

Selective bail-outs bad move for BEE

The economic downturn affecting the US, the UK and other parts of the world will ultimately also affect South Africa. No wonder we are hearing buzzwords like "bail-outs" also surfacing in South Africa. With our banks relatively "safe", we find reference to other business development areas – like BEE – and the call for the financial rescue of share deals.

Yet the South African government should be very careful in how it applies what superficially seems to be quite plausible. Before this can be entertained, let us take a step backward and see whether we all have the same understanding and objective when it comes to Broad-Based Black Economic Empowerment (BBBEE).

BBBEE should be understood as a strategy not only looking at the ownership element of the scorecard but at all seven elements of the charter. Bail-outs proposed to save empowerment deals based on ownership and equity are narrowly based and may thus be misguided. What about black business that is suffering due to a slowdown in preferential procurement?

The trying times create a problem

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not only for those who are the beneficiaries of the elite elements of the scorecard, but for everyone. Ordinary people are also feeling the pinch, struggling, for example, to repay bonds.

We should not be selective and bail out a few individuals based on ownership and equity. We should rather look at holistic approaches that seek to address all the elements of the scorecard. Selective BEE bail-outs do not add value to the credibility of BEE. Opinion-makers have been struggling

to advocate that BEE is good for business and the issue of bail-outs will exacerbate the situation.

BEE deals are supposed to be entered into on business principles. Financing and other consortia that participated in these deals should have anticipated what might happen during the good and bad times of the economy and plans should have been put in place for worst-case scenarios.

Paying debts through dividends is a risky financial instrument, as it depends on the fluctuations of variables like interest rates, inflation, crude oil prices as well as the current account deficit and other factors. The Codes of Good Practices gazetted last year seek to accommodate everyone and not just a selected few.

Unfortunately, there is no difference between losing an investment in a BEE deal, losing a house due to an excessive bond, or losing a job and corporate social investment support – they all hurt.

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