industrial Corporation (Johnnic). The National Empowerment Consortium (NEC) purchased it, with Ramaphosa as chairman. Some companies operate as joint ventures with white businesses. Others fulfil government requirements by appointing one or two blacks to the board, allotting a slice of equity to a fledgling empowerment group and appointing a few black managers.

Few black South Africans have money of their own to buy into such equity, so almost every empowerment deal has been built on debt. The banks made arrangements for these "capitalists without capital" by setting up a "Special Purpose Vehicle" (SPV) and issuing shares with a life of three to five years. The shares are pledged as security for the loans used to buy them. This means that the SPVs depend for their success on continually rising share prices and moderate interest rates. In the context of the present economic instability, the banks are the real beneficiaries of black empowerment.

The economic outlook for South Africa is bleak. The economy has been hit by a collapse in the world price of gold, a commodity that plays a crucial role in the country. In 1980 the price of gold was $850 an ounce; last week it fell to a 20-year low of less than $280. Gold has traditionally been held as a hedge against inflation and a safe haven from turbulent stock markets. But the IMF is proposing to sell off 150 tonnes of gold, 10 percent of its gold reserves. The Bank of England has also announced plans to auction off half the UK gold reserves in July. Anglo-American, which controls the world's diamond industry and is the largest gold and platinum producer, is leaving the Johannesburg Stock Exchange next week and will move its primary listing to London.

Last October share prices collapsed on the Johannesburg Stock Exchange. The JSE's all-share index fell by 40 percent from its high point only six month earlier. The banks and financial services index lost almost 60 percent in the same six-month period, threatening many black empowerment companies like Johnnic, where shares values have fallen by 50 percent. Funding arrangements for its black investors expire in less than a year. If the share price does not rise rapidly the lenders could reclaim their security and the empowered black owners would get nothing, wiping out black ownership on the JSE.

The ANC government has appointed Ramaphosa to head a newly appointed commission to look into ways of "putting the movement on more solid foundations". One proposal is for more active participation by black-owned companies in the mining industry. At present, about two-thirds of mineral rights are privately owned and one third belong to the state. The government is planning to vest all mineral rights in the state so that black-owned companies can be given access to South Africa's plentiful minerals. Deep gold mines will not be affected by the plans because they require extensive investment in capital equipment beyond the means of small black-owned companies.

Anglogold, the world's largest mining company, has announced it is shedding its high cost operations to focus on its core assets. A year ago it sold off seven loss-making shafts from the Vaal Reefs gold mine to African Rainbow Minerals (ARM), a small black empowerment company. Last week ARM bought another six shafts. Other mineral reserves, like scattered deposits of shallow coal, are also being transferred to small black-owned companies. The only way these companies can survive on the world market is by increasing the exploitation of the predominantly black labour force. The massive speed-up will have terrible consequences for workers in an industry that already has one of the highest accident rates in the world.

The ANC election manifesto calls for "A better life for business people", stating: "The ANC recognises that South Africa's business people are critical partners in the development of our country." The manifesto cites one of the achievements of the past five years as "the removal of apartheid barriers hampering economic growth and development and the introduction of better conditions for investment." Another is the creation of "conditions for the participation of black people and women in the economy as entrepreneurs and owners of wealth and the encouragement and growth of small and medium business."

Peter Vundla, an advisor to Thabo Mbeki, who is set to succeed Nelson Mandela as South African president, recently told Victor Mallet of the *Financial Times* that he has "no problem with fat cats".

Government claims that its policy of black empowerment provides an escape route from the squalor and misery of the townships are completely hollow. This programme is used to divert attention from the desperate problems confronting the working class, by transforming every social issue into a question of race. It enables a narrow layer of super-rich black entrepreneurs to enter South Africa's capitalist class, whilst the vast majority of the population remain deprived of their rights to education, a healthy life and employment.

Mbeki and the ANC are committed to implementing IMF austerity polices. In an attempt to attract greater investment from the transnational corporations they are offering a partnership with black consortia as a means of controlling the working class and imposing the necessary draconian conditions.

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