

Historical Compensation and Economic Development Challenges: An Analysis of the Broad-Based Black Economic Empowerment System in South Africa

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Abstract. This research aims to reveal the deep dilemma faced by South Africa's broad basic black economic empowerment system in the process of implementation. The research found that the original intention of the B-BBEE system was to follow the broad purpose to achieve the dual goals of historical compensation and economic development. However, the system shows the remarkable characteristics of 'generalized vision but narrow implementation' in some practices. This implementation alienation is specifically reflected in four key dimensions: the formal compliance of the scorecard mechanism, the logical mandatory simplification of the mining charter, the structural defects caused by the delay in land reform, and the systemic obstacles caused by these factors to the optimization of the industrial structure. This article believes that the fundamental reason why the B-BBEE policy has failed to effectively alleviate South Africa's economic inequality and continued stagnation is that there is a fundamental contradiction that is difficult to reconcile between its historical compensation logic and the economic development logic, and the tendency of 'narrowing' in policy implementation further exacerbates this contradiction.

Keywords: Black Economic Empowerment, Contradiction, Narrowing

1. Introduction

Black Economic Empowerment Policy (hereinafter referred to as BEE) was initially proposed by the Mandela administration in 1993 to eliminate economic inequality after apartheid. Although the apartheid system was politically abolished, the privileged class that profited from the segregation period still dominates in its economic sphere. In order for black people to gradually participate in economic activities, the South African government and the business community began to join hands to address the imbalance of social and economic goals affecting South Africa. The passage of the Broad-Based Black Economic Empowerment Act in 2003 is the evolution and expansion of the early narrow BEE policy [1]. Subsequently, in January 2004, the bill was signed by President Mbeki and officially entered into force. It and a series of subsequent implementation rules constituted a Broad-Based Black Economic Empowerment System (hereinafter referred to as B-BBEE). In the process of the continuous evolution of the economic empowerment system, South Africa has made some positive changes in all walks of life, but its economic growth has been in a medium and low-

speed trend, and the degree of inequality remains high. Today, B-BBEE is in a critical stage of review and revision to ensure its broad purpose. Vice President Paul Mashatile emphasized that legislation should benefit most South Africans, not a few. Its core controversy and future direction still focus on how to balance the relationship between historical compensation and economic development. This article focuses on the deviation of the research policy from the purpose of general inclusiveness to some narrow implementation in practice, and uses some specific data, uses the method of content analysis to summarize and merge the research of predecessors, and combines four alienation mechanisms to disassemble the specific performance. This is the key mechanism to put it in a difficult situation. This article hopes to respond to some problems and challenges through the analysis and summary of relevant dilemmas, and provide reference materials for researchers who research related topics in the future through the summary and integration of information systems.

2. B-BBEE system frame

2.1. Vision of broad-based BEE: the redress logic and development goals of the Broad-Based Black Economic Empowerment Act

Prior to 1994, the South African government was controlled by white racists. It wielded authority over the market and maximized the overall economic interests of white society at the expense of Black people. Through unfair and onerous taxation, land dispossession, the pass system and job reservation, Black people were forced into becoming unfree, low-wage labor on white-owned farms and in mines, subjecting the broad Black population to long-term suppression and severe oppression [2]. Against this historical background, historical redress was prioritized in all policies. The Broad-Based Black Economic Empowerment Act serves as the supreme legal framework and overarching guiding principle for B-BBEE. Centered on the logic of historical redress, this Act translates South Africa's political commitment to 'correcting historical injustices' into a legally enforceable national policy to achieve economic justice, and it constitutes the fundamental basis for all subsequent BEE initiatives.

2.2. Core implementation tool: the design principle and multidimensional goals of the Scorecard System

In addition to the core Act, the Scorecard System is a key component of B-BBEE. As the central implementation tool, this system embeds the South African government's political objectives of redressing historical injustices into the daily operations of large enterprises and small economic entities through a systematic, quantitative rating system. It sets mandatory targets and directly links commercial interests to transformation performance, thereby driving in-depth, structural economic transformation. In the same year the Act was enacted, the South African Department of Trade, Industry and Competition formulated a nationally unified scoring rule—the Code of Good Practice, which was revised in 2007. Accredited agencies authorized by the department score enterprises in accordance with this Code to assess their compliance with the B-BBEE Act. The specific scoring categories include BEE ownership, preferential local procurement, management participation, employment equity, skills development, enterprise development and socioeconomic development, with different weightings assigned to each category. Meanwhile, enterprises with high scores are eligible for preferential treatment in bidding and loan applications [3]. Relevant charters are formulated by the competent departments for various sectors based on the framework of the B-BBEE Act and the Code to guide their specific implementation.

2.3. Narrow implementation: goal contraction and mechanism alienation

The B-BBEE system is designed to deliver broad-based economic empowerment, enabling the vast majority of Black people to gain substantive capacity for economic participation across multiple dimensions. However, in practice, the system has been implemented in a narrow sense. In practice, the core of the policy has been reduced to the rapid transfer of ownership and the redistribution of procurement contracts, with a focus on immediately measurable quantitative targets such as the proportion of Black shareholding. South Africa's Gini coefficient stood at 0.63 in 2023, the highest among all countries with available statistics from the World Bank. The wealthiest 10% of the population controls 86% of the country's total wealth, while the bottom 60% holds a net wealth of negative 2%. Its poverty rate also reached a staggering 55.5% in 2020. These figures indicate that social inequality remains persistently high after decades of policy implementation, and economic growth has failed to benefit the general populace, who have been excluded from development. Both outcomes run directly counter to the broad-based goals of B-BBEE, demonstrating the existence of goal contraction and mechanism alienation in the implementation of the B-BBEE system.

3. The narrow display of B-BBEE historical compensation logic: four alienation mechanisms

3.1. Scorecard mechanism: from multi-dimensional empowerment to compliance tools

The Generic Scorecard of B-BBEE consists of five core pillars: Ownership, Management Control, Skills Development, Enterprise and Supplier Development, and Socio-Economic Development, each with corresponding weightings and specific metrics. Yet in practical implementation, distorted practices are prevalent, with some enterprises inclined to prioritize high-weight, easily implementable items to meet compliance requirements. Among these, Ownership (25 points) and Enterprise and Supplier Development (40 points) together account for 65% of the base score, forming the core of B-BBEE rating results. Boosting scores in these two pillars delivers the highest efficiency for rating improvement, thus becoming the focus of enterprises, so-called 'optimization' efforts.

To secure a high B-BBEE rating and compete for business opportunities, some enterprises resort to narrow compliance practices. In the Ownership pillar, for example, they bring in 'front' Black shareholders who take no part in actual business operations, and expose such shareholders to high leverage risks through complex financing transactions. Though the scorecard's 100-point scale with bonus items was originally designed to drive wealth transfer to the Black community, it has instead given rise to a 'tick-box culture' and 'elite capture'. Some enterprises merely meet formal requirements without striving for substantive transformation, leading to a proliferation of front companies. A small group of well-connected elites reap repeated benefits, fostering a breeding ground for state-enabled corruption, theft and fraud.

Such narrow implementation has resulted in a rigid economic system, eroded entrepreneurial spirit and stifled the startup ecosystem. Essentially, it amounts to wealth redistribution rather than creation: the bulk of policy dividends flow to a small number of elites, leaving the broader Black population unable to see tangible improvements in wellbeing and exacerbating severe social inequality. The concentration of wealth among a tiny minority since 1994, coupled with South Africa's high Gini coefficient, both bear witness to this predicament. The logic of redress has been reduced to the passive transfer of financial rights and interests, failing to build the Black community's economic agency and productive capacity. Ultimately, this has created a profound contradiction between historical redress and economic development.

3.2. The mandatory simplification of redress logic at the industry level

'Localization' (local content) was first proposed in 1981 and later evolved into 'an economic regulatory tool requiring foreign-invested enterprises to source a certain percentage of intermediate inputs locally'. South Africa's localization legislation is centered on the B-BBEE Act, aiming to promote meaningful Black economic participation and optimize ownership and management structures. Various sectors have developed sector-specific charters accordingly. The Mining Charter, issued by the South African Department of Mineral Resources, is a mandatory special regime for the mining sector. Under this framework, the Mineral and Petroleum Resources Development Act (MPRDA) sets out core assessment criteria for mining localization.

Mining Charter II and III successively mandated minimum BEE equity ownership of 26% and 30% respectively, with detailed shareholding requirements for vulnerable groups, reducing multi-dimensional and deep-rooted localization reform to a quantifiable equity target. To achieve compliance quickly, mining companies often conduct one-off equity transactions with a small number of wealthy Black elites, who typically act as 'silent partners' without involvement in operational decisions, gaining no real managerial or technical capacity. To meet local procurement and training obligations, enterprises may choose higher-cost or lower-quality local suppliers and provide perfunctory standardized training, raising operational costs while failing to drive technological upgrading or enhance human resource competitiveness in the local value chain.

This model only delivers symbolic compliance. Black people remain largely excluded from genuine economic participation, substantive development stagnates, and innovation is suppressed. In the long run, investment is also deterred. Foreign investors face the risk of losing mining rights if their B-BBEE partnerships fail to meet legal requirements [3]. The conflict between equity transfer-driven redress and industrial upgrading and innovation in the mining sector epitomizes the core dilemmas of South Africa's B-BBEE system.

3.3. Land reform: compensation for the lack of foundation and pressure transmission mechanism

Land is the foundation of all production and the core site of historical injustice. Land ownership is the central compensatory demand of the vast majority of Black South Africans, yet land redistribution has long progressed slowly. Since the end of apartheid, Black people have gained political equality and freedom, but economic inequality has not improved—instead, it has been protected by the constitution [4]. The ANC formed a ruling alliance with the South African Communist Party and COSATU initially for national unity and anti-imperialist, anti-colonial goals, rather than to firmly represent the interests of the Black working-class majority. Early ANC policies mostly benefited the Black elite, disconnecting it from ordinary people. Its moderate land reform, based on free-market transactions, failed and faced populist challenges from groups like the Economic Freedom Fighters, pushing land policy toward radicalism and constitutional amendments for expropriation of white land without compensation.

In late 2019, the South African government released the draft Expropriation Bill and launched public consultations. After multiple revisions, the bill was formally adopted in September 2024 and signed into law by President Ramaphosa on December 5, 2024, granting the state power to expropriate land with zero compensation. While the law eases public anger, mitigates populist protests, and addresses historical land inequality, it introduces uncertainty in agriculture and investment, undermines property rights stability, causes volatile agricultural output, deters investment, and hinders economic growth. Moreover, poor beneficiaries lack capital, skills, and

infrastructure; state support remains insufficient, leading to large-scale abandonment of redistributed farmland—highlighting the tension between symbolic redress and substantive development [4].

Stalled land reform and unmet demands fuel mounting political pressure. The government shifted focus to the more feasible BEE policy in industry and commerce, overburdening it with historical responsibilities it cannot bear. Failed land reform failed to build a broad Black agricultural middle class or stable rural livelihoods, resulting in insufficient domestic demand and a shortage of quality raw materials. This erodes the foundation of BEE and constrains economic transformation. B-BBEE has since been reduced from a policy for broad economic participation to a mere symbol of historical redress in business, failing to deliver genuine economic equity and sustainable growth.

3.4. Industrial structure optimization: development goals give way to compensate for the appearance

One of the root causes of South Africa's current difficulties and contradictions lies in its severely unbalanced industrial structure, especially the long-term stagnation of its processing and manufacturing sector. The 2013 IMF country report warned that South Africa's structural problems had restrained economic growth and employment, making it more vulnerable to external shocks. It recommended reforms in labor and product markets to diversify the economy and strengthen manufacturing, the core of industrialization. In April 2013, South Africa's Department of Trade and Industry introduced an industrial policy action plan, aiming to shift the economy from consumption-driven to industrialized by prioritizing local manufactured products to boost manufacturing, stimulate growth, expand employment, and achieve macro goals such as full employment and price stability.

However, South Africa's development model is dominated by a coalition of political elites and economic oligarchs, who reached a compromise through the BEE policy, locking the economy into dependence on traditional mineral resources [5]. Structural adjustment policies have instead consolidated a model based on resource extraction and primary services, weakening incentives for transition to high-value-added, knowledge-intensive industries. Manufacturing's share of GDP fell from 21% in 1994 to less than 12% in the 2020s, showing clear 'deindustrialization'. The economy and exports rely heavily on mining and primary commodities, increasing vulnerability. Capital-intensive mining and BEE deals create few jobs, while manufacturing—once a major employer—continues to shrink, directly pushing unemployment above 32%.

By seeking to redistribute benefits without transforming the existing industrial structure, BEE has systematically hindered economic transformation. While partially successful in reshaping elite ownership, it has entrenched a structure unfavorable to inclusive growth and employment. BEE compliance raises firms' costs, creating a 'BEE premium' borne by the wider economy. Capital and talent flow into compliance-driven activities rather than productive investment, eroding entrepreneurship, deterring investment, and harming long-term growth [5]. Despite broad policy goals, narrow implementation of B-BBEE—focused on equity and procurement—has failed to deliver broad-based benefits, leaving the economy stagnant. This reveals a deep conflict between pursuing historical redress and building the diversified, resilient industrial base needed for sustainable development.

4. Conclusion

This article mainly analyzes and studies the Broad-Based Black Economic Empowerment System in South Africa. It reveals the deep-seated dilemma between economic development and historical

redress through four alienation mechanisms, as well as how the tendency toward narrow implementation exacerbates this contradiction. The partial narrow implementation of the B-BBEE policy has led to a self-reinforcing vicious cycle, resulting in various social problems such as crime and strikes. South Africa needs to strike a balance between corrective justice and economic development, so as to move toward a truly broad-based economic empowerment path. In short, regardless of the reforms and decisions made by the current government, implementation capacity, corruption, and challenges to vested interest groups remain fundamental issues facing South Africa's transformation. The main reference materials of this paper are derived from previous studies, from which information is extracted, summarized and organized. However, in terms of specific cases, the research lacks sufficient data support or remains overly general, which needs to be improved in future work. Future research may focus on the impact of multiple factors such as politics on the contradiction between economic development and historical redress, including whether they intensify or alleviate it.

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