



## BLACK BUSINESS COUNCIL RESPONSE TO THE 2017 BUDGET

The Black Business Council (BBC) welcomes the government's new focus – as outlined in President Jacob Zuma's recent State of the Nation Address (SONA) – on radical economic transformation. In the SONA, President Zuma said: "What do we mean by radical socio-economic transformation? We mean fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans, especially the poor, the majority of whom are African and female, as defined by the governing party, which makes policy for the democratic government.

"Twenty-two years into our freedom and democracy, the majority of black people are still economically disempowered. They are dissatisfied with the economic gains from liberation. The skewed nature of ownership and leadership patterns needs to be corrected. There can be no sustainability in any economy if the majority is excluded in this manner. Today we are starting a new chapter of radical socio-economic transformation. We are saying that we should move beyond words, to practical programmes," he said.

However, the BBC notes that finance minister Pravin Gordhan failed to mention the term radical economic transformation throughout his budget speech on 22 February 2017. There is no alignment between the SONA and the budget speech. Although the finance minister used the words "transformation" on many occasions, the details were at odds with the sound bites. The speech failed to move "beyond words, to practical programmes." It repeated general principles and platitudes about transformation but provided no financial details about practical programmes to implement radical economic transformation. There was no mention of the Black Industrials Development Programme (BIDP), which is one of the major policy instruments to achieve radical economic transformation.

Over the past two decades, National Treasury has failed to champion the cause of radical economic transformation. It sided with the financial sector to force through a charter that endorsed the principle of "once empowered, always empowered" principle and had lower targets for direct ownership, despite opposition by the Financial Sector Campaign Coalition (FSCC) and the Congress of South African Trade Unions (COSATU). It has

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failed to amend the draconian Preferential Procurement Policy Framework Act (PPPFA). It provided no funding to the National Empowerment Fund, since its inception in 1998. It also stalled the implementation of set asides for black business for many years.

The BBC's criticism of the budget is that it has few financial details about the financing of the government's flagship programme of radical economic transformation. We note that the allocation towards the Ministry of Small Business has been reduced to R3.9bn during the latest MTEF projections from R4.3bn that was projected in the 2016 Budget. This will make it impossible for the ministry to make a significant contribution towards achieving the National Development Plan (NDP) goal of creating 10 million new jobs by 2030. Small and Medium Enterprises (SMEs) are expected to create 90% of those jobs. We therefore ask, how is it possible for the ministry to create 9m jobs with an annual budget allocation of R1.3bn over the three years of the Medium Term Expenditure Framework? We call for the government to significantly increase the resources that are allocated towards the development of SMEs.

The BBC is also shocked that the detailed Estimates of National Expenditure (ENE) – that were released by National Treasury together with the budget documents – has only allocated R121.7m to the Department of Trade and Industry (DTI) to implement the BIDP during the three years of the MTEF. Despite fearmongering by the ratings agencies, the BBC does not believe that South Africa has a debt problem. According to the Budget Review, South Africa has net loan debt of 45.5% of Gross Domestic Product (GDP). This is relatively low by international standards. We are also disappointed that National Treasury chose to only raise extra funds from personal income tax without considering an increase in corporate taxes.

The BBC therefore, calls on the government to:

- Consider innovative methods of financing economic development and radical economic transformation. These could include: reprioritising expenditure towards capital expenditure and increased financing by the Public Investment Corporation (PIC).
- Urgently resolve the issue of “once empowered, always empowered” in the mining and financial sectors. We note that the delay in resolving this issue has resulted in a



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halt in private sector BEE transactions and a reversal in black ownership on the stock exchange over the past two years.

- Repeal the draconian PPPFA. If the R1.5 trillion public procurement over the three years of the MTEF continues to be conducted within the framework of the PPPFA, white monopoly capital will continue to be the main beneficiaries of government spending on goods and services
- Increase the set asides for black-owned business to at least 51% from the proposed 30%. We note that National Treasury is apologetic about these set asides. It says the public sector should only pursue the 30% target, if it is feasible. The 30% target that is contained in the new regulations is ambiguous. It refers to exempted micro enterprises (EMEs), qualifying small enterprises (QSEs) and black business. EMEs and QSEs could be white. Therefore, we call upon the government to close this possible loophole in the law.
- To create opportunities for black businesses to participate in the restructuring of the Post Office and South African Airways (SAA) and the proposed licensing of new financial institutions. We call for a transparent process of restructuring SOEs to prevent backdoor transactions with established businesses
- Introducing penalties for government departments that refuse to pay suppliers - who are compliant with all government regulations – within 30 days.