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Trade and Industry
REPUBLIC OF SOUTH AFRICA

**Presentation to the Portfolio Committee
on Trade and Industry on the Amended
B-BBEE Codes of Good Practice**

9 JUNE 2015

Presentation Layout

- Introduction
- Ushering New Era of Empowerment
- The Codes of Good Practice
- The Status of the Sector Codes
- The Way Forward



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Introduction and Background

Section 10 (1) of the B-BBEE Amendment Act 46 of 2013, which came into operation on the 24 October 2014, and states as follows:

Every organ of state and public entity must apply any relevant code of good practice issued in terms of this Act in:

- (a) determining qualification criteria for the issuing of licences, concessions or other authorisations in respect of economic activity in terms of any law;
- (b) developing and implementing a preferential procurement policy;

Introduction and Background Cont...

- (c) determining qualification criteria for the sale of state-owned enterprises;
- (d) developing criteria for entering into partnerships with the private sector; and
- (e) determining criteria for the awarding of incentives, grants and investment schemes in support of broad-based black economic empowerment.

Introduction and Background

- ❑ Phase 1 of the Codes of Good Practice (the Codes) was gazetted on 11 October 2013 (80%);
- ❑ The Codes came into effect on 1 May 2015
- ❑ Phase 2 of the Codes was gazetted on 6 May 2015 (20%);
- ❑ Education campaign for both phase 1 and 2 conducted with stakeholders since 2013 ; and
- ❑ In the process of rolling-out on-going stakeholder engagement on the Codes.

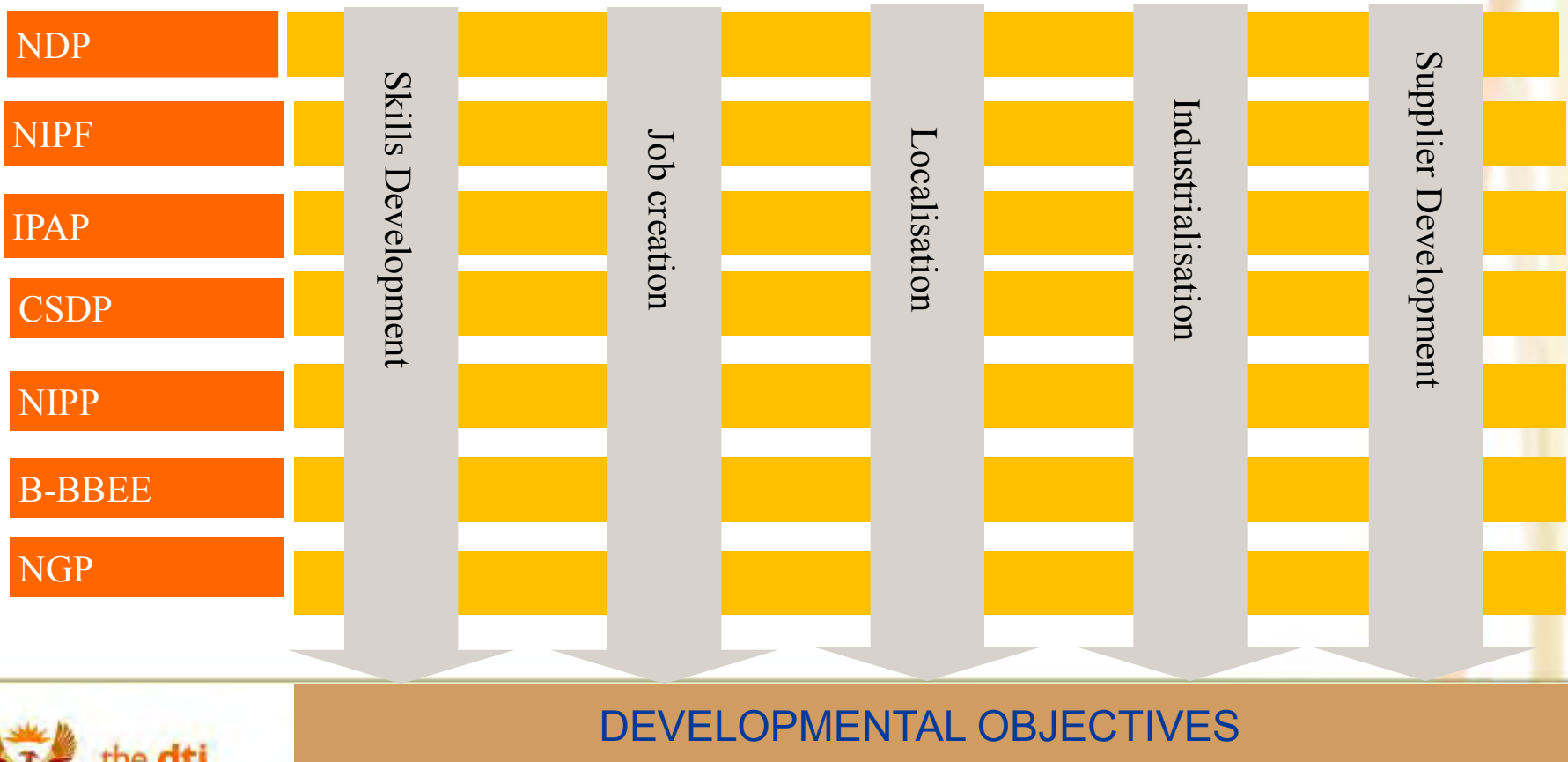


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USHERING IN A NEW ERA OF EMPOWERMENT

Initiative



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THE CODES OF GOOD PRACTICE

- The Generic Scorecard is aligned in accordance with government key priorities;
- The Generic Scorecard has five (5) elements;
- All companies except for Micro-Exempted Enterprises (EMEs) will comply with all 5 elements; and
- Enhanced the recognition status of black owned EMEs and Qualifying Small Enterprises (QSE).



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THE CODES OF GOOD PRACTICE

Cont...

- ❑ Employment Equity and Management Control merged into one element: **Management Control**;
- ❑ Preferential procurement and Enterprise Development merged into one element: **Enterprise and Supplier Development**; and
- ❑ Introduced minimum requirements for priority elements: **Ownership, Skills Development, and Enterprise and Supplier Development**.



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THE CODES OF GOOD PRACTICE

Cont....

- ❑ Measured entities to comply with priority elements under the following conditions:
 - Qualifying Small Enterprises to comply with at least two of the priority elements:
 - Ownership is compulsory; and either
 - Enterprise & Supplier Development or Skills Development.
 - Large entities to comply with all priority elements.
- ❑ Where measured entities do not meet the thresholds in priority elements, the overall score will be discounted one (1) level down.

THE CODES OF GOOD PRACTICE

Cont....

- An Exempted Micro Enterprise or Qualifying Small Enterprise that is 100% owned by black people qualifies as a Level 1 contributor;
- An Exempted Micro Enterprise or Qualifying Small Enterprise that is more than 50% owned by black people qualifies as a Level 2 contributor; and
- No verification requirements for Exempted Micro Enterprises.



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THE CODES OF GOOD PRACTICE

Cont...

B-BBEE Status	2007 Qualification	2015 Qualification
EXEMPTED MICRO ENTERPRISES	R 0.00 TO R5.million	R 0.00 to R10 million
QUALIFYING MICRO-ENTERPRISES	R 5 Million TO R 35 million Annual turnover	From R10 Million to R50 Million Turnover
LARGE ENTERPRISES	More than R 35 Million Annual Turnover	More than R 50 Million Annual Turnover



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THE CODES OF GOOD PRACTICE

Cont....

- ❑ The **thresholds** for Exempted Micro Enterprises, Qualifying Small Enterprises and Large Entities have been adjusted as follows:
 - Exempted Micro Enterprises increased from **R5 million to R10 million**;
 - Qualifying Small Enterprises: **R5 million - R35 million to R10 million - R50 million**;
 - Large entities: **R50 million and above**.



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THE CODES OF GOOD PRACTICE

Cont....

❑ Ownership Element:

- Target of 25.1% Ownership;
- The 40% sub-minimum is applicable on 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;
- Provisions for Family Trust on the B-BBEE ownership principles for recognition on the ownership element; and
- Clarification that only RSA based and regulated investments will be considered for qualification as Mandated Investment.



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THE CODES OF GOOD PRACTICE

Cont....

❑ Management Control:

- The merged Management Control includes Senior Management, Middle Management and Junior Management from the Employment Equity Element;
- The compliance targets for Management Control are aligned with the EAP targets as annually published by the Department of Labour; and
- Measurement principle of EAP targets for enterprises operating in the Provincial and National have been introduced.



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THE CODES OF GOOD PRACTICE

Cont....

❑ Skills Development:

- The compliance target for skills development expenditure increased to 6% to cover both internal and external training expenditure;
- Introduced a 15% cap for non-core training costs such as accommodation, catering etc;
- Introduced a 15% cap on Category F&G training (informal training); and
- The compliance targets are based on EAP targets for black people.



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THE CODES OF GOOD PRACTICE

Cont....

❑ Enterprise and Supplier Development:

- Imports exclusion principle maintained (as per public submissions) with overriding proviso that imports are not applicable in Designated Sectors.
- Value Adding Supplier replaced with Empowering Supplier definition as follows:
 - An Empowering Supplier in the 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.



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THE CODES OF GOOD PRACTICE

Cont....

❑ Enterprise and Supplier Development:

- Large enterprises should comply with at least three criteria listed below:
 - 25 % of cost of sales excluding labour cost and depreciation (unless in the service sector) must be spent in RSA;
 - 50% of jobs created must be for black people;
 - Beneficiation of raw materials;
 - Skills transfer; and
 - 85% labour costs in service industry.



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THE CODES OF GOOD PRACTICE

Cont....

❑ Enterprise and Supplier Development:

- Qualifying Small Enterprises should at least comply with one of the above-mentioned criteria.
- Exempted Micro Enterprises to be automatically recognised as Empowering Suppliers.

NB: No changes for Socio Economic Development Element

THE AMENDED GENERIC SCORECARD

Element	Weighting	Compliance Target
Ownership	25 points	25% + 1 vote
Management control	19 points	(50% to 88%)
Skills Development	20 points	6% of payroll
Enterprise and Supplier Development	40 points	PP = 80% SD = 2% (NPAT) ED = 1% (NPAT)
Socio-Economic Development	5 points	1% (NPAT)
TOTAL	109 points	



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THE STATUS OF THE SECTOR CODES

- ❑ Sector Codes are developed in terms of the Generic Codes of Good Practice;
- ❑ The process of developing Sector Codes is set out in Code Series 003;
- ❑ Sector Codes create a harmonised environment for implementation of transformation/ empowerment policies – “Reduce Red Tape”; and
- ❑ Effective date of the aligned Sector Codes is 1 November 2015.



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THE STATUS OF THE SECTOR CODES Cont...

- ❑ Explicitly stated that deviations of sector codes in terms of targets must be over and above those of the Generic Codes;
- ❑ Companies that derive more than 50% of revenue from sectors where there is a Sector Code must be measured in terms of the Sector Code;
- ❑ The funding of the operations of Sector Charter Councils is a joint responsibility between government and the private sector; and
- ❑ Entities must report annually on their B-BBEE status to Sector Councils, who will in return report to the Commission.



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THE STATUS OF THE SECTOR CODES Cont...

- Tourism: being considered by **the dti** for gazetting for public comments.
- Construction: finalising the alignment process.
- Integrated Transport: finalising the alignment process.
- Chartered Accountancy: finalising the alignment process.
- Property: being considered by **the dti** for gazetting for public comments.
- Forestry: being considered by **the dti** for gazetting for public comments.



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THE STATUS OF THE SECTOR CODES Cont...

- ICT: finalising the alignment process.
- Financial Services: finalising the alignment process.
- AgriBEE: awaiting Line Ministry approval.
- Marketing, Advertising and Communication: awaiting Line Ministry approval.



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THE WAY FORWARD

- ❑ Marketing and communication on the Codes will commence in June 2015 with all stakeholders and provinces.
- ❑ In the process of developing the Technical Assistance Guide (TAG).
- ❑ Finalising the amended B-BBEE Verification Manual.

ACRONYMS

BBBEE : Broad-Based Black Economic Empowerment

EME: Exempted Micro Enterprises

QSE: Qualifying Small Enterprises

NDP: National Development Plan

NIPF: National Industrial Policy Framework



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ACRONYMS

IPAP: Industrial Policy Action Plan

CSDP: Competitive Supplier Development Programme

NIPP: National Industrial Participation Programm

NGP: New Growth Path

ICT: Information and Communication Technology



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THANK YOU



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