



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

**BROAD BASED BLACK ECONOMIC
AMENDMENT BILL**

OCTOBER 2013

Objects of the Bill

- Establishment the B-BBEE Commission to act as a *watchdog* for BBEE implementation (and the introduction of the Verification Regulator);
- Creation of a Monitoring, Evaluation and Reporting framework by all public and private institutions;
- Creation of statutory offence of Fronting and other related offences;



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Objects of the Bill

- Introduction of penalties ranging from maximum sentence of 10 years to 10% of company's turnover and prohibition not to trade with organs of state for 10 years;
- Trumping provision to be applicable on conflicting provisions specific to B-BBEE only; and
- Strengthened application of the Codes to organs of state and sector codes to affected sectors.



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

B-BBEE CODES OF GOOD PRACTICE

General Principles

- Minimum requirements for priority elements: Ownership, Skills Development, and Enterprise and Supplier Development;
 - Ownership;
The threshold requirement for Ownership is 40% of Net Value
 - Skills Development;
The threshold requirement for this priority element is 40% of the total weighting points for Skills Development
 - Enterprise and Supplier Development.
The threshold requirement for this priority element is 40% for each of the two categories:
 - preferential procurement
 - enterprise and supplier development.

Revised Codes

General Principles cont...

- Discounting principle still applicable but with one level down both for Large and QSEs;
- EMEs /QSEs that are 100% owned by black people to qualify as a level 1 contributor;
- EMEs and QSEs that are more than 51% owned by black people to qualify as a level 2 contributor;

General Principles Cont...

- The thresholds for EMEs and QSEs are as follows:
 - EME increased from R5 million to R10 million
 - QSE: R5 million -R35 million to R10 million - R50 million
 - Large entities: R50 million and above

Revised Codes

Ownership Element (25 points)

- **40% of the 8 sub- points allocated to NET VALUE**, as the key driver of true ownership in the hands of black people and it is important to measure economic interest on an annual basis.
- Provided clarity for FamilyTrust on the B-BBEE ownership principles for recognition on the ownership element.
- Provided clarification that only RSA based and regulated investments will be considered for qualification as Mandated Investment.
- Enhanced the provisions for Private Equity Fund

Revised Codes

Ownership Element cont....

- Increased the weighting points of the Ownership scorecard from 20 to 25 points
- The points for Ownership have been broadened to include designated groups in the main points;
- New entrants have been incorporated into the main points of the Ownership Scorecard and increased from R20 million to R50 million
- Consolidated ownership fulfilment and net value points

Management Control

- Junior Management incorporated in the scorecard.
- Aligned the Management Control element with the EAP targets as annually published by the Department of Labour.
- The compliance targets for Management Control were aligned to the Commission for Employment Equity report
- Provided the measurement principle of EAP targets for enterprises operating in the Provincial and National.

Revised Codes

Skills Development

- Informal and work based training (Category F and G) is recognisable but capped at 15% of the total value of Skills Expenditure.
- The 6% compliance target for skills development expenditure maintained and clarification provided that it include external training expenditure.
- Introduced a 15% cap for non-core training costs such as accommodation, catering etc.
- Clarified that international trainings are recognisable provided they meet the SAQA requirements for recognition.

Revised Codes

Enterprise and Supplier Development

- Entities can apply import exclusion principle but not applicable to designated sectors as pronounced by the Minister of Trade and Industry
- Replaced the Value Adding Supplier concept with Empowering Supplier defined as follows:
 - An Empowering Supplier within a context of B-BBEE is a B-BBEE compliant entity which can demonstrate that its production and/or value adding activities take place in the country.

Enterprise and Supplier Development cont...

Criteria to qualify as an Empowering supplier is as follows:

- Large enterprise should comply with at least three whereas QSEs should comply with at least one criteria listed below:
 - At least 25 % of cost of sales excluding labour cost and depreciation (unless in the service sector) must be spent in RSA. For enterprises operating in the service industry the labour cost can included but to a threshold to 15%.



Revised Codes

Enterprise and Supplier Development cont...

- At least 50% of jobs created are for black people provided that the number of black employees on the first year of measurement is maintained
- Transformation of raw material/ beneficiation – at least 25% includes local manufacturing, production and/or assembly, and/or packaging
- Skills transfer – at least spent 12 days per annum of which are productive, in assisting beneficiaries to increase their operational, technical or financial capacity.

EMEs and start-ups are exempted from Empowering Supplier definition.

Revised Codes

NB: No changes for Socio Economic Development Element

- The Final Revised Codes will be gazetted on 11 October 2013.
- The market will be granted a transitional period of 12 months to adjust to the new changes.



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

B-BBEE 2ND BASELINE RESEARCH

B-BBEE BASELINE RESEARCH

- the dti commissioned the first B-BBEE baseline study in 2007;
- At the time of the above study, the dti had just released the B-BBEE Codes;
- The outcome of that study indicated that the country was non-compliant (Level 8);
- The Presidential B-BBEE Advisory Council in 2009, to monitor and review the implementation of B-BBEE; and
- One of the key recommendations from the Council was that a second study be conducted and this study was conducted in 2012/13.



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

B-BBEE BASELINE RESEARCH

OBJECTIVES

- Measure impact of B-BBEE in terms of overall transformation in the whole economy including the Public sector.

METHODOLOGY

- Proportional representation using the economically active population frame by legal form, size, province and industry; and
- Qualitative and quantitative models were used to qualify and quantify the performance and comparative analysis for this study.

B-BBEE BASELINE RESEARCH

- **Key Findings:**

- There has been a modest improvement in each of the elements of the scorecard by legal form, size, province and industry;
- This improvement could be attributed to the introduction of the Codes in 2007 as the Codes gave guidance in terms of B-BBEE elements for measurement;
- However, the study shows that 33% of surveyed large enterprises had zero (0) Black Ownership and only 9% of enterprises had more than 90% Black Ownership; and
- This reflects poorly on the level of penetration of Black Ownership within large enterprises.

B-BBEE BASELINE RESEARCH

- **Key Findings:**

- QSE showed more transformation than Large Enterprises;
- Ownership, Employment Equity, and Skills Development elements showed slow progress on transformation (see graphs below); and
- All sectors average on Level 4 and level 5 B-BBEE Scorecard, more efforts need to be done across all sectors of the economy, to achieve meaningful transformation.



B-BBEE BASELINE RESEARCH

Sector	B-BBEE level
Agriculture and Nature Conservation	Level 5
Catering Accommodation and other Trade	Level 5
Community, Social and Personal Services	Level 5
Construction	Level 4
Finance and Business Services	Level 5
Manufacturing	Level 5
Mining and Quarrying	Level 5
Public Sector	Level 3
Retail and Motor Trade and Repair	Level 5
SETA	Level 3
State Owned Enterprise	Level 3
Transport, Storage and Communications	Level 5
Wholesale Trade and Allied Services	Level 5



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

B-BBEE BASELINE RESEARCH

ELEMENT	Generic			QSE		
	Max	Score	Percent	Max	Score	Percent
1 Ownership	20	11.0	55%	25	19.8	79%
2 Management Control	10	4.25	43%	25	20.7	83%
3 Employment Equity	15	6.8	45%	25	18.4	74%
4 Skills Development	15	6.2	41%	25	17.8	71%
5 Preferential Procurement	20	13.1	66%	25	17.9	72%
6 Enterprise Development	15	9.5	63%	25	19.5	78%
7 Socio-Economic Development	5	3.6	72%	25	20.2	81%
Overall Average		54			76	

The overall B-BBEE average for Generic Enterprises is 54 (Level 6)

The overall B-BBEE average for QSEs is 76 (Level 3)



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

B-BBEE BASELINE RESEARCH

	Average Score	
Exempt Micro Enterprises	72	Level 3
Qualifying Small Enterprises	76	Level 3
Generic Enterprises	54	Level 6
Consolidated Average B-BBEE Level		Level 4

- **Concluding Notes:**

- QSE showed more transformation than Large Enterprises;
- Averages per sector range between Level 4 and level 5 (largely due to EMEs & QSEs)
- The overall economy improved from level 8 (2007) to level 4 (2013).
 - The biggest contributors to this improvement are the EMEs and QSEs
- To achieve meaningful transformation across all sectors of the economy, more efforts and strategies need to be implemented.



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

B-BBEE Research: Retail Sector - Mass Grocery



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

B-BBEE RESEARCH - RETAIL

OBJECTIVES:

- To determine the extent of participation by Black people in the mass grocery industry of the retail sector.

KEY FINDINGS:

- The top five retailers control over 80% of the activities in the sector;
- Low participation by Black people due to, amongst others, lack of high capital requirements and quality of products;



KEY FINDINGS CONT...

- Retailers are performing poorly on Ownership element and Preferential Procurement element ;
- Average score for Ownership is 6 points and for Preferential Procurement is 13 (most of the points come from procuring from big companies)
- Value chains of retailers are dominated by big local and international manufacturers who are also not transformed;



KEY FINDINGS CONT...

- Most retailers are family owned and controlled. Compliance to the Ownership element is mainly through Employee Schemes which is linked to retention of employees;
- Transformation of the retail sector needs to look at the value chain from farm to fork due to the strategic interdependencies of the sector with other sectors i.e. agriculture, property, financial services; and
- Recommendation for partnerships between the retailers, manufacturers, and all spheres of government to design and implement programmes that will accelerate transformation.



THANK YOU