Sanlam Gauge

in partnership with

Sunday Times Business Times

REPORT

MAY 2021


Live
with
confidence
Possibilities
Achievement
Dreams
Courage
Success
Stability
Resilience
Growth
Belief
Security
Empowerment
Hope
Freedom
Peace of mind
Assurance
Opportunity

ABOUT THIS PUBLICATION

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Sanlam

> ***"We will ignite this purpose through an expanded product offering, data and digital transformation, empowerment, building a future-fit culture, innovation and partnerships."***

PURPOSEFULLY DRIVING ECONOMIC INCLUSION FOR ALL

The inaugural Sanlam Gauge is the start of an annual journey to measure the level of B-BBEE activity, commitment and success in South Africa. It is a seminal body of research which will help drive us to debate how best to achieve a flourishing nation with a strongly growing GDP, that offers true economic inclusion and equality for all.

Last year, we were hit with a harrowing reminder of just how much further we need to go. The Covid-19 pandemic placed the spotlight on the depth of the chasms that exist in our society as we saw hunger and homelessness soar.

The findings of this report will, we hope, catalyse introspection in corporate society. We urge business to ask, how can we do more to drive economic growth and inclusion in South Africa? How can we do this with far more urgency?

At Sanlam, empowerment has been at our heart for over 100 years. Our transformation drive has always been purpose-led, in line with our ongoing mission to create shared value for all our stakeholders, with an emphasis on creating growth and opportunities for all in our society.

We are very proud of some of the milestones in our transformation journey. We closed South Africa's first major black empowerment deal in 1993, when we sold Metropolitan Life to Methold.

Since then, our continued drive to address economic inequality has included our Ubuntu-Botho economic empowerment deal, which created over R15 billion in value for black shareholders. Most recently, our Sanlam Investments business became the largest black-owned asset manager in South Africa, when it sold a 25% stake to African Rainbow Capital (ARC) Financial Services in 2020.

While we hope and trust our journey to date has made an impact on many lives, we have never been more energised to drive transformation, economic growth and empowerment forward. We recently rebooted our own business to a purpose-led organisation focused on giving millions of Africans the chance to live life with financial confidence.

We will ignite this purpose through an expanded product offering, data and digital transformation, empowerment, building a future-fit culture, innovation and partnerships.

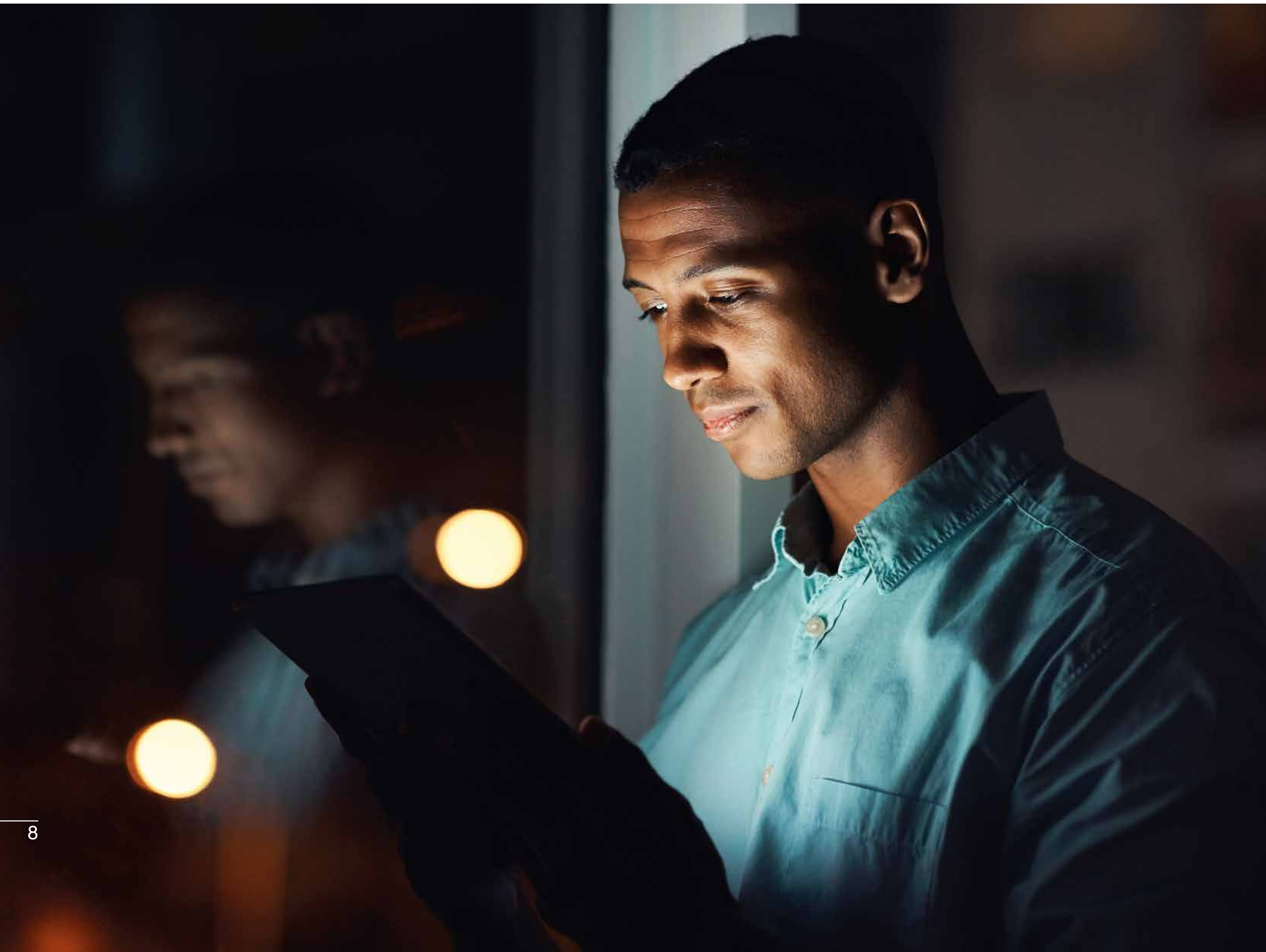
Our partnership with Arena Holdings (Sunday Times Business Times) and co-founder Andile Khumalo in the Sanlam Gauge forms part of the deliberate action we are taking to drive our purpose. It is a meaningful way of taking stock of the progress that has been made in South Africa so far. A way of encouraging dialogue on how to affect true transformation, to the benefit of all South Africans.

We are excited about the possibilities that dialogue around this report presents. We hope that it will do far more than spotlight transformation in South Africa. We hope it will catalyse and accelerate meaningful transformation, economic growth and inclusion; the only way for our nation to truly fulfill its awesome potential.

PAUL HANRATTY,
SANLAM GROUP CHIEF EXECUTIVE

"There needs to be another wave of BEE that involves black people as the key drivers."

SAYS VUYO JACK,
CHAIRPERSON OF EMPOWERDEX



UBUNTU CAPITALISM: INCORPORATING VALUE CIRCULATION INTO WESTERN CAPITALISM

This year marks 20 years since I co-founded ratings agency Empowerdex with Chia Chao Wu on 16 June 2001, having just finished our chartered accountancy articles. Much has happened since then in terms of the empowerment of black people, creating great opportunities along with predictable losses.

In reflecting on some of the successes, particularly of astute black entrepreneurs who used the opportunities to build great legacies, two key issues have been learned, along with negative aspects that make these lessons even more important.

THE FIRST LESSON FROM THE BEE JOURNEY IS THE EXAMPLE OF UBUNTU CAPITALISM 2.0 AT WORK, WHICH EXPANDS TO THE SECOND LESSON: HOW LEGACIES ARE CREATED.

Ubuntu Capitalism 2.0 is a critical part of legacy building. Material, cultural and spiritual wealth is what sustains legacies. The key ingredient in these two lessons is "attention capital", which is a psychic energy that gives life to things. This is an asset that everyone has, regardless of social status. Attention capital is the source of all types of capital you find in life. Like time, however, it is limited, so harnessing it for greater impact is important for legacy building.

The Western form of capitalism consists of value creation and value capture, which requires the investment of attention capital to sustain it. I would add a third element which is "value circulation" – and call this Ubuntu Capitalism 2.0 as a new form of capitalism.

What is Ubuntu Capitalism 2.0? It is a system that enables value to be created, to be equitably captured by those who created it, and circulated to ensure sustainability of the ecosystem.

To use an example of planting seeds to develop an orange orchard: value creation is the most difficult part of the process. The seeds that are planted deep in the soil have to be left in the darkness to grow roots and then form saplings. Great attention has to be given to the orchard, such as watering the trees regularly, fertilising the soil, treating trees with chemicals, removing weeds and invasive bushes and protecting the orchard from predators, among other things. When the trees reach maturity, they give forth oranges which have to be plucked to make way for new oranges to emerge in the next season. This is value creation at work.

Value capture happens when the fruits are consumed or sold to others. The value is captured by the farmer who invested her attention capital to develop the orchard.

This value can be used to plant more trees in order to develop sustainability. But the farmer can also give some of the oranges to people around her in the ecosystem of the farm. This is important as it not only gives the farmer protection of sorts from grassroots people, but they benefit as well. She must also invest in herself by taking a break and make sure she has the required strength for the next season of oranges. This is her Sabbath.

This is known as value circulation, which reinvests the value captured back into the business, while giving strategically to people in the community and reinvesting in yourself, the source of attention capital.

The legacy building framework I love comes from communications strategist Nancy Duarte, who outlines a hero's journey in a three-act format encompassing the five stages of transformation.

In the first act the protagonist dreams of the future she wants and is galvanised to take a leap. The second act involves fighting different forces that threaten the protagonist from realising her dream. Winning these various battles enables her progress, with the help of others who are interested in seeing the dream come alive. The final act is the realisation of the dream.

WHILE THIS IS CAUSE FOR CELEBRATION, IF THERE IS NO FURTHER FORWARD MOVEMENT THEN DECLINE KICKS IN AND DEATH OF THE DREAM FOLLOWS. A "RE-DREAMING" PROCESS IS REQUIRED TO BUILD LEGACIES THAT STAND THE TEST OF TIME. THE MULTIPLE TRANSFORMATIONS OVER TIME FORM THE SUBSTANCE OF BUSINESS LEGACIES.

These are the elements of creating wealth which can be applied to the framework of black economic empowerment. In South Africa we were able to create value for lots of people through the B-BBEE framework. There were some black people that benefited, and there are positive stories of entrepreneurs who exemplify Ubuntu Capitalism 2.0 and legacy building principles. One is Sipho Nkosi of Exxaro Minerals.

NKOSI, ALONG WITH PARTNERS STARTED EYESIZWE COAL IN 1999 AND BUILT THE COMPANY BY BEING HANDS-ON IN THE BUSINESS. THE MINING CHARTER WAS CONCLUDED IN 2001 AND PROVIDED SALE OF ASSET OPPORTUNITIES FOR THE ESTABLISHED MINERS TO MEET THEIR BEE OWNERSHIP TARGETS TO GET MINING LICENCES. THESE OPPORTUNITIES WERE SEIZED BY BLACK ENTREPRENEURS WHO USED THEM TO BUILD A RESPECTABLE ASSET BASE IN MINING.

This journey was, however, full of battles that had to be fought – which required transformation within Nkosi himself as well as Eyesizwe Coal. This enabled Nkosi to engineer the merger with Kumba Resources to form a new coal giant Exxaro Coal in 2006, taking the CEO role until he retired in 2016. After his time at Exxaro Coal, Nkosi invested in talent by focusing on the skills development of South Africans to prepare them for the fourth industrial revolution. The legacy building lessons are evident in the formation of Eyesizwe Coal culminating in a re-dreaming phase of Exxaro Coal and a further re-dreaming leading to developing talent.

There are many other such stories where black entrepreneurs have evolved to legacy building following successful value creation – Patrice Motsepe is one. But not all stories have happy endings, particularly in cases where you have most of the value captured by people with resources who understand B-BBEE better than the intended beneficiaries.

Ownership deals often benefited existing white shareholders who already had value in their businesses – listed and unlisted – with white management receiving bonuses based on the good performance of the company due to the improved BEE credentials. The broad-based schemes are often managed by retired ex-employees of big companies, sitting on billions worth of value. There was an emergence of enterprise and supplier development funds that were managed by young white entrepreneurs, some fresh out of university because they could not find employment in corporations due the application of the employment equity policy.

You also have the situation of state and corporate capture. State capture involves those who capture value they didn't create. They are like the Mafia who put in measures to grab value in exchange for their protection from problems which they have artificially created. These value capturers are also known as rent-seekers who take value based on their proximity to power and politicians. In the corporate world there is also a form of value capture by those who have no skin in the game. They are corporate executives who take no downside risk for the decisions made and they still keep their upside even when things go wrong.

Those who capture value they have not created do not circulate that value to create a legacy. They blow the value they have captured by buying flashy possessions that have great material value but no mental or spiritual substance. This might be great for Instagram which gets them attention capital but which they can't in turn monetise. This is why the value they capture vanishes quickly.

PEOPLE WHO CREATE AND CAPTURE VALUE ARE ABLE TO CIRCULATE IT WELL BECAUSE THEY REMEMBER THE PAIN THEY SUFFERED TO CREATE THAT VALUE. THEY DO NOT CREATE VALUE LEAKAGE.

Ubuntu capitalism has wider application outside of the black empowerment framework, for example in climate change. The climate change crisis is felt more by the countries that are not the major contributors of carbon emissions.

The equitable way to deal with climate change by the vulnerable is to find pockets of creating value that result in equitable distribution of value for the most affected, while driving economic growth with a significant decrease in emissions. The value capture mechanism must be based on fairness and meritocracy for all parties affected by climate change. Ultimately value circulation principles must be applied to prevent the recurrence of the negative climate impact.

ALL THESE ACTIVITIES CAN TAKE PLACE WITHIN THE FRAMEWORK OF LEGACY BUILDING WHICH ENSURES THAT WE DELIVER A NET-ZERO EMISSIONS PLANET TO OUR FUTURE GENERATIONS THAT CAN BUILD FURTHER ON THE FOUNDATION OUR LEGACIES HAVE LAID.

MISMATCH BETWEEN SCORECARDS AND REALITY

BY COLIN ANTHONY

A box-ticking approach as well as outright fronting contribute to B-BBEE scores presenting a skewed representation of underlying transformation in the economy. Visions for the future include a switch in focus to measure outcomes rather than initiatives and building a bottom-up approach to transformation by placing more emphasis on supporting small businesses.

There is a strong element of frustration among people closely involved with broad-based black economic empowerment (B-BBEE). Many people interviewed for this report believe that while companies may perform well on the scorecard, that does not reflect the underlying reality.

In many of the articles on specific categories and sectors, interviewees raise the issue of the tick-box approach to doing just enough to score highly on the scorecard but without effecting any meaningful underlying transformation - although it's important to note that many companies do attempt to transform their businesses.

"In terms of whether companies are achieving the scorecard goal, yes they are," says Lerato Ratsoma, MD of ratings agency Empowerdex. "There have been successes. But we are not where we want to be in terms of what the economy looks like. From the numbers in the research results we can see there has been improvement but in terms of a sustainable shift - we're probably not at the level we would have wanted to be."

This is the first year we are conducting this research which we believe is the first attempt to measure the level of transformation across all industries to derive a B-BBEE scorecard for each sector and one national one, for "SA Inc".

We managed to attain the scores of 3,154 businesses in our initial attempt. We will build on that year after year, tracking progress or otherwise in each scorecard element and each sector. The aim is to include as many businesses as possible to reflect the state of transformation in South Africa nationally. We believe this is an important endeavour.

The core issue is whether the scorecards accurately reflect the underlying transformation within the companies in each industry. Many of the people we spoke to reckon it does not, with box ticking presenting a superficial picture - scorecards might be up to scratch but underlying transformation is not happening in a meaningful way. Scorecard manipulation and outright fronting are far too common.

Transformation is happening, they believe, but too slowly. What is important, though, is that in many instances they know why and where it's going wrong, and often have ideas on how to fix things. Therein lies the true value of this report. It covers the five main scorecard elements, then focuses on the sector codes and issues specific to each sector are highlighted. The defence industry was excluded because we had too few companies from this sector in our database and could make no headway in getting any input from that sector.

On a broader level, there are strong calls for government to step in to assist the small business sector which has been devasted by Covid-1,9 along with suggestions for a structural shift towards measuring the outcomes of transformation initiatives rather than the initiatives themselves.

REGULATORY UNCERTAINTY

Areas where there appears to be regulatory conflict are raised in some instances but the most prevalent, which has caused much uncertainty in the market, relates to what appears to be the differing interpretation between the B-BBEE Commission and the B-BBEE codes on the issue of trusts.

The commission's concern is that the end-beneficiaries of certain types of "evergreen" trusts (eg, pupils of a school that receives trust funding) do not own shares and have no voting rights. B-BBEE Commissioner Zodwa Ntuli says the beneficiaries of a broad-based trust must be clearly identifiable and able to exercise voting rights; must receive the same economic benefits as other shareholders; and ultimately become the unencumbered owners of the shares in which they are invested. Those are confirmed in the B-BBEE Act and a Government Gazette amendment in 2013 states that black people may hold their rights of ownership in a measured entity as direct participants or as participants through some form of entity, including a trust.

Another problem is that such trusts are often used for fronting. In 2017, then trade and industry minister Rob Davies stated that more than half of the trusts registered as part of a B-BBEE ownership transaction had been found to be non-compliant.

The issue was seemingly cleared up in February this year when Trade, Industry and Competition Minister Ebrahim Patel stated: "Where the discussion has taken a little bit of reflection is evergreen schemes, where a shareholding is vested in perpetuity in hands of employees. There have been some questions as to whether that properly qualifies for BEE a rating in terms of the scorecard. I hold the firm view that it does."

SCORECARD ELEMENTS

Enterprise & supplier development holds the highest weighting on the scorecards of all sectors (between 34 and 42) but it is ownership, with weightings mostly around 25 points (but ranging from 20 for integrated transport to 30 for property) that stirs the most heated emotions.

The ***ownership scores*** in the Sanlam Gauge are relatively strong at 85.5% of target for all companies, the second-highest after socioeconomic development. Yet the target for most sectors is 25% black equity, meaning that 27 years into democracy, less than a quarter of the business sector is black-owned. Combined

> ***"The 25% to 30% of black ownership is not going to make much of a difference to the vast majority of people of this country who have no stake in the economy."***

with frustrations that land reform has been slow, it's understandable that this stirs emotions as the majority of the population struggle to build any sort of asset ownership.

Even if ownership levels were much higher, however, the majority of the population still would not benefit. Cas Cavoodia, CEO of Business Unity SA, crystalises the issue: "The 25% to 30% of black ownership is not going to make much of a difference to the vast majority of people of this country who have no stake in the economy."

Management scores are lowest across all sectors and all size categories, the research found, with companies generally meeting targets at junior management level but falling short in higher levels.

One common refrain is that skilled black personnel are in high demand so it is difficult both to hire them and retain them. Prejudice is raised as another factor. Companies are also accused of not doing enough to train and develop junior staff. One proposal to address this is to recruit people who have a willingness to learn, develop and grow and then be groomed for promotion, rather than focus only on recruiting already qualified people *(See management control article: page 26)*.

Such a bottom-up approach would tie it in strongly with ***skills development***, where there is a strong call for improved collaboration between businesses and the Sector Education & Training Authorities (Setas). A core issue is that Seta courses are unable to account for the varied needs of individual companies and much time has to be spent customising them *(See skills development article: page 30)*.

Enterprise & supplier development (ESD) is considered crucial for overall economic growth because it focuses on developing the small business sector. A problem, however, is that some companies find it easier to put pressure on existing suppliers to change their ownership structures to become black-owned, rather than find and procure from small, black-owned enterprises. Finding ways to reduce existing barriers for big companies to procure from smaller companies, while increasing the incentives for them to do this, "would make the supplier pillar click", says Greg McDonald of private equity firm Edge Growth, which has a strong focus on ESD *(See ESD article: page 32)*.

SECTORS: THE ISSUES

Each sector also faces specific issues that inhibit transformation.

In the ***financial sector***, we're told that there is insufficient scrutiny of the tier of companies below the big, listed financial services firms. There are more than 10,000 entities licensed to operate with many small entities like brokerages and one-man shop financial advisers. Most don't comply with the requirement to submit BEE reports annually to the Financial Sector Transformation Council.

One source says most of the big players are "very empowered" but "there's a long tail of tiny organisations, like financial intermediaries, that aren't. To get an accurate picture of the sector, he says, the data should be disaggregated.

There is also a call for asset consultants to be regulated more closely because they are "massive gatekeepers to the allocation of capital". They are licensed by the Financial Sector Conduct Authority but are not required to report on transformation *(See financial sector article: page 59)*.

In ***construction***, the issue of conflicting regulation and legislation again raises its head. The South African Forum of Civil Engineering Contractors points out that sections of the Employment Equity Amendment Act clash with the Broad-Based Black Economic Empowerment Act. It says black-owned companies with turnover below R50m do not have employment equity measured for their scorecard in the sector code but are likely employing more than 50 people. As a result, these companies, through the Employment Equity Amendment Act, are now also required to conform to the industry targets *(See construction sector article: page 53)*.

The policy environment in ***mining***, of course, is also extremely problematic and has been inhibiting the sector's growth - as well as its important contribution to the economy. With the mining charter still subject to legal challenge, it is operating without any B-BBEE framework on which to measure transformation. Mining companies are thus being scored under the generic scorecard while having to adhere also to the Mining Charter Act *(See mining article: page 85)*.

The ***transport sector*** is still operating according to the old codes before they were revised in 2013 and has seven scorecard elements. Consultants reckon this makes it easier for transport businesses to gain high scorecard points *(See transport article: page 72)*.

An issue common to all sectors but particularly prevalent in the marketing, advertising & communication sector as well as ***tourism***, is the need for more direct government support for small black businesses, outside of the ESD structure, because there are so many small players - many of which are black women, another target demographic for B-BBEE *(See tourism article: page 81)*.

In tourism, black women make up about 70% of the workforce, according to Business Leadership SA. This sector was decimated by the initial hard lockdown restrictions and is one of the few still whose business activities remain curtailed, to an extent. Yet tourism is viewed as a game changer for the economy as it can create much-needed jobs and provide a range of entrepreneurial opportunities.

The Covid pandemic's decimation of tourism and other important sectors of the economy has led also to calls for flexibility in meeting scorecard requirements to accommodate prevailing market conditions. The difficulties for small operators are exacerbated by the complex detail of B-BBEE requirements. Mazars director Mohammed Khan says the lost revenue most businesses suffered from the lockdown restrictions made it more difficult to meet BEE targets but, despite their constrained positions, the B-BBEE targets have remained unchanged. "For most companies, their first priority right now is to ensure their survival and the ability to continue paying their employees."

Across all sectors, the lower levels of economic activity in the wake of the pandemic make it more difficult to meet scorecard requirements. Does a large company allocate 6% of its payroll to training or sacrifice the scorecard points so that it does not have to retrench as many people? And even if a company continues contributing the full 1% of net profit after tax to socioeconomic development, lower profits lead to lower contributions and therefore to fewer benefits for the end beneficiaries - but the same points on the scorecard.

The rigidity of the B-BBEE framework does not allow it to adapt to the extremely dire economic conditions where for many businesses, survival is the priority. These exacerbate the problems that were already bedevilling the country's transformation objectives.

TIME FOR A FRESH START

Moving beyond sector-specific issues, the overall strategy to transform South Africa's business landscape needs attention. As Aurelia Mbokazi writes in her article on ownership: "The general sentiment is that the policy needs an overhaul and business leaders have called on government to go back to the drawing board. They believe this is urgent, especially following the decimation of the nation's economy by Covid-19."

Empowerdex's Ratsoma believes we should move away from rules-based B-BBEE. "The current system is effective in measuring transformation in terms of the scorecard but it does not measure impact effectively. The scorecard approach, although useful, leads to a narrow view even on initiatives chosen. But it stifles creativity because whatever you come up with must be within the realm of the codes in that it must be measurable - which is not always possible to quantify within the ambit of the codes. Considering the output of initiatives, although harder to achieve, could be an option in the future."

Commissioner Ntuli also looks at the link between B-BBEE and its impact on society. Why is it, she asks, that compliance generally seems good yet we still have the related societal ills? For example, the Fees Must Fall campaign highlighted that hundreds of thousands of university students are without any higher education support yet skills development seems to be high in compliance. Who is getting this money? She also questions why so many SMEs are failing because they're unable to receive financing or get access to markets when ESD is so high in compliance.

"It's time we talk about meaningful B-BBEE," she says, "focusing on the actual initiatives being implemented and their impact and asking whether they are making a difference to society or are just for point scoring. The scorecard must be a true reflection of how we look like as a country in real terms. At this point, there is a disconnect."

DEBILITATING CORRUPTION

The call for more government support for small black businesses chimes with calls to drive transformation more from the bottom up. There is widespread belief that the focus should be on facilitating the development of small businesses into larger, influential players - but without the ever-debilitating element of corruption.

Since 1994, government has been grappling with policies that seek economic redress for those who were purposefully excluded from the economy during apartheid. In his first year as president, Nelson Mandela implemented the Reconstruction and Development Programme (RDP), whose main focus was on providing social services, particularly housing, water and electrification.

From the beginning, it was plagued by corruption, particularly in the RDP's mass housing development programme where "fronting" in some instances was extremely brazen, with "professional tenderers" applying for and winning tenders to develop housing then selling those to established construction players.

To tackle persistent inequality in the workplace, government policy evolved in 2001 into what was to be the framework of its transformation policies. The then BEE Commission had been tasked with, among others, developing a clear and coherent vision and strategy for BEE. In its 2001 Black Economic Empowerment Commission Report, it defined black economic empowerment as:

> *"An integrated and coherent socioeconomic process. It is located within the context of the country's national transformation programme, namely the RDP. It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens. It seeks to ensure broader and meaningful participation in the economy by black people to achieve sustainable development and prosperity."*

Implementation effectively began in 2003 but the format was immediately criticised for benefiting only a few "elite" members of society. To widen access to economic activity, the Codes of Good Practice of Broad-Based Black Economic Empowerment were gazetted in 2007 and revised in 2013. These set specific targets for businesses to meet on various criteria and the notorious scorecard was born.

The unscrupulous licked their lips and fronting exploded. Initially the corruption was initially crude - casual workers were made significant shareholders on paper, without their knowledge and without receiving any dividends or invitations to AGMs. As the authorities - mainly through the BEE Commission - clamped down on those, so more sophisticated forms of corrupting the system emerged.

A "fronting practice" is defined in the B-BBEE Amendment Act as "a transaction, arrangement or other act or conduct that directly or indirectly undermines the achievement of the objectives of the Act or the implementation of any of the provisions of this Act." In simple terms, fronting can be described as any act in which a business pretends to be more compliant than it actually is.

The B-BBEE Commission is investigating 426 cases of fronting out of a total of 822 cases received between June 2016 and September 2020. It believes it is under-resourced - yet another obstacle to effective transformation in South Africa.

THE WAY FORWARD

In boxing terms, SA has been pummelled in all parts of the body by corruption - from oxygen-sucking body blows to heavy shots to the head and some nasty below-the-belt stuff thrown in. Like the weary boxer in the late rounds, we cannot afford to drop our guard.

This report is designed to highlight obstacles to transformation as well as to stimulate and enrich the debate on the future strategy for South Africa in its quest for an inclusive, equal-opportunity economy. Whatever form it takes, strong monitoring and compliance must also be instituted.

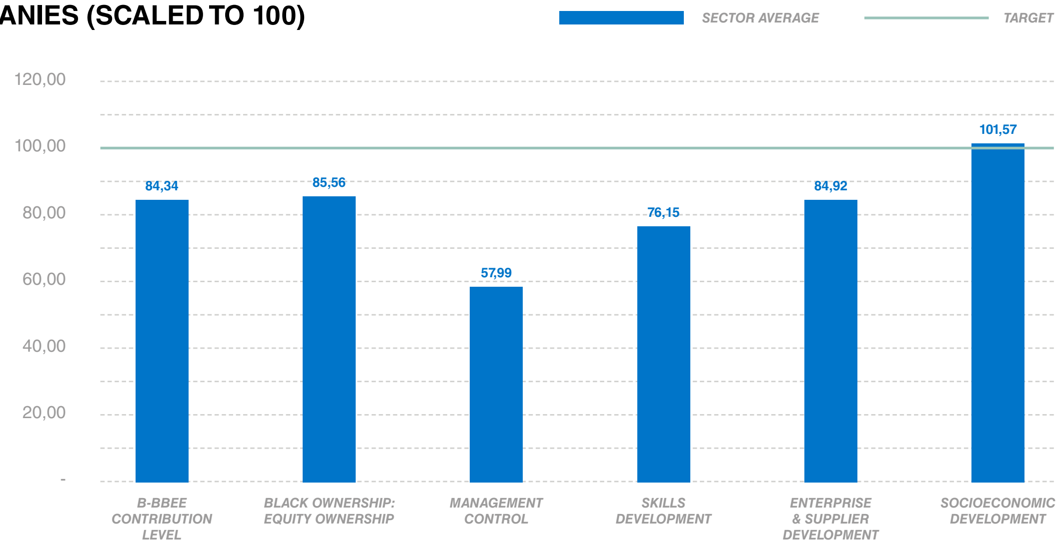
The starting point of that quest, however, is provided by BUSA's Coovadia: "The debate we need to have is, what does a transformed South African economy look like?"

THE SCORECARD: SA INC:

B-BBEE SECTOR	NUMBER OF COMPANIES	CONTRIBUTION LEVEL	BLACK OWNERSHIP: EQUITY OWNERSHIP		MANAGEMENT CONTROL		SKILLS DEVELOPMENT		ENTERPRISE & SUPPLIER DEVELOPMENT		SOCIOECONOMIC DEVELOPMENT	
		POINTS	POINTS	WEIGHTING	POINTS	WEIGHTING	POINTS	WEIGHTING	POINTS	WEIGHTING	POINTS	WEIGHTING
AGRI-BEE	37	102.3	19.4	25	10.2	19	14.9	20	35.2	40	10.6	15
CONSTRUCTION	329	97.7	21.1	27	9.9	18	16.6	21	32.2	34	6.3	5
FINANCIAL	353	105.9	21.2	25	11.9	20	15.2	20	30.6	35	6.1	5
FORESTRY	13	91.9	19.3	25	8.6	19	12	20	37.6	43	8.9	5
ICT	346	107.2	21.1	25	12.4	23	16.6	20	41.8	50	9.5	12
INTEGRATED TRANSPORT	355	92.3	21	20	8.3	20	13.9	20	30.4	35	5.7	5
MARKETING, ADVERTISING, COMMUNICATIONS	319	107.4	20.6	25	11.1	27	17.1	20	36	42	7.4	5
PROPERTY	65	105	22.2	30	8.9	22	15	19	32	39	5.1	2
TOURISM	99	110.4	23.9	27	11.7	19	16.6	20	34.6	40	6.8	5
GENERIC	1229	85.5	19.8	25	9.7	19	14.4	20	32.7	42	6.7	5
DEFENCE	12	92.5	15.6	25	14.3	15	17.1	20	40.2	40	4.8	5
GRAND TOTAL	3157	95.8	20.7		10.3		15.3		34	40	6.8	6.27
GRAND TOTAL (SCALED)*	3157	84.4	85.4		57.4		76.1		85.1		101.2	

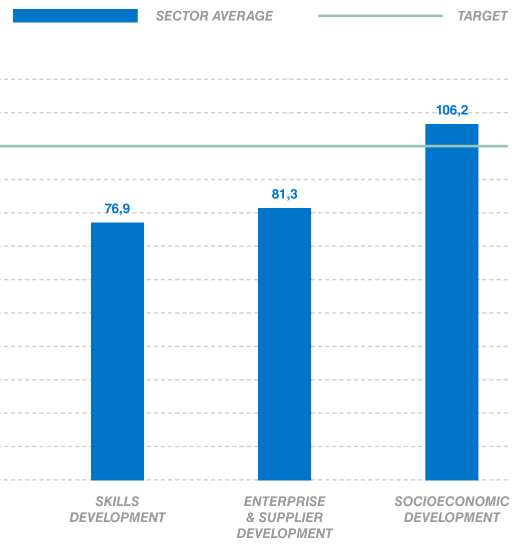
*Scores scaled to 100 for comparative purposes.

ALL COMPANIES (SCALED TO 100)

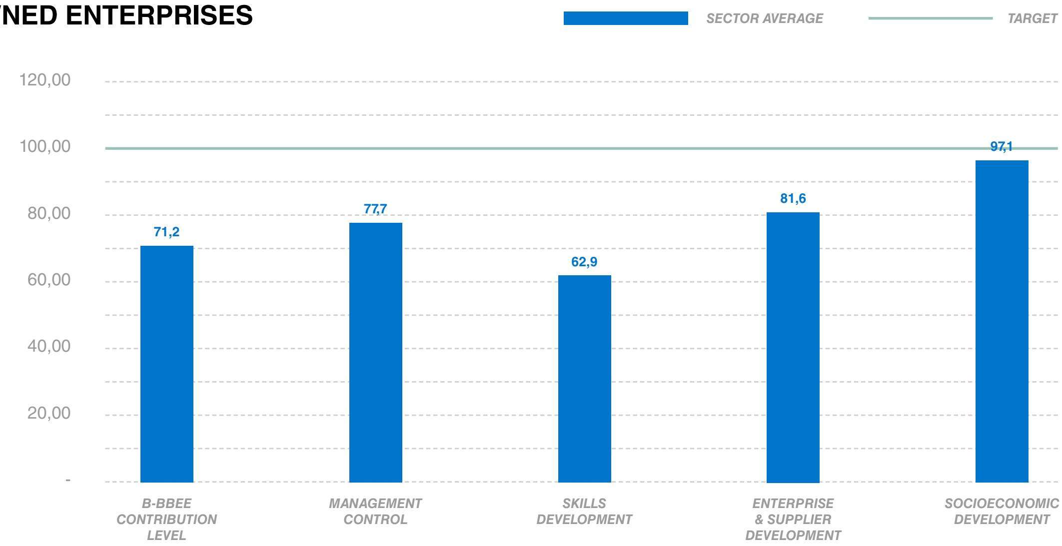


The scores in this graph incorporate unlisted companies, listed companies from all South African exchanges and state-owned enterprises.

LISTED COMPANIES (SCALED TO 100: ALL EXCHANGES IN SA)



STATE-OWNED ENTERPRISES



For the purposes of this research, we included 70 SOEs that operate as business entities. Note that ownership is not applicable to SOEs.

B-BBEE RECOGNITIONS LEVELS FOR SECTORS

Each sector is allocated a B-BBEE contribution level score according to criteria specific to that B-BBEE Sector Code. Apart from ICT and Integrated Transport, the sector codes below align with the generic criteria.

B-BBEE SECTOR	RECOGNITION LEVEL	CONTRIBUTION SCORE	TOTAL (WEIGHTING)	PERCENTAGE OF TARGET ACHIEVED
AGRI-BEE	1	102.3	119	86.0
CONSTRUCTION	2	98.4	105	93.7
FINANCIAL	1	105.9	109	97.1
FORESTRY	3	91.9	112	82.1
ICT	4	107	130	82.3
INTEGRATED TRANSPORT	2	92.4	100	92.4
MARKETING, ADVERTISING, COMMUNICATIONS	1	107.3	124	86.5
PROPERTY	1	105.2	117	89.9
TOURISM	1	110.5	111	99.5
GENERIC	4	86.3	111	77.7
DEFENCE	3	92.5	115	80.4

THE SCORECARD ELEMENTS

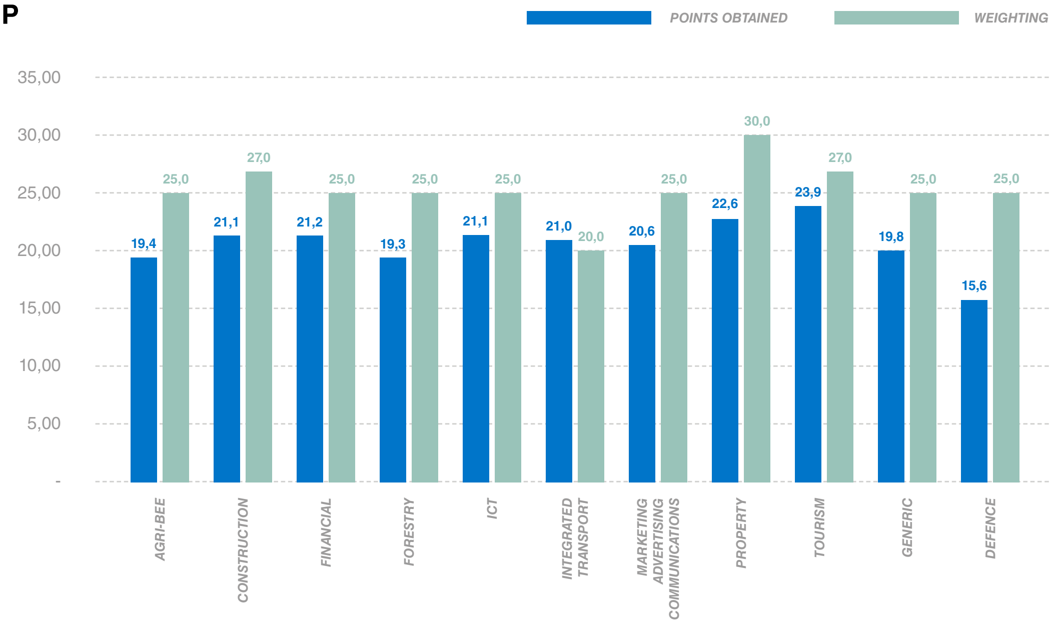
OWNERSHIP

BY AURELIA MBOKAZI

TIME TO GO BACK TO THE DRAWING BOARD

Democratic South Africa has come to be acknowledged for great policies, yet it generally fails to implement them. The Broad-Based Black Economic Empowerment (B-BBEE) Act of 2003, which seeks to redress apartheid legacies and empower the nation's black citizens through meaningful economic participation, is admired on paper but complicated to implement.

OWNERSHIP



While South Africans across the board acknowledge the importance of this redress policy, the overarching ownership scorecard has become a highly polarising and contentious issue across the spectrum, owing to the notion that it only sought to empower a handful of political elites connected to the ruling party, despite its noble intentions of a broader base of beneficiaries.

According to the Sanlam Gauge, South African companies have achieved an average of 85,6% of their targets. The ownership element seems to be successful, painting a picture of general compliance. However, the general sentiment is that the policy needs an overhaul and business leaders have called on government to go back to the drawing board. They believe this is urgent, especially following the decimation of the nation's economy by Covid-19.

> ***"The debate we need to have is, what does a transformed South African economy look like? It's not just about ownership – it goes beyond that."***

SLOW PACE

Andile Khumalo, CEO of specialist investment firm KhumaloCo and Sanlam Gauge co-founder, points to the slow pace of transformation 27 years into democracy. The ownership points on the scorecard actually mean that black people own less than 30% of the economy while the country is aiming for 51% black-owned, which itself is not representative of the country's demographics.

Reasons cited for the slow pace of black ownership include lack of funding of ownership deals; lack of specialised skills to contribute meaningfully in an organisation's operations; mismatch between company owners and black shareholders; corruption in the form of fronting; lack of strategic leadership; and a tick-box approach.

For ownership to be meaningful, black owners need to be directly involved in core operations, have voting rights and be part of decision-making bodies.

Business Unity South Africa (Busa) CEO Cas Coovadia maintains that among large corporations, transformation and diverse black ownership of the economy are broadly accepted as being critical components that will accelerate GDP growth. He points to a general adherence to the policy and the need to meet targets by various sectors but insists that it is not enough.

In the Sanlam Gauge results though, "small and very small" companies achieve 88.6% of the ownership target against 84.3% for large companies and 85.8% for medium-sized companies. Listed companies aer behind the curve, having achieved 76.4% of the target.

When it comes to the implementation of B-BBEE, the Johannesburg Stock Exchange (JSE) has no powers to compel listed companies to comply. Instead, it encourages listed companies to publicly disclose to their shareholders the progress they have made annually on implementing B-BBEE across all the five pillars of the Act. The JSE also recently amended its listing requirements to encourage companies to transform their boards to include women and black people, in line with the Financial Sector Charter Code.

Ownership of assets by a certain class, says Coovadia, is similar to "creating black oligarchs and expecting the same black businesspeople who work in what is essentially a market-based capitalist economy to behave differently to white businesspeople".

MEANINGFUL STAKE

He insists that the majority of South Africans need to have a meaningful stake in the economy in some form or other. "The debate we need to have is, what does a transformed South African economy look like? It's not just about ownership – it goes beyond that. Let's first agree on what we want to see in the next 10 years and then develop a roadmap for that with milestones, so that we can actually assess how we're doing. We need to ask hard questions such as, has the B-BBEE model worked up to now? If not, how do we actually tweak it?"

He says: **"The 25% to 30% of black ownership is not going to make much of a difference to the vast majority of people of this country who have no stake in the economy. To me, economic transformation is a mix between those who take up ownership stakes in companies, those in small, medium enterprises as well as people who work in different trades and occupations."**

Khumalo points that the different sectors developed their own codes, setting themselves targets and measurement mechanisms. "We should assess whether this approach has yielded desired effects of a transformed economy or not. Are we trying to use ownership to create black entrepreneurs in each sector that are owners of the businesses

> ***"We need to be much more innovative when establishing black businesses and growing the ownership of black people in the current business environment."***

in that sector, or are we trying to create a broad base of black minority shareholders, who may create a large number of beneficiaries but very little impact in each business and in the individual beneficiary's life? There is an argument for both models. I am clear about my preference," says Khumalo.

President Cyril Ramaphosa reaffirmed government's commitment to accelerate the implementation of B-BBEE policies on ownership, control and management of the economy during his state-of-the nation address in February this year and briefly touched on landmark B-BBEE deals that saw ownership transferred to workers. Coovadia says, **however, that he does not foresee any significant black economic empowerment deals in the near future while businesses are fighting for survival during the pandemic**.

LACK OF LEADERSHIP

Alan Mukoki, CEO of the South African Chamber of Commerce and Industry, apportions blame for the slow pace of transformation and implementation of B-BBEE to a lack of leadership in both the public and private sectors. While admitting to a general spirit of compliance to the B-BBEE codes and the transformational agenda, he says negative BEE sentiments lead to missed opportunities and limit investments that he believes have a potential to grow the black middle class by 20% to 30% in the next 20 years.

"The business of transformation is our business. We, in business, should be focused on driving transformation more than anything else and build a strong domestic market," Mukoki says.
"For a very long time, business leaders had a theory that B-BBEE and educating black people was a negative as opposed to seeing it as one of the biggest opportunities for business growth. When we put money in the hands of black people, we allow them opportunities to get into business so they can generate capital and create more job opportunities. But we are not going to achieve that in a situation where 40-million people are on social welfare."

In addressing ownership and black empowerment, Mukoki warns against the government exclusively supporting black SMEs to the detriment of white-owned businesses that create employment, appealing for a careful balancing act. "Government has the responsibility to continue to grow white-owned companies if they employ black people and drive transformation programmes within those entities to enable black people to create a balance sheet. It's not going to help you to say I want to create 100 new small black-owned businesses while killing the very (white-owned) businesses that employ the majority of South Africans. We've got to do both – to drive the agenda for SME development and the growth of black enterprise and support them very well by giving them money."

Agri SA executive director Christo van der Rheede, says in its current format the B-BBEE ownership element is not feasible to implement in the agricultural sector because giving partial ownership in existing businesses does not translate to direct ownership, but instead creates a dependency.

"We need to be much more innovative when establishing black businesses and growing the ownership of black people in the current business environment. While there are some good examples of successful equity partnerships, our current economic circumstances have made it very difficult for businesses to access money for equity partnerships because businesses need to focus on their own immediate financial needs and survival," he explains.

COMMERCIAL FARMERS

Van der Rheede admits that it is critical for South Africa to produce a cohort of black commercial farmers, but says government needs to take the lead in implementing sustainable solutions of direct ownership.

"It is one thing to give people farms, but if you don't give them the necessary training, assistance and access to market it becomes a poverty trap. Currently the number of black commercial farmers is very low and the ideal situation is where commercial farmers can be incentivised to establish partnerships with black farmers to grow a complement of about 7,000 black commercial farmers within three to five years."

He says the majority of about 5,500 government-owned commercial farms that are in the hands of black emerging farmers are unproductive due to lack of skills, funding and other forms of support. As a solution, he says Agri SA proposes that government establishes a sovereign wealth fund that can be operated alongside the skills levy fund, to incentivise white commercial farmers to create sustainable partnerships with black farmers.

Across different industries in the SME sector, B-BBEE verification agencies say there is a general sentiment of contempt for the ownership element, often resulting in lack of compliance.

Econoserve director Dr Muriel Mushariwa says resistance to implementing the codes and the lack of industry regulation leads to widespread corruption and fronting. While there are some substantial empowerment deals involving private equity firms across sectors, Mushariwa says there are many shady ownership deals among qualifying small enterprises (QSE) with a total annual revenue of between R10m and R50m.

"Unlike in larger enterprises, QSE are not subject to a verification audit, resulting in unscrupulous service providers creating ownership structures with no voting rights for black shareholders. These often collapse after two to three years, leaving empowerment partners with nothing. "Personally, I appreciate conversations with entrepreneurs who say right now our BEE ownership is a problem but give us a year and we will sort it out."

Halekopane Matsipa, co-founder and CEO of Kleoss Capital, a 100% black-controlled equity firm, is an advocate for transformation and takes exception to insinuations that private equity firms are behind fronting B-BBEE deals. He says firms like his have an important role to play in the implementation of B-BBEE and that their role extends beyond generating good returns for their investors. When they buy into companies, he explains, partnering companies immediately tick the ownership element because private equity firms are usually either 100% or at least 51% black-owned. Once they are part of the organisation, they support the management team to grow the company, contribute to governance, strategy and good ESD policies with the view to creating a lucrative business that subscribes to values of a **"good corporate citizenship".**

"Private equity firms also help to fully transform the business, not just commercial transformation but ensure that the business has a larger social impact, recruits black managers and enhances its ownership level, making sure that it is a responsible citizen in the context of SA's policies", he says.

He says private equity firms are a growing asset class in South Africa and that when he, and his two colleagues, started Kleoss Capital about eight years ago, there were about three black fund managers who were doing private equity deal for mid-market corporate investing, but the number has grown to about 10.

He insists that B-BBEE should always be on the agenda to continuously facilitate for empowerment, especially now that the economy is depressed.

ENTREPRENEURS OVERHWELMED

Nicolene Schoeman-Louw, founder and MD of Schoeman Law, which includes a BEE verification agency unit, says entrepreneurs are often overwhelmed and find the B-BBEE ownership element too punitive.

"While the increased B-BBEE targets are necessary from a national development perspective, there is a disconnect between the availability of suitably qualified candidates and that results in a chicken and egg situation," she says. "In many sectors, there is a limited pipeline of eligible persons specifically in professional environments and that poses a great challenge for businesses that want to comply."

Schoeman-Louw uses the construction industry as an example, **"where there are not enough graduate engineers and architects among designated groups coming through tertiary institutions into the job market for the purposes of promotion and even equity ownership".**

To increase her clients' compliance, she suggests a comprehensive search for the right vehicle and the perfect empowerment match. "When we restructure empowerment transactions, we first value the company and create an empowerment strategy. There could be a need for mentorship, coaching, training and other mechanisms in order to get everyone to a place where they get on with the business and this journey that requires a three- to five-year plan."

Schoeman-Louw adds that employee share schemes are among the more popular empowerment vehicles. However, she says, these schemes have to be clearly communicated to beneficiaries and should also serve as a conduit to direct ownership – and should have a clear expiry date.

"PERSONALLY, I APPRECIATE CONVERSATIONS WITH ENTREPRENEURS WHO SAY RIGHT NOW OUR BEE OWNERSHIP IS A PROBLEM BUT GIVE US A YEAR AND WE WILL SORT IT OUT."

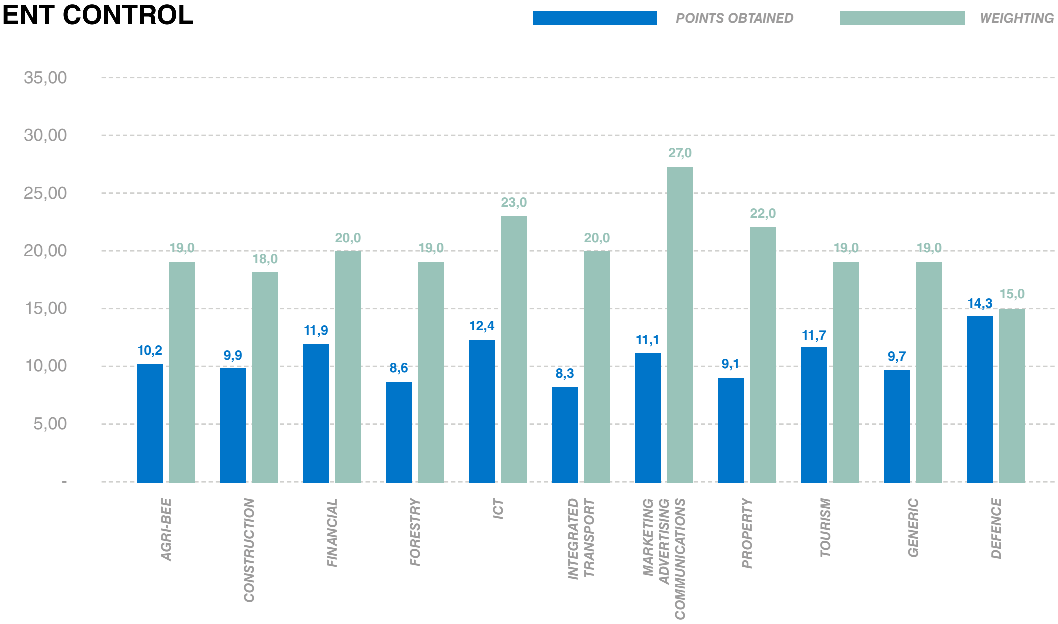
MANAGEMENT CONTROL

BY LYNETTE DICEY AND AURELIA MBOKAZI

THE LAGGARD – AND THE BIG STICK IS COMING

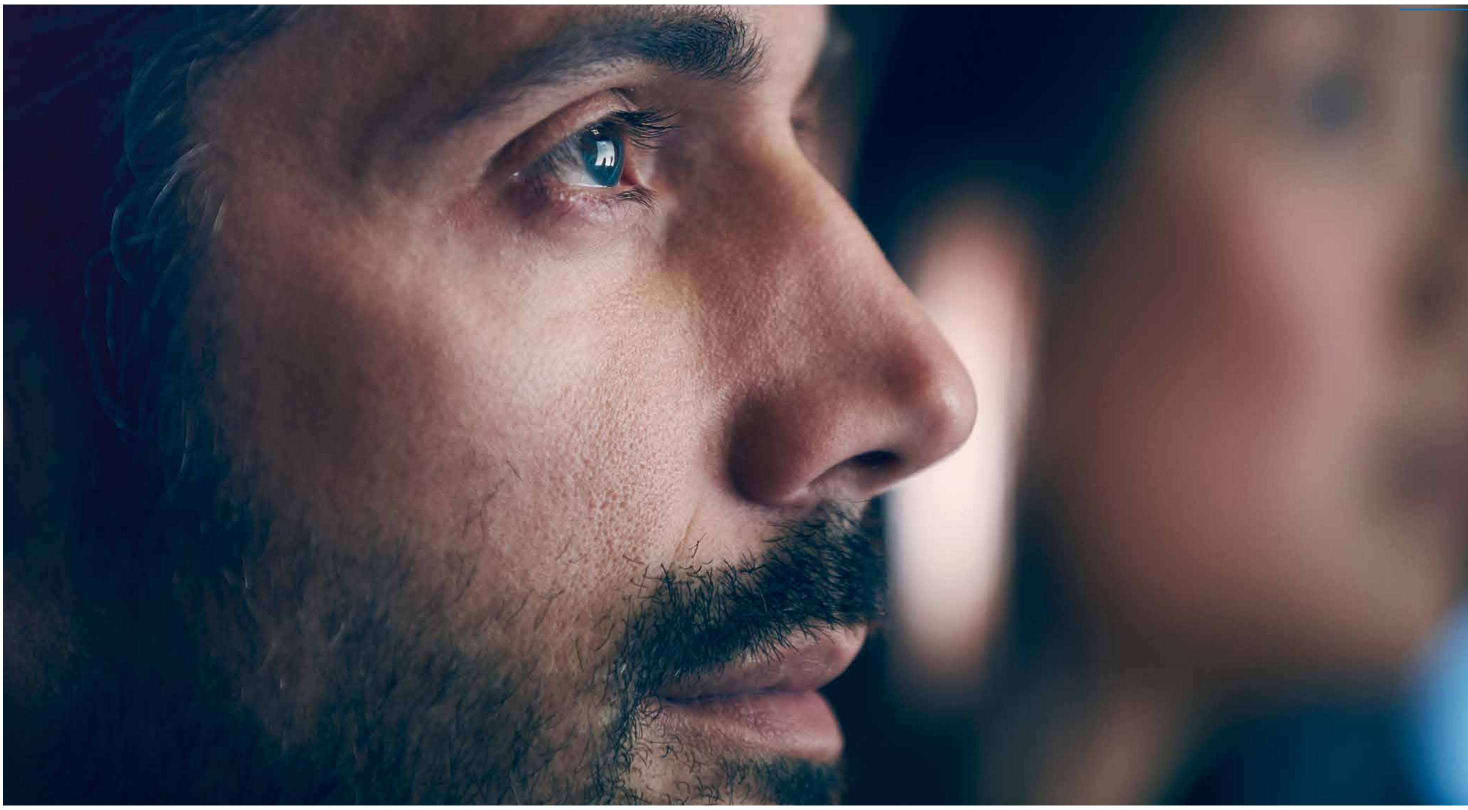
Management control is the straggler of the scorecard elements. It scores the lowest across all sectors – by some distance – with the scores are also far behind each sector target. And the Employment Equity Commission warns that a big stick approach is coming which will yield the desired results.

MANAGEMENT CONTROL



Tabea Kabinde, chairperson of the Employment Equity Commission and MD of executive recruitment agency We Find Talent, says an amendment to the Employment Equity Act is before parliament which will ensure that companies that are non-compliant with employment equity will not be able to do business with government. She hopes it will be enacted this year.

"There will be a certificate of compliance with the terms of employment equity, similar to the B-BBEE one and the same concept in the sense that it gives business a licence to operate and do business with government.": the certificate has different components to comply with such as sector targets and will cut across all B-BBEE elements.



The commission believes that that this will be a big stick and will get compliance from corporate South Africa and yield the desired results. **"Experience has taught us that when you hit people in their pocket, where it hurts the most, they are likely to respond in a manner that is desired."**

OBSTACLES

The most frequently cited problem in management-level transformation is that most companies don't have a high staff turnover at top management level, leading to white managers occupying those positions for longer. Companies also say they find it difficult to replace senior white managers with competent, skilled black managers, says Roanna Pather, verification manager at verification agency Elevate BEE.

"Companies tell us that there are insufficient competent black employees or individuals to fill these roles," she says, but believes prejudice continues to play a role. **"Based on our experience doing verifications, some companies don't feel that their black employees are capable of holding senior and executive management positions."**

Candice Meyer, a corporate law partner at Webber Wentzel, says the slow rate at which senior positions are vacated is only a part of the challenge. Even when senior positions are vacated, black candidates do not typically fill these vacancies. Enterprises often fail to identify, mentor, train and develop black talent in preparation for senior leadership positions.

She argues that competent leadership cannot be developed only through classroom learning. Hands-on managerial experience and on-the-job learning is critical, as is mentorship from senior leaders. However, she says the support of incumbent leaders for rising black talent is often lacking, posing a very real barrier to entry for black people into senior positions.

One of the most significant challenges when it comes to management control are the targets around the economically active population (EAP) demographic representation targets. "In essence this element requires entities to align their workforce to meet gender targets," explains Diveshan Rao, MD of verification agency BEE Online. **"In order to implement these targets for full points, large entities are required to look at each level of management and split their workforce according to race and gender. This requirement does not always allow the entity to hire the best candidate for the job."**

Kabinde says the Employment Equity Commission, through the employment Equity Act, seeks to have representation at each of the occupational levels being aligned to the EAP as determined by Statistics SA. "The desire is to have at top management, senior management and at each occupational level the black population represented, which is about 90% of the EAP."

She says the Employment Equity Commission's reports find that about a third of people in senior and top management levels are black, but what's particularly concerning is that this has been increasing by about one percentage point a year.

> ***"For most companies, their first priority right now is to ensure their survival and the ability to continue paying their employees. Government arguably missed an opportunity to offer a moratorium on compliance."***

"Clearly, this means we in for a long haul – if the trend continues, we're looking at just under 60 years to reach the EAP and this is quite worrying."

Kabinde says the reasons are many and varied but "one of the biggest reasons, as far as I'm concerned, is that there isn't a genuine commitment to employment equity. There is no willingness from corporate South Africa to ensure that this movement happens."

While employers will talk about the skills gap, she says: "We've had the employment Equity Act and the Skills Development Act since 1998. And my question is, should we still be talking about this, given the fact that employers are also supposed to be planning for up-skilling persons from designated groups to ensure there is representation?"

Mansoor Salee, a partner at BEE verification agency Mazars, says: **"Although there have been examples of individuals with potential being fast-tracked without the usual experience, the pipeline of black individuals coming through many organisations' management levels is better than where it was 10 to 15 years ago,"** adding that this pipeline still has room for improvement.

The lost revenue most businesses suffered from the Covid-19 lockdown restrictions made it more difficult to meet BEE targets, says Mohammed Khan, a director at Mazars. But despite their constrained positions the BEE targets have remained unchanged. "For most companies, their first priority right now is to ensure their survival and the ability to continue paying their employees. Government arguably missed an opportunity to offer a moratorium on compliance."

LINK WITH SKILLS DEVELOPMENT

Pather proposes a solution: management control can arguably be interchangeably linked with skills development. As such, instead of focusing only on recruiting qualified personnel, companies should be recruiting people who have a willingness to learn, develop and grow and then be groomed to meet the requirements of a competent and skilled individual.

"Employing youth straight out of matric and upskilling them will assist with points for skills development as well as management control in future," she advises, adding that recruitment should be done in accordance with the EAP targets of the province or national EAP targets, depending on whether the entity is based in more than one province.

Meyer adds that succession planning in organisations must include black candidates. "Newly appointed black leaders sometimes fail as they lack practical experience and have not been trained and exposed to sufficient opportunities. It is therefore important that they gain the required skills in order to confidently fill senior positions."

She says it's also important that they have adequate support from colleagues and the incumbent leadership, who need to be inclusive.

Rao says employee progression and development plans need to have a bottom-up approach, starting at the unskilled level. The challenge will then be for companies to retain upcoming talent. He concedes, however, that long service awards and success stories of unskilled employees working their way up to senior management through internal development programmes are few and far between.

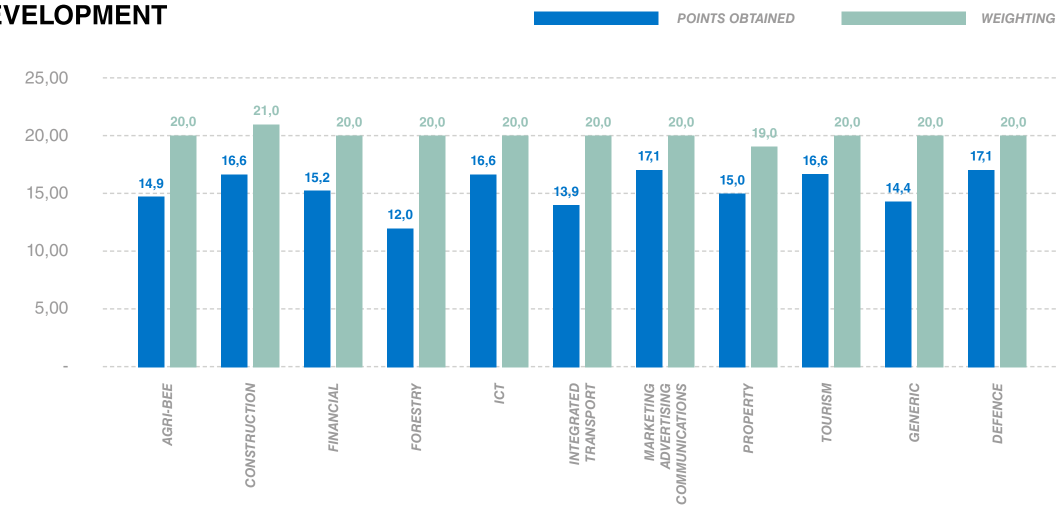
SKILLS DEVELOPMENT

BY YVONNE FONTUYN

DISTRESSED ECONOMY HAMPERS PROGRESS

Skills development is the third-highest scoring category in the Sanlam Gauge research, indicating a fair amount of progress in terms of training of staff.

SKILLS DEVELOPMENT



The forestry sector trails on this measure by some margin, achieving only 12 out of 20 points, followed by transport with 13.9. The two top scorers are marketing, advertising & communications and defence, both with 17.1 out of 20.

Tabea Kabinde, chairperson of the Employment Equity Commission and MD of executive recruitment agency We Find Talent, says that in the commission's barrier analyses, few companies raise the issue of training as a barrier. She believes this means companies are not doing enough to develop skills.

One challenge in this area, says Madidimala Ramare of the B-BBEE Commission, is that entities are not fully utilising their spend **"and we've also noticed aspects relating to expenditure-dumping, with no meaningful implementation".**

This may be a problem that has been exacerbated by the tough economic times, as Megan Vorster, the People and Culture GM at Flight Centre Travel Group (FCTG), explains: "Entities not utilising full spend is probably more of a budgetary constraint, particularly when there is a challenge around getting the right demographics due to industry norm limitations. For example, the travel sector is predominantly female. At FCTG we focus more on the implementation and practical elements of our training."

Another concern, says Ramare, is **"the recognition of points with no actual performance where, for example, an entity claims absorption points prior to the completion of the learnership".**

However, Vorster says it is not easy for a company to get away with this and retain its B-BBEE certificate: "Absorption points being claimed before the learnership ended is not something I was even aware could be done; our rating agent would not allow this."

ON-THE-JOB TRAINING

At FCTG, the skills development focus is on apprenticeship training, with the training centre offering the accredited National Certificate in General Management as well as leadership training. Vorster says: **"The biggest success from a BEE perspective was the on-the-job training."** This enables mainly young staff to become team leaders and earn bonuses based on profit while developing their entrepreneurial skills. "The National Certificate in General Retail Travel allows previously disadvantaged staff to do their apprenticeship in-store."

The Sector Education & Training Authorities (Setas) do not collaborate enough and their courses are often outdated and not fit for purpose. "We don't only hire travel consultants, there are general jobs such as marketing, technology and data roles." They are then forced to spend more and to customise the courses offered.

Lindiwe Sangweni-Siddo, chief operating officer of City Lodge Hotel Group, says the group offers various opportunities to develop staff, including on-the-job training; e-learning; internal development programmes; learnerships; work integrated learning; succession planning; accelerated development and deployment programmes; and a graduate intern programme. In addition, employees can complete the internationally recognised City & Guilds learning programmes at a low cost, and graduate with advance diploma qualifications.

Challenges include that successful employment within the company is not always possible on completion of a learnership. "Also, during the lockdown, we have had to close almost all of our hotels for periods of time, reopening gradually in line with easing of lockdown and customer demand. This interfered with our ability to continue learnerships and training," says Sangweni-Siddo.

"Certain learnerships cost more than others, for example training programmes for black people living with disabilities. However, we strive to offer what we can within the grants and budget available. In addition, we are not always able to absorb learners into our properties in positions of their preference as it all depends on what is available at the time of placement." Some of the solutions the group is implementing include expanding the training programme to offer more accredited training for employed learners.

She says the group achieved the 15% non-accredited training requirement with ease as the majority of hospitality training is job-specific and takes place in-house. **"The requirement for accredited training is a goal we constantly strive towards, ensuring courses are aligned with the needs of our organisation where possible. "As occupancies slowly recover, we will be in a better position to continue with our training programmes and do our bit to tackle the skills shortages in our country."**

City Lodge's approach, says Sangweni-Siddo, is to view the skills development requirements as "opportunities to train and employ people as investments, as we desire to take a qualitative rather than quantitative approach to training".

Small businesses experience different sets of challenges. Ofentse Morake is the owner of OBM Travel and OBM Catering Supplies, two level 1 B-BBEE companies based in Rustenburg and Midrand. He would like to train and develop employees but doesn't have the budget, especially after the losses incurred due to the Covid-19 pandemic.

"I hire skilled people," he says, adding that many of them work on an ad-hoc basis when there is work. **"Covid-19 affected our business badly. In the travel business, trips were cancelled and postponed. Some of the clients are coming back now, saying they can once more travel."** Morake specialises in trips around SA and offers packages to Namibia.

He says although there has been substantial progress in terms of skills development in the tourism sector, government is not doing enough regarding funding of small businesses to enable them to grow and do adequate skills transfer. "I applied to government for Covid relief but didn't get any. They will give you a loan at 0% interest but you have to pay it back in full over five years." With his recent losses, he can't afford the repayments.

Morake is considering applying for Seta and National Youth Development Agency grants so he can do more skills development. **"If I had the budget I would help staff get their driving licences; give them social skills training; and train them on admin, such as doing bookings, sending emails and doing invoices."**

ENTERPRISE & SUPPLIER DEVELOPMENT

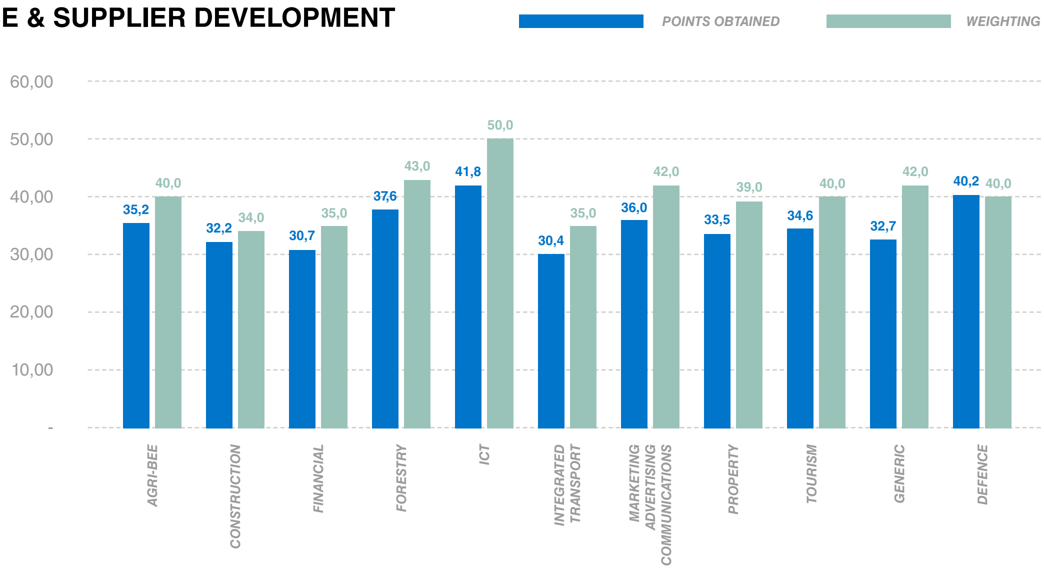
BY ANGELIQUE ARDÉ AND COLIN ANTHONY

DUAL GOAL OF STIMULATING SMALL BUSINESS SECTOR AND TRANSFORMATION

Government recognises the importance of ESD by making it a priority element: if companies don't meet the minimum score, they are automatically downgraded a level, irrespective of the reason – providing businesses with a strong incentive to focus on it.

This is partly reflected in the Sanlam Gauge scores: when measuring companies of all sizes, ESD is third-highest with 84.92% of the target met, fractionally behind ownership at 85.56%. Yet in the ESD graph below, all sectors except defence are behind target, although construction achieved 94% of its weighting and most other sectors well above 80%.

ENTERPRISE & SUPPLIER DEVELOPMENT



ESD is also regarded as the most significant element as it carries the highest weighing on the scorecard. These range from 34 points for the construction sector to 50 for the ICT sector. The next highest element is ownership, which ranges from 20 points (transport sector) to 30 points (property).

This is because the aims of ESD are important to the entire economy. Through its intention to support small, black-owned businesses, it addresses dual goals: to drive transformation of the economy and stimulate the small business sector.

A flourishing small business sector would make a significant impact on the unemployment rate. Research by the Small Enterprise Development Agency found that employment provided by SMMEs increased to 10.8-million in the first quarter of 2019, accounting for 66% of all jobs across the economy. But then the pandemic hit and there was a loss of 60% of full-time jobs across all SMMEs – 68% of these came from businesses that closed during lockdown, according to The Finfind SA SMME Covid-19 Impact Report.

A growing small business sector would drive wider economic growth. Unfortunately, Covid-19 had a devastating effect on the small business sector and there have been widespread calls for government assistance – and there has been some movement here from government. In April, Small Business Development Minister Khumbudzo Ntshavheni said her department is negotiating partnerships with retail giants Dis-Chem and Pick n Pay to stock about 400 locally produced goods, with a longer-term goal to provide support for 2,000 locally manufactured products, and this includes a strategy to ramp up manufacturing locally.

Lerato Ratsoma, MD of ratings agency Empowerdex says, ESD has the potential to make a real difference to everyone from an economic growth point of view. **"But we need to look at the types of initiatives we're concentrating on. We need to look at what is working – which interventions have produced more black businesses, and do more of that."**

She lists barriers to entry for entrepreneurs: access to finance for start-ups and to take the business to the next level; getting onto large company supply chains; and enabling access opportunities to the right networks to grow your business.

"There are a number of ways to make a real impact and move the needle. However, it's also possible to do the bare minimum and focus instead on getting the most points, regardless of impact." For the latter, a change of mindset is needed: "If you're going to be spending 3% of your net profit after tax, wouldn't you want it to actually make a difference? You're spending it anyway."

Mzila Mthenjane, Exxaro's head of stakeholder accountability, says there should be a real intention to drive ESD with real and tangible strategic objectives, such that the risk of delivery is turned into an opportunity to turn the situation around. "Embrace and manage the risk, rather than use it to avoid empowerment."

The ESD space is changing slowly, he says. **"Black-owned entities that are capable, be it woman- or youth-owned, are few and far between. They are still young and require a lot of hand-holding and guidance in order minimise the risk. There is some capability that has been demonstrated and we work on that, but it comes at a cost in the short term. They have to demonstrate improvement and get more efficient so we can get cost-efficient; that is how these relationships can be sustained."**

Exxaro realised early that loans and grants are not the solution and that it is easy to give out money, especially if you're giving it in exchange for credits, which is a flawed incentive, he says.

> ***"If you're going to be spending 3% of your net profit after tax, wouldn't you want it to actually make a difference? You're spending it anyway."***

> *"As Exxaro we're not built to address these challenges effectively, on our own. Skills development needs to be a national programme that becomes the base for entrepreneurial and deployment opportunities."*

To earn ESD points, a company (or measured entity) must provide grant funding, loans or equity funding to black-owned businesses and as long as the loan or equity investment is outstanding, it remains on the measured entity's scorecard. This makes it **"commercially palatable",** says one source who asked not to be named. **"You don't need to keep redeploying like you do with skills development."**

High scores for ESD also make sense considering that some of the other elements on the scorecard are harder to "shift", says Greg McDonald, chief executive of the financial services portfolio at Edge Growth. **"It's much harder to shift the ownership of a listed company or a big corporation."**

For many companies, then, ESD is a relatively easy way to score points. However, he says for big companies, say with a procurement bill of R2bn, it could also be a challenge to shift procurement to preferential suppliers.

Andile Khumalo, CEO of specialist investment firm KhumaloCo and Sanlam Gauge co-founder, says there are often big issues in shifting spend to black suppliers where senior executives – often black – want to see it happen but on the factory floor, the plant managers – often white – resist it.

"The operational managers tend to prefer their tried and tested, and often also white, suppliers with whom they've established deep, long-term relationships. The argument often put forward is that these older suppliers are more reliable and have scale, and new black suppliers are higher risk and are too small, even though the black suppliers are just as technically qualified."

Mthenjane says one challenge Exxaro had was that it needed to transform its procurement book. "We knew where the areas of challenge were in terms of a spectrum of procurement from your low skill, low risk, low value procurement to your high end, high value, high risk, high capability – including the level of empowerment along that spectrum which enabled us to identify opportunities where we could move quickly and those where we would have to move strategically and tactically.

"So, our ESD programme includes skills development programmes for owners of businesses so that they understand the intricacies of managing cash flow, business development, marketing and risk management – all competencies that are often taken for granted."

He says one of the urgent requirements in this area is building skills and capability. This lack of skills and capabilities in technical barriers becomes a risk for procurement. "As Exxaro we're not built to address these challenges effectively, on our own. Skills development needs to be a national programme that becomes the base for entrepreneurial and deployment opportunities."

ESD is broken into three categories: preferential procurement, which is the purchase of goods or services from black-owned small, medium and micro enterprises (SMMEs); enterprise development (funding of black-owned SMMEs with revenue of less than R50m); and supplier development (funding a black-owned business with revenue of less than R50m that is an existing supplier).

ESD funding can be provided to businesses in multiple ways but the dominant vehicles are:

- Grant funding, 100% of which counts towards your score;
- A loan to a business, preferably but not necessarily unsecured and interest-free, which provides 70% recognition for as long as the loan is outstanding; and
- Equity funding, which attracts the same recognition as that which applies to loans. This means that as long as the equity invested in the business is outstanding and shareholders haven't been paid out or sold their shares, that portion of funding is recognised.

McDonald believes there is a trend of companies moving away from seeking the cheapest, most effective way to get as many points as possible in favour of a more strategic view of ESD – that it is a potential benefit because by assisting and developing black suppliers, the company will improve the quality of its supply chain. **"So, where companies have a couple of smaller suppliers that they wouldn't ordinarily be able to give big contracts to, many are now seeing the benefit of providing these suppliers with some funding to grow their capacity so that they can procure more from these small suppliers and in doing so reduce risk in their supply chain."**

However, McDonald says he regularly sees a disconnect between those within companies who see ESD as strategically valuable and those who are more operational. "For example, some of the business unit buyers or sometimes procurement teams themselves don't want the headache of trying to integrate a new supplier. They may have a long-standing relationship with a large supplier who they've been working with for years, can do it a bit cheaper, and are often multinationals. They don't want to rock the boat. We often find friction in translating that strategic mindset into the business unit, where those buying decisions are made." When there is a meeting of minds the results are good, he says.

> ***"Many customers say: 'I'll only buy from you if your rating is at least level 4 or better.' But that is assuming their suppliers are able to deliver. That's the challenge – identifying credible suppliers that comply with the requirements in the B-BBEE Codes."***

In answer to the question of what isn't working in the ESD space, he says it's in **"the provision of genuine, long-term contractual relationships"** from companies to their suppliers. "There's a lot of funding that can go to suppliers and it's actually relatively easy to fund small businesses, but not necessarily easy to fund them sustainably. One of the ways I think that can be enhanced is on the preferential procurement side. At the moment, preferential procurement does give a slightly higher weighting to smaller black businesses than large black-owned businesses, but what we're seeing is that a lot of companies are finding it easier to do large transformation deals with their suppliers than provide significant contracts to smaller suppliers.

"Let's say they're buying R50m of product or service from a particular supplier, it's much easier for a company to just put pressure on that supplier to change its ownership structure through a private equity deal or vendor financing, making that company black owned. Then all of a sudden that R50m procurement spend becomes black-owned spend from a preferred procurement perspective. That's a lot easier than finding smaller suppliers that are genuinely black-owned and shifting work to those suppliers and growing those businesses. However, that is not necessarily the spirit of what the codes are trying to achieve."

McDonald says finding a way to reduce barriers for big companies to procure from these smaller companies, while increasing the incentives for them to do this, "would make the supplier pillar click".

He gives the example of a company that provided Edge Growth with funding and proposed it be spent on a business in its supply chain – a company that printed its annual reports and customer statements.

"That was a red flag for us because printing is not a growing industry. We asked the company what they were expecting to procure from the printer going forward. They said, **'We're reducing spend with them and over the next three years we won't spend with them at all because we're going entirely digital.'** So, our question was: 'Why fund them, then?' And their response was: 'This is what ESD funding is for.'

"We've seen many similar examples where the company is not able to back up the case for procurement, but they're expecting significant funding to flow towards these suppliers and it won't be sustainable. So that procurement piece is the missing piece in my mind."

Pieter Steyn, a director of Werksmans and head of B-BBEE, says businesses must practise preferential procurement and ESD to avoid being downgraded, which often means hiring a professional to help them with compliance.

"Many customers say: 'I'll only buy from you if your rating is at least level 4 or better.' But that is assuming their suppliers are able to deliver. That's the challenge – identifying credible suppliers that comply with the requirements in the B-BBEE Codes."

Steyn says preferential procurement and ESD provisions on the scorecard are complicated. **"Empowering suppliers who are micro enterprises are incentivised, but you don't get extra points if you exceed the target. Any procurement manager looks at the various targets in the codes and says: 'How do I maximise my score?' The complexity is one of the challenges."**

FLAWED PERCEPTION OF COMPLIANCE

BY ANGELIQUE ARDÉ

The general perception that corporate SA's compliance with ESD is very good is "flawed", say Anton Baumann and Mark Fitzjohn, executive directors of black-owned investment company, Empowerment Capital.

"Often where there's recognition, it relates to old initiatives, and in most instances old loans that are outstanding and still on the measured entity's books," says Fitzjohn. Furthermore, often these loans are in default and the repayment terms are just being pushed out.

Baumann says if all companies were to contribute 3% of net profit after tax annually, about R40bn would be available for small business support every year. But because of an interpretational issue in the codes, nothing close to this amount is being contributed to small business development.

According to a paper recently submitted by Empowerment Capital to the Trade, Industry and Competition Department: "A guiding principle in the codes is that there cannot be a double counting of initiatives. If an initiative counts as a contribution for one element, then it cannot count as a contribution for another element as well. Likewise, if an initiative is recognised in one year it cannot be recognised again in a subsequent year. This principle applies throughout the scorecard. Any initiative claimed for scorecard recognition must be supported by net cash flows that occur within that specific year for which a measured entity claims scorecard recognition."

Baumann says the common interpretation means that a large company that may have provided a loan in 2007, for example, may never have to do ESD again as long as the loan is outstanding and the company's profit hasn't grown. If it has, say by 10%, and interest on the loan was charged at 10%, the outstanding loan balance grows accordingly and the company never has to do ESD again.

"Why would a grant, which is support in the form of cash flow, only be recognisable in one year and a loan, which is "money coming back", be recognisable in multiple years? How does that make sense?"

He says the codes include rules as well as overarching guiding principles. Such principles include "substance over form" or the general interpretation rule that any reasonable interpretation of the codes consistent with the objectives of the B-BBEE Act must take precedence.

"If an interpretation does not make sense then how can it be the reasonable interpretation or even be consistent with the objectives of the act? The codes incentivise companies to support qualifying ED and SD beneficiaries annually to the value of 3% of their net profit after tax. Such annual contributions must be supported by net cash flows that occur during the year of assessment. That is the only interpretation that makes sense and that is in line with the objectives of the B-BBEE Act," Baumann says.

In 2016, Empowerment Capital sought clarity from the BEE Commission on this issue, but the commission did not deem it necessary to issue a practice guide. This year, Empowerment Capital turned to the DTI. The company says ESD is often done in such a way that it has little impact and some practices constitute fronting. Measured entities get away with it because of "an almost malicious misinterpretation of the codes". Examples of such initiatives include:

- The claiming of an outstanding loan balance over several years;
- Support of beneficiaries without any intent of grooming the beneficiary into the supply chain;
- Standard business practices claimed as ESD, such as banks claiming loans to a black business;
- "Onboarding" of loan recipients to become suppliers in order to be able to claim for supplier development (eg, Bank A issued a standard business loan to Company X. Before financial year-end Bank A quickly procures a minor service from Company X. Company X is now a supplier and the loan can be claimed as supplier development);
- Excessive management fees charged by ESD facilitators;
- Repackaged "marketing expenses" labelled as ESD;
- Inflated cost and inaccurate time sheets supporting "contributions made in the form of human resources"; and
- Obviously low-impact initiatives.

Baumann says points for ESD are meaningless if there's no meaningful impact. "I don't think the idea of companies parking R50m in a wealth preservation fund is taking our country forward."

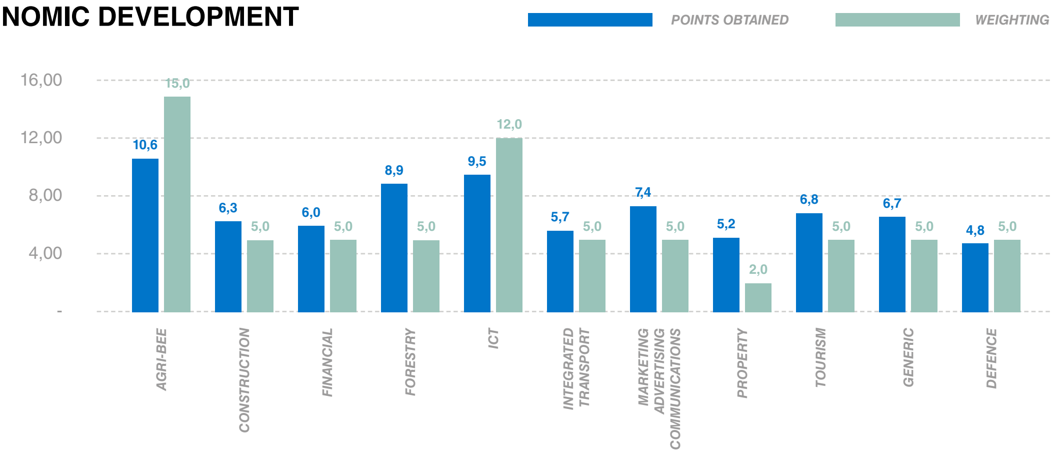
SOCIOECONOMIC DEVELOPMENT

BY ZOHEB KHAN

WHAT'S ALL THAT MONEY DOING?

Across sectors and size categories, socioeconomic development is the highest-scoring B-BBEE element. This can be a tick-box exercise for some companies in that they allocate 1% of net profit after tax (or similar) to "some or other good cause" and gain the scorecard points without ensuring that their funding is used to develop sustainable economic participation for historically disadvantaged South Africans, which is the main goal of this scorecard element. More and more, however, particularly for big companies where 1% of profit is a substantial chunk of money, this form of "BEE-tailored" corporate philanthropy is being taken extremely seriously. The spending is becoming more and more aligned with addressing SA's triple challenge of inequality, unemployment and poverty. This article traces the evolution of corporate philanthropy in South Africa and discusses promising new directions in the developmental work of the private sector.

SOCIOECONOMIC DEVELOPMENT



For most of the 20th century, legal restrictions limited the ability of both individuals and organisations to contribute to improving the wellbeing of others. Formal philanthropy in South Africa during this period was dominated by missionary activities and charity work, pivoting to support to resistance movements against the apartheid state in the 1980s.

Corporate philanthropy only really took off in the 1970s. This was influenced by new ideas around corporate social responsibility and a general desire by the business sector to improve its public image in the face of the growing global sanctions movement. Mining companies, for example, supported projects in housing and education. But this was undertaken at the same time that they benefited from regressive legislation (particularly labour legislation).

Since democracy in 1994, corporate philanthropy has become more institutionalised. Recognising incapacities in the state to meet all welfare needs, the state conceives non-profit organisations and the private sector as partners in the implementation of its service delivery agenda.

The Broad-Based Black Economic Empowerment Act 53 of 2003 and associated codes of good practice are the major pieces of legislation that structure corporate South Africa's contributions to social welfare and societal transformation. Among others, companies are incentivised to expand black shareholding, to spend on skills development initiatives, and to spend 1% of net profit after tax on activities that promote socioeconomic development (SED) in vulnerable and/or previously disadvantaged communities.

The concept has proven successful in the sense that socioeconomic development is the highest scoring scorecard element across all sectors and company size categories. Each sector except agriculture and defence exceeds the scorecard weighting.

These aims have been achieved by many of the country's largest companies via the establishment of "BEE trusts". These non-profit organisations are fully or partly owned by black people (individuals or associations). Research by Intellidex concluded in 2018 indicates that 25 such trusts, established by some of the largest companies listed on the JSE, had collectively disbursed about R4,5bn to black beneficiaries since 2003, with two thirds of this spending directed towards education-related initiatives.

The BEE framework has also been applied to the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP), initiated by the Department of Energy in 2011. REIPPPP is aimed at expanding the energy mix to include renewable forms of energy, reduce dependence on coal, and improve the national energy supply.

As in other sectors of the economy, independent power producers are required to confer ownership to black participants and almost all do so by establishing a community trust. They are also required to spend 1% of NPAT on SED initiatives.

More than 100 approved producers have, by government's estimation, spent more than R1bn on community development initiatives. As with BEE trusts outside the energy sector, the bulk of this spending has been directed at education – for example, the building of school infrastructure (classrooms and libraries) and scholarship programmes for tertiary study.

However, the value of all this spending has been questioned. Despite massive spending in basic education, international benchmarking tests consistently rate literacy among younger children as among the worst in the world. Youth unemployment is also a global outlier, despite substantial spending on skills and employability training by the private sector. In addition, several philanthropic foundations focus on the empowerment of women and girls, yet gender inequality in terms of income at the macro level has steadily increased in recent years, rates of gender-based violence are not falling, and care burdens remain overwhelmingly feminised.

The stubborn persistence of these social ills is, undoubtedly, reflective of state failures in the fulfilment of its mandate using budgets that dwarf those of corporate philanthropy. But we can still ask whether philanthropy is as effective as it could be, and whether expenditures are worth the large tax advantages they confer on companies. These sorts of questions sporadically appear in the public discourse.

Answering these questions is not straightforward. Data on the impacts of corporate philanthropy are patchy and difficult to obtain. This is largely because there are no standardised reporting requirements for foundations, resulting in sometimes unreliable and often incomplete data. Most of the (limited) available data relate to the amount of money spent. There is far less data linking expenditures to actual developmental impact. In many cases this is because of an expectation that rands spent is a good indicator of impact. In others, a compliance mindset drives expenditures: if spending constitutes 1% of NPAT then that's all that matters. The effects of that spending are either secondary or irrelevant.

There is also a lack of data-sharing in the sector that is symptomatic of a competitive culture. Development is multisectoral and complex; no one actor can solve problems alone. Yet CSI departments of large companies and corporate foundations tend not to collaborate. This often manifests in duplication of efforts. It also means that the considerable intellectual capacities and experiences of diverse individuals working on finding developmental solutions are not shared often enough.

We have seen in the course of our research, for example, how several foundations working in the same small city all rolled out similar entrepreneurial support programmes that were designed independently and in isolation. The results were repetition of the same design mistakes and working with "serial beneficiaries": the same small group of people benefited from the same types of support provided by different companies, to the exclusion of the broader population.

But we have also seen innovation from the private sector that has directly targeted the lack of data and the limited or unknown effectiveness of interventions. South Africa's first two social impact bonds (SIBs) are a good example – the Impact Bond Innovation Fund and Bonds4Jobs.

In SIBs, investors provide working capital to NGOs that deliver social services, like employment training for work-seekers or early learning classes for pre-schoolers. If the services lead to the achievement of pre-specified outcomes – like 100 youth placed in jobs, or improvements in early learning scores – government repays the investors with interest. If not, investors lose capital in proportion to the shortfall in performance against the social targets.

The imperative to achieve results has led to significant efforts to provide highly innovative and flexible services. The need to measure social performance has also led to the collection of substantial data about programme effectiveness. Ultimately successful, the Impact Bond Innovation Fund and Bonds4Jobs have demonstrated a potentially fruitful new area for corporate philanthropy.

SIBs are a type of "impact investment", falling within the broader umbrella of "sustainable investments". While still quite young in South Africa, the sustainable investing movement is burgeoning in much of the rest of the world. Sustainable investing strategies seek to incorporate environmental, social and governance (ESG) factors into all investment decision-making. This recognises that corporate philanthropy is not charity work – it is an investment in the societies in which businesses operate and hence an investment in their own sustainability.

But in South Africa, the ethos of much philanthropic activity remains stuck in the traditional, antiquated mould: acts of charity designed for passive beneficiaries. Work with the community trusts in the REIPPPP shows that often, these trusts are not perceived by the communities that technically own them as being representative of their interests or as vehicles for their empowerment. Sponsors

of these trusts and trustees tend to work in a top-down way, failing to consult adequately with the communities they operate in and sometimes making assumptions about what the poor need.

This is not always the case. Several renewable energy companies and their associated community trusts have committed to participatory approaches, working with “beneficiaries” as equal partners and capacitating them to become agents of their own development. These trusts have also developed trusting working relationships with local governments, identifying areas where collaboration would make sense and where trusts and IPPs can fill in gaps in service provision.

Several of these cases are in rural parts of the country and have witnessed substantial social deterioration in recent decades as regional industries have declined and urbanisation has gathered pace. By reinvigorating development in these areas, these companies and trusts are contributing to a just transition: not only to cleaner forms of energy but also to a more equitable social landscape.

The SIBs and the work of some of the renewable energy trusts show a capacity for innovation and experimentation. We hope to see this type of work – and more importantly the attitude underlying it – replicated more widely.

- *Khan is social economy research manager at Intellidex.*

Empowering generations to live with confidence

The Sanlam Group

As one of the continent's oldest social enterprises – founded in 1918 – the Sanlam Group has had a deep impact on the lives of Africans for more than 100 years.

Level 1 B-BBEE

Socio-Economic Development

R209m
invested in the last 20 years in Takalani Sesame to reach millions of South African children.

Since 2010, about **500 000 children** reached and
R35m
prize money distributed via the Kay Motsepe Schools cup.

R137m
benefitting nearly 560 000 children annually via literacy and numeracy programmes.

WWF **Contributed a total of R75m over 13 years to water security with WWF.**

Financial Literacy

R77m
seeded to empower 61 000 people through financial literacy programmes.

People, Diversity and Inclusion

20 319 SA employees

147 541 employees in over **44 countries.**

75% black employees | 61% female

R345.5m
invested in training and development in 2020.

Top Employer for 6 consecutive years

Ownership

1993 pioneered SA's first **major BEE deal.**

Since 2004 **R15bn** in value has been created for broad-based black shareholders through Sanlam and Ubuntu-Botho's empowerment partnership.

African Rainbow Capital Financial Services (ARC FS) acquired 25% of Sanlam's third-party asset management business and as a result Sanlam Investments is the largest black-owned asset manager in South Africa.

Job Creation and Enterprise Development

R63m invested in Enterprise Supplier Development over the past 7 years:

- creating **391** sustainable jobs.
- securing **2427** exisiting jobs.
- contributing on average **21%** to revenue growth of participating SMEs.

In 2020, R3.7bn of procurement was spent with black-owned businesses, with R1.7bn to black owned SMEs and R934m to black women-owned SMEs.

Our contribution to covid-19 relief & building a sustainable future

SUSTAINABLE INVESTING

R2.25bn
committed to seed three impact funds.

R14bn
in asset balances for empowerment financing.

OUR COVID SUPPORT

The Motsepe Family, in partnership with companies and organisations associated with them, have pledged
R1bn
to assist with the current COVID-19 pandemic.

R531m in excess claims paid by Sanlam Life and Savings

R255m to intermediaries

Sanlam matched the staff contributions by donating **R2.2m** to food relief organisations across the country

R463m to relief programmes for clients

R246m to various response initiatives

R3m to Sanlam ESD programme beneficiaries

Sanlam
Live with confidence

As an African champion, we at Sanlam make it our mission to invest in potential. Our goal is to ensure socio-economic inclusion becomes a right on the continent, not a privilege.

In line with this, we have recently rebooted our business and our brand. At every level and in every location, Sanlam is now geared to deliver on our single-minded purpose of helping Africans "Live with Confidence". Through holistic financial literacy and access to financial products, we are helping people build the confidence they need to go after their goals and build wealth for the long-term.

Live with Confidence is an amplification of the work which has been in our DNA since our founding more than 100 years ago. As you'll see in the infographic on page 30, we are proud to have already delivered a strong impact over the years. Some of the highlights are outlined – and we are excited to amplify our purpose to empower generations to be financially confident, secure and prosperous.

SOCIO-ECONOMIC DEVELOPMENT

In the last 20 years, **we've reached millions of people through investments amounting to more than R450 million**. We know financial literacy starts with a solid foundation in numerical literacy and reading for meaning. By instilling these skills, we give our children the best chance of a confident, prosperous financial future.

For us, socio-economic development means **building a better world for the next generation to inherit**. Water security is a massive part of this. We have a longstanding partnership with the WWF-SA to safeguard the resilience of freshwater sources by securing strategic water source areas, promoting water stewardship and empowering local governments to integrate freshwater protection in their policies.

FINANCIAL LITERACY

Levelling up financial literacy is one of the most powerful ways to enable people to live with confidence. **That's why we've spent R77 million on literacy programmes** primarily aimed at multi-sector beneficiaries through our flagship programmes like Saver Waya Waya WageWise and others.

PEOPLE, DIVERSITY AND INCLUSION

Our people are our biggest asset. We know true transformation takes deliberate action. We have continuously invested in diversifying our workforce to align with our varied markets. We champion inclusivity as part of our longstanding business strategy. We foster ongoing learning and growth opportunities. And have diverse succession pipelines to mentor our young talent. This has certified us as a Top Employer for the last six consecutive years.

While we are always striving to increase our diversity, we are proud that 75% of our 20 139 employees in South Africa are black and 61% are female. This remains an ongoing focus for us.

JOB CREATION AND ENTERPRISE DEVELOPMENT

Having hit a record unemployment rate, it is imperative the private sector steps up and fosters sustainable job creation. We have **invested nearly R63 million in enterprise and supplier development**, with a core focus on SMEs – the backbone of our nation's economy. We also work alongside the government through the YES programme to create more employment opportunities for young people.

OWNERSHIP

Currently, black asset managers in SA hold less than 10% of the market share of savings and investments. To accelerate the transformation of the financial sector, we sold 25% of Sanlam Investment Holdings – our third-party asset management business – to African Rainbow Capital's financial services unit. This makes **Sanlam Investments the largest black-owned asset manager in the country**.

A TIMELINE OF SANLAM'S B-BBEE JOURNEY

1993 - Sanlam sold Metropolitan Life to Methold: SA's first major black empowerment deal

1996 - Sanlam and Real Africa formed Real Africa Asset Management and launched the Empowerment Equity Fund - first fund focussed on 'black-chip investments'

1996 - Sanlam started the R2bn Sanlam Development Fund

1998 - Sanlam demutualised & listed on JSE and Namibian Stock Exchange

2004 - Ubuntu-Botho bought a 10% shareholding in Sanlam. Altogether the deal created about R15bn in value

2006 - Since 2006, Sanlam Specialised Finance has provided R5.3bn in empowerment finance

2017 - Introduction of the Sanlam Progressive Smooth Bonus Fund - first black-managed product of its kind in SA

2018 - Package of new B-BBEE transactions approved, to issue a further 5% of ordinary share capital to B-BBEE shareholders

2021 - ARC FS' acquisition of 25% of Sanlam Investments

COVID-19 RELIEF AND SUSTAINABLE INVESTING

Sanlam, in conjunction with African Rainbow Capital and others, and through the Motsepe Foundation, contributed R1 billion towards the fight against COVID-19.

We also created three impact funds, named the Investors' Legacy range, with a committed investment of R2,25 billion from our funds to support South African businesses – from small enterprises to large corporates – that were negatively impacted by COVID-19.

Altogether, Sanlam and our partners have contributed about R5 billion to Covid-19 relief efforts.

MODELLING FINANCIAL CONFIDENCE THROUGH EDUCATION

Since 2013, Sanlam has invested R77 million in programmes aimed at empowering South Africans through financial literacy. To date at least 66 000 people have benefited from these programmes. As a purpose-led business, the Sanlam Group believes that financial literacy is critical to catalysing financial confidence, and giving people mastery over their money.

Nozizwe Vundla, Head of the Sanlam Foundation, says that enhancing financial literacy is one of the primary ways to accelerate widespread financial inclusion. "Inspiring people to live with confidence is crucial because the way individuals feel about their finances drives how they act. And these actions can have a profound impact on how securely and prosperously they live their lives."

Sanlam focuses on building financial literacy across the board. It sees this as another deliberate step to foster a transformed and more equal society. The Group spent over R12.8 million on consumer financial education – a key pillar of financial literacy – in 2020, despite the difficulties of the Covid-19 environment. Over 11 000 participants were reached, 99% of whom were black, with 60% being youths (18-35 years-old), and 50.5% residing in rural areas.

"We learnt that there is no such thing as 'little money'; every cent counts, and we as individuals need to know how to make money work for us. No matter how much you have, if you know how to budget and save, you'll be able to accomplish whatever it is that you intend on accomplishing." Programme participant.

Vundla says that financial literacy programmes reach beneficiaries via worksites, local community forums and universities. "Our intention is to reach people who are often otherwise overlooked, through programmes that are delivered via the Sanlam Foundation's service providers across the country. The focus is on facilitated training to promote basic financial knowledge by instilling key money management skills, across the areas of savings, debt and credit, and insurance.

"We believe financial literacy is critical to improving individual financial awareness, preventing over-indebtedness and contributing to market development. It supports financial inclusion and broader economic and social development goals."

HERE ARE SOME OF SANLAM'S FINANCIAL LITERACY PROGRAMMES:

THE SAVER WAYA WAYA WAGEWISE FINANCIAL LITERACY PROGRAMME

Executed by ASISA and almost exclusively funded by Sanlam since 2015, WageWise is the Sanlam Group's flagship financial literacy programme. It empowers workers and their communities across the mining, energy and construction sectors. In 2020, the Sanlam Foundation tasked the ASISA Foundation with running a pilot financial literacy training programme targeting beneficiaries of the National Youth Development Agency (NYDA) and public service officials in KwaZulu-Natal and Gauteng.

"I learnt how to save money; I didn't know how to save." Programme participant

MONEY FO SHO

In 2020, the Sanlam Foundation contracted Avocado Vision to provide consumer financial literacy via the Money Fo Sho programme. The partnership reached over 9 000 beneficiaries, 41% of whom are based in rural areas. Not only are beneficiaries upskilled; financial literacy trainers in these regions are empowered through employment as well.

"I did not know the difference between needs and wants. I was never used to distinguishing between the two in my expenditures. From now on, however, I am aware to start first with the needs, and even if I do not get the wants, they are not compulsory." Programme participant

EMPLOYEE FINANCIAL WELLNESS PROGRAMME

After seeing the toll Covid-19 took on South Africa's household savings, Sanlam devised a tailor-made, professionally managed programme as a free and confidential service to improve its staff's personal financial lives. The 12-week programme includes coaching by a team of specialists, and the opportunity to engage with a Sanlam financial adviser. It is accessible virtually, telephonically, and face-to-face.

THE SANLAM MOOLA-MONEY FAMILY GAME SHOW

Sanlam launched the country's first-ever financial education TV game show this year. It uses the medium of entertainment to improve financial literacy levels and empower South Africans to live with confidence. Complex concepts are broken down in a fun, engaging way, as families compete to answer financially-oriented questions in every episode.

As the continent's largest non-banking financial services group, Sanlam is continuously seeking ways to catalyse its purpose through innovative partnerships that drive a future-fit nation. Its financial literacy programmes have proven extremely successful and the Group is committed to continuing these. This is especially important given the devastation wrought by Covid-19. In the pandemic's aftermath, it is pivotal people are equipped with the know-how to make the best possible financial decisions to secure their future wellbeing.

> ***"enhancing financial literacy is one of the primary ways to accelerate widespread financial inclusion!"***
>
> *NOZIZWE VUNDLA,*
> *HEAD OF THE SANLAM FOUNDATION*

MORE ON SANLAM MOOLA-MONEY

"We're on the show to learn!"

Boity Thulo, actress, musician and entrepreneur

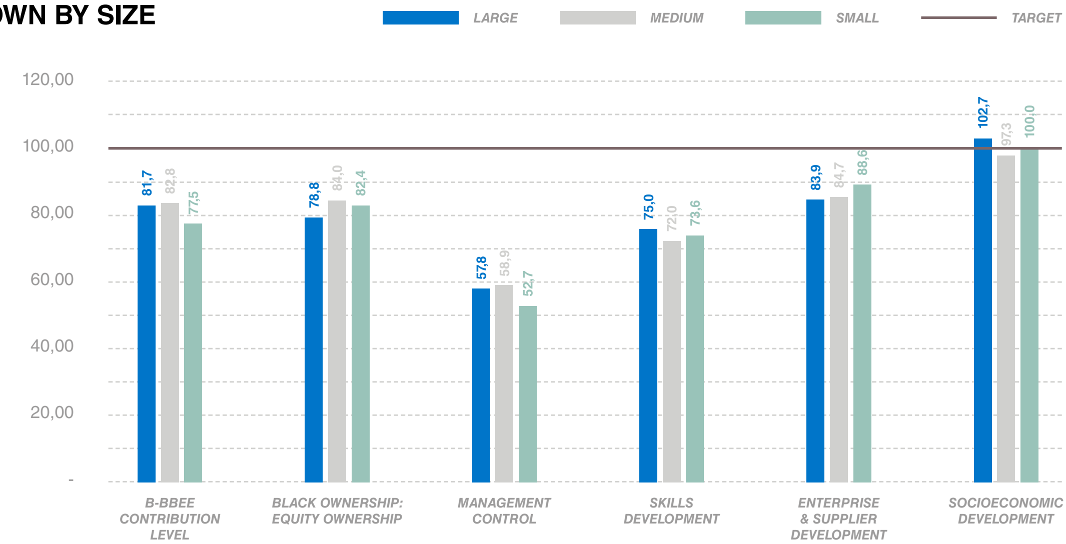
Every episode of Sanlam Moola-Money features a new money rule. These include:

- An average life doesn't take much planning. A good one does. (Episode one)
- Spend less. Save more. Repeat. (Episode two)

The show was devised to tackle the often-taboo topic of money, by prompting open, honest conversations to help families set shared money values and goals. These discussions are crucial to empower more people to find smart, sustainable ways to save.

THE SECTORS

B-BBEE CATEGORIES BREAKDOWN BY SIZE



Medium companies are ahead in the overall B-BBEE contribution level score, achieving 82.8% of the target, ahead of large companies (81.7) and small (77.5%).

Lerato Ratsoma, MD of verification agency Empowerdex, says smaller companies generally struggle more with attaining overall good scores as they are less likely to have internal resources dedicated to managing their scorecards. **"Rather, they tend to rely on external consultants or wait until verification time to discover what their gaps are, which is generally too late. Having dedicated resources generally makes a difference to the attainment of targets as someone is paying attention to the numbers throughout the year."**

The medium companies lead in ownership and management control while large companies come out on top in skills development and socioeconomic development.

Ratsoma says HR or talent development departments make a huge difference in skills development and small companies are likely to struggle because it requires management time and resources to achieve the target.

"Most companies, including multinationals, have established CSI philosophies that translate well under BEE and therefore don't require much effort to comply with socioeconomic development."

Despite having fewer resources to allocate towards transformation initiatives, small companies do very well in enterprise & supplier development (ESD). Ratsoma says this is "slightly surprising" but is probably because requirements are linked to a portion of profits.

AGRICULTURE

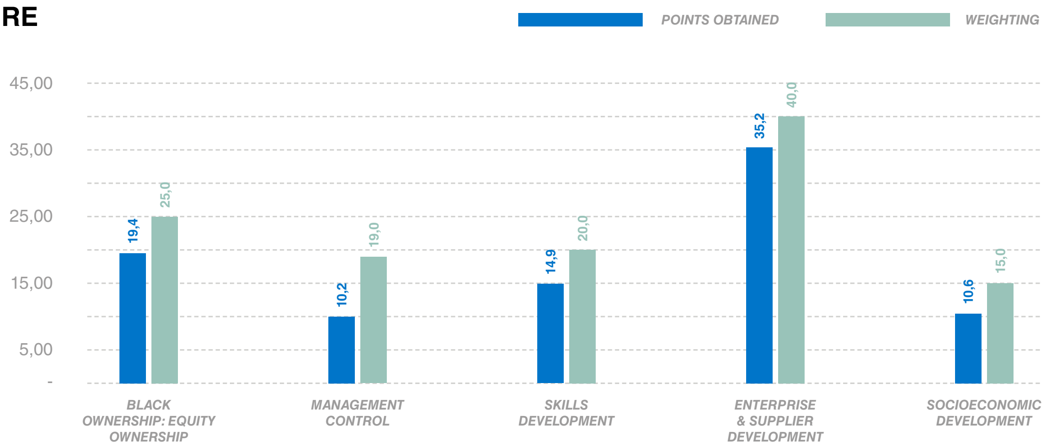
BY CARA BOUWER

ESD IS CRITICAL TO DEVELOPING SMALL-SCALE FARMERS

Agriculture scores among the lowest of all sectors for ownership with 77.6% of the target met. It is also well behind on socioeconomic development, achieving 70.1% of the target whereas all other sectors except defence exceed their targets.

In terms of ownership, in recent years there have been numerous high-profile empowerment deals. In 2017, Patrice Motsepe's African Rainbow Capital invested in RSA Group, becoming a 40% equity partner. The same year, Grow Fresh Produce Agents welcomed Thebe Investment Corporation as a 51% majority shareholder. In 2018, Thebe Investment Corporation acquired 51% of HarvestFresh Farms, and RSA Group acquired Stellenbosch-based Freshworld.

AGRICULTURE



In agricultural subsectors, fisheries and aquaculture sector score 20,5 out of 25 for ownership. Breaking the scores down into size, small and micro companies score 17,3 while medium-sized companies are bang on target with 25 points.

Mbali Nwoko, CEO of woman-owned agribusiness Green Terrace, says the trend in ownership in the sector has been towards big equity deals within the established space. This may have something to do with the Expropriation Bill which has caused uncertainty and some investors may be looking to transform or secure their assets by selling shares to black equity partners.

"Pretty much all the agri-investments are going to the established, commercialised farmers or agri-businesses, because obviously they have scale and they make better business sense," says Nwoko. "The big commercial farmers are still white-owned businesses and they are getting bigger and bigger due to export demand. But, from a farming level, small-scale farmers are still small and rural farmers are still rural."

The sector is also struggling to make inroads into black female ownership, with its 15.7 points the third-lowest, behind the financial sector (15.6) and forestry (10.5)

> ***"This pandemic ... had quite a severe impact on equity deals. There were some big companies that were at the point of creating ownership deals or co-ownership deals, but that fell by the wayside."***

According to the BEE Commission's statistics, only four major BEE transactions that were consistent with the B-BBEE requirements for ownership were implemented in the agriculture sector between 2018-2019. Their combined value was R523m against R112bn for transactions recorded during the period, across all sectors. **"With this rate, it is unlikely that the pace [of transformation] will increase,"** says BEE Commission spokesperson Mofihli Teleki.

Furthermore, says AgriSA executive director Christo van der Rheede, the impact of Covid-19 is derailing many new equity partnerships and black ownership deals. **"This pandemic, and the overall decline, had quite a severe impact on equity deals. There were some big companies that were at the point of creating ownership deals or co-ownership deals, but that fell by the wayside due to the downward trend in the economy. This pandemic has forced companies to reprioritise and obviously funding is needed to keep the company afloat and pay workers."**

A similar situation of consolidation and black equity ownership is playing out among big commercial companies in the fisheries sector. Sea Harvest is owned by Brimstone Investment Corporation (54.2%), which also holds a minority stake (25.01%) in Oceana Group. And, despite the challenging market, Premier Food and Fishing – which is majority owned by African Equity Empowerment Investments – announced in late-2020 that it would be transferring 20% of its total share capital to an employee share trust and 10% to a community BEE consortium.

A 2012 report from parliament's portfolio committee on agriculture, forestries and fisheries noted that "the commercial fisheries had significantly transformed, with 60% of all fishing quotas allocated to black persons". However, concerns persist around support for black-owned enterprises and small-scale or artisanal fisheries.

THE BIG GET BIGGER

The reasons why small-scale farmers have not managed to grow their businesses sufficiently is multi-layered, says Nwoko, citing "historical factors, lack of resources, not owning enough land and equipment, and how financial institutions deal with applications from these businesses". This all conspires to make big established businesses with healthy track records and dominance in certain markets the investor focus of choice.

This is reflected in the Sanlam Gauge results where large agriculture companies score 19.4 points out of 25 while medium companies are at a lowly 2.8 out of 19 and "small and very small" companies score 12.8 out of 25.

In addition, the BEE Commission notes: **"For black people, one big reason for not making acquisitions is access to finance which inhibits the ability of black people to raise capital in order to acquire equity stakes in this sector. So even where black people are participants, the shareholding remains encumbered due to private funding extended through vendor-financing that dominates the method of funding for these deals."**

One answer, says the commission, is to focus on effective enterprise and supplier development, which **"could unlock some of these challenges to enable entry and sustainability by black players".**

THE PROBLEM WITH PROCUREMENT

The sector scores reasonably well in ESD, attaining 88% of its target versus the average of 85.1% for all sectors. However, there are significant problems to further progress.

While Nwoko believes there is a real desire by larger companies to procure from BEE entities, she feels implementation continues to be problematic. **"We can't just base this on companies that want to buy from black farmers, but support, funding and technical help are also needed,"** she says.

One of many reasons this is stalling is red tape – from certification to farming standards, all of which require capital investment into infrastructure such as packing houses, cooling facilities, backup generators, logistics and food safety audits. "The mid-level black farmers are still trying to make ends meet and find consistent markets and pricing. And selling to established retailers is more expensive. So, yes, there is a willingness to buy from black producers, but how do we scale those same black producers? And when black producers do find these opportunities and need funding, banks won't fund those businesses – you are a risk, as a farmer," says Nwoko.

For Van der Rheede, this speaks to the holes in the current BEE scheme, which he feels is too rigid to make a meaningful impact. "There are five elements and companies must comply with those come hell or high water. And a lot of fronting sometimes takes place," he says. **"We need to shift away from this rigidity and focus on creating sustainable black businesses. If we really want to catapult South Africa into a space where black people own a bigger portion of the economy, then we must do everything in our power to invest in the establishment of black business and suppliers and cultivate entrepreneurship."**

He points to the 1% of annual payroll which employers with an annual payroll above R500,000 must contribute to the skills levy and asks to what extent these funds are being used to establish black businesses? "Not only in skills and development but business management skills in particular," he says.

THE MANAGEMENT CONUNDRUM

Based on the Sanlam Gauge research, skills development is missing its target across the board, which is particularly problematic in the face of high levels of youth and graduate unemployment. Nwoko believes **"there is no incentive to give farmers skills development".**

The agriculture sector achieved 74.5% of target for skills development, compared with 76.1% for the all-sector average.

There is another issue at play around human capital: a notable lack of transformation and progress in management control. The sector achieved only 53.7% of target while all-sector average was 57.4% – the lowest of all scorecard elements.

Teleki says the BEE Commission believes it is **"alarming"** when a high black ownership percentage is recorded, yet black people don't participate at board level. **"That could be an indication that black people do not have exercisable voting rights, despite the high ownership percentage. This shows that black people who are purported to own the shares do not manage and control the entities in proportion to their ownership percentages, which is a blatant disregard for the requirements of the B-BBEE Act in ensuring that black people own, manage and control enterprises."**

For management, Van der Rheede highlights challenges companies are facing to retain talent, especially black talent. "Your bigger challenge is that black talent is so sought after – and we have experienced this at AgriSA – that you appoint people and give them the necessary training in the hope that they will grow into executive positions, but you find that people come to you and say they've got a better offer elsewhere."

While it may be frustrating to invest money in development only to lose top talent, Van der Rheede stresses that **"you can never stop doing things, it's about people development and making sure that you get value out of people in whom you invest".**

Van der Rheede believes a fresh approach to B-BBEE should be considered. **"We need to go back to the drawing board and think of more innovative ideas. Through the establishment of partnerships – not through fronting – is how we can expand ownership and grow and realise the objectives of B-BBEE."**
He favours a sovereign wealth fund, which could be managed by government in partnership with the private sector, to provide cheaper funding to emerging farmers and remove the administrative burden on companies to record an annual B-BBEE score.

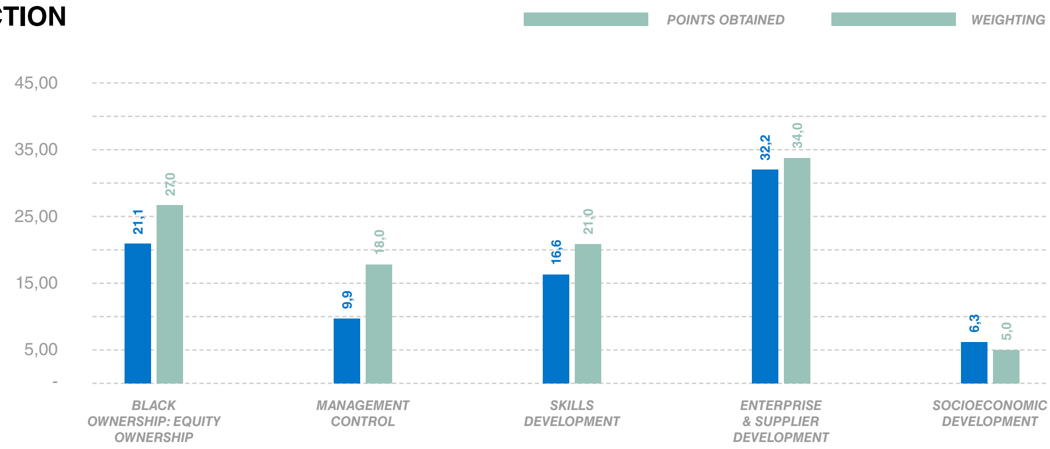
CONSTRUCTION

BY LYNETTE DICEY

DELAYED BY LACK OF FUNDING, CHARTER COUNCIL COMES THROUGH TO WIN INDUSTRY PRAISE

The construction sector faced numerous obstacles in its drive to develop a sector code, particularly regarding funding for the Construction Sector Charter Council, which delayed real progress for about 18 months. Despite those problems, the sector attains 97.7 contribution level points, putting it on Level 2.

CONSTRUCTION



The construction sector code applies to businesses which derive more than 50% of their income from construction-related activities. It prioritises three elements: ownership, skills development and enterprise & supplier development. Even a qualifying small enterprise (QSE) must achieve 40% of the points for two of the three priority elements, with ownership being a compulsory element. The code also takes into account the different entities involved in the sector, distinguishing between material suppliers, built environment professionals and contractors with regards to targets and weightings.

The code, says Chris Campbell, CEO of industry association Consulting Engineers South Africa (Cesa), is multi-dimensional and broad-based. **"Given that the old codes had a narrow view of BEE and enriched only a few, the new code's aim is to drive progress in a number of different areas including management control, ownership and skills development."**

The Level 2 rating is not a bad score for an industry average, says Campbell, given the challenges of being rated a Level 1 entity. Safiyya Patel, a partner at law firm Werksmans, agrees. A Level 2 status would generally be regarded as an extremely favourable status, she says, particularly given that this code includes some higher targets compared to most other scorecards.

Diveshan Rao, MD of verification agency BEE Online, says that while the code itself is a challenge to interpret, the sector benefits from good support from the sector council. Kudos for that must go to the Construction Sector Charter Council, which was faced an uncertain future for the past 18 months after its funding was withdrawn.

An inherent flaw which limited the ability of the council to carry out its statutory mandate has always been that of sustainable funding, says Campbell. **"The original funding model was never approved by the Department of Trade and Industry (DTI), with the result that the council was reliant on grants from the Department of Public Works. When the grant was withdrawn 18 months ago, staff were retrenched and the council was unable to fully deliver on its mandate."**

Until recently, Campbell says, the charter council has been operating on a voluntary capacity. In January this year the Department of Public Works provided the necessary funds for the council to re-establish itself. Since then it has resubmitted its funding proposal.

"The Construction Sector Charter Council's funding model proposal does not differ very significantly from that of the ICT Sector Charter Council – and theirs was accepted, so we are hopeful that our proposal will also be accepted. Ultimately, it is not sustainable for the council to rely on an annual, single grant."

However, the fact that for 18 months the charter council was unable to fully deliver on its mandate has had an impact on the industry. As Campbell points out, a number of issues have arisen in terms of how companies are experiencing the code and these lessons have not been factored in.

OWNERSHIP

The construction sector – said to account for about 4% of the country's gross domestic product, including professional service providers, contractors and materials suppliers – remains largely under-transformed. The sector scores 21.1 out of 27 for ownership in the Sanlam Gauge results, achieving 77.6% of the target which is well behind the average for all sectors of 85.4%.

The Register of Contractors categorises and grades contractors according to financial and works capability to carry out construction projects. Grades range from one for low-value tenders to nine for tenders above R200,00. The Construction Industry Development Board's (CIDB) 2019/20 Annual Report says the lack of transformation in contractor ownership and access to work opportunities is particularly pronounced in grades 5-9. Gross under-representation of women is also cited as an industry weakness that needs to be urgently addressed. Out of just over 1 million jobs, only 113,000 women were employed as at December 2020.

Black-owned contractors (with 51% ownership or more) access about 49% of public sector awards while women-owned contractors access only around 19% of public contract awards, the CIDB states.

To address historic inequality in the sector, the CIDB has set a target of 75% black ownership for contractors in grades 7-9 by 2025, from a baseline of 67%, and to increase access to work for black-owned enterprises from 58% to 70%. The target for women-owned contractors will increase from 30% to 40%, with access to work rising to 35% from 24%. However, the organisation states that due to business disruptions from Covid-19, it may have to revise these figures.

Patel says a notable difference in this code is that, unlike many other sector codes or even the generic codes, exempted micro-enterprises are not assigned a deemed level status merely by virtue of earning less than the prescribed threshold for total annual revenue. **"In the construction sector code, the B-BBEE status of exempted micro-enterprises is determined, in the main, by the level of their black ownership."**

As an example, she says if an exempt micro-enterprise is less than 30% black-owned, it will qualify for a Level 5 B-BBEE contributor status. However, in determining the level of black ownership of exempted micro-enterprises, black ownership may be assessed only on a flow-through basis, which means that unlike larger enterprises, smaller enterprises may not avail themselves of the benefits of the modified flow-through principle.

The flow-through principle traces ownership measurement through the chain of ownership to a natural black person (and not a black-owned company). The principle allows for the participation of white participants at one tier of ownership. Modified flow-through states that where in a chain of ownership, black people have a flow-through level of participation of at least 51%, then only once in the entire ownership structure of the measured entity can such participation be treated as if it were 100% black.

MANAGEMENT CONTROL

All sectors perform poorly on management control in the Sanlam Gauge results, achieving only 57.4% of the target but the construction sector trails that with 55%.

The code makes an important distinction between target contractors and built environment professionals. Weighting points are allocated for the recognition of black people in junior, senior, top and executive management with the highest target being 75%. Additional bonus weighting points – two for contractors and 1.5 for built environment professionals – are allocated for black youth as a percentage of the total number of employees in the company. Black new entrants receive a target of 5% for contractors and 6% for built environment professionals, compared to the 2.5% in the generic code.

SKILLS DEVELOPMENT

Here the construction sector exceeds the all-sector average of 76.1% with 79% of the target achieved. The sector employs a high percentage of unskilled workers and the code makes training, skills and enterprise development imperatives for all size businesses, irrespective of their black ownership percentages.

As such the code has a target of 2% of company payroll for skills development spend for the first two years, 2.25% over three to four years, and 3% after year five, for both contractors and built environment professionals. A total of 26 points are allocated towards skills development, with bonus points available.

The shortage of professional skills in this sector has been highlighted as one of the hindrances to transformation. Some of the urgently required skills include construction project managers, civil engineers, civil engineering technologists, architects, civil engineering technicians, building inspectors, carpenters, plumbers, steel fixers and electricians.

Nicolene Schoeman-Louw, founder and MD of Schoeman Law, which includes a BEE verification agency unit, points to a limited pipeline of skilled professionals who graduate from tertiary institutes and are eligible to be promoted and move up the ranks. This results in a disconnect between availability of suitably qualified candidates to fulfill these positions.

Addressing the Construction Sector Education and Training Authority (CETA) Infrastructure Summit in January this year, Minister of Higher Education, Science and Innovation Blade Nzimande said the construction sector had been prioritised for skills development, particularly for youth.

He maintained that the CETA, which he placed under administration in February 2020 following allegations of governance failure, corruption and mismanagement of funds, should be restructured and repositioned to play a critical role in skills development and support the revitalisation of the construction sector.

To address the skills gap, the CIDB has committed to developing high-level construction skills and assisting small and medium construction companies by providing workplace training with programmes that result in national accreditations. This is expected to create 10,000 learning opportunities annually for further education and training learners/artisans.

PREFERENTIAL PROCUREMENT AND SUPPLIER AND CONTRACTOR DEVELOPMENT

The sub-minimum for preferential procurement and supplier development is 40% of the total weighting points – excluding bonus points – for each of the three broad categories including preferential procurement; supplier development programmes; and supplier development contributions.

The code encourages the growth and development of small and medium-sized black-owned companies. Additional bonus points are allocated for more than 51% of procurement from black-owned suppliers, spread between preferential procurement and supplier and contractor development.

The construction sector performs strongly in ESD, attaining 94.7% of the target against the all-sector average of 85.1%.

sustainable projects in the rural areas where they are doing business. It allocates six points (compared with five in the generic code). Broad socioeconomic initiatives include investments such as post-retrenchment re-skilling and housing for blue-collar employees.

CHALLENGES

There are numerous issues that act as obstacles to compliance in the construction sector.

One major challenge, says Ingrid Campbell, acting secretariat to the Construction Sector Charter Council, is awareness by state-owned enterprises (SOEs) of the code's requirements for state tenders. "Most tenders require 30% participation from the SOE list of compliant companies and the majority of these do not have Construction Sector Charter, Sanas-approved scorecards," she says, referring to the South African National Accreditation System with which BEE verification agencies must be accredited.

> ***"The code, in its current structure, works optimally to enable transformation if there is economic growth."***

Listed construction company Wilson Bayly Holmes Ovcon (WBHO) reports impressive progress in this category: a little more than a decade ago it spent 3% of its procurement spend on black-owned EME and QSE companies but in 2018 it exceeded 37% across the group.

Enterprise development in terms of assisting small black-owned businesses to develop into sustainable industry players is a crucial component of the code. Enterprise development, maintains WBHO, benefits both the benefactor and the beneficiaries. The company says many of its beneficiaries have gone from subcontractors to valuable joint venture partners.

SOCIOECONOMIC DEVELOPMENT

The code incentivises companies to focus a significant portion of their socioeconomic development spend and annual contribution on

Another challenge, Campbell says, is that with the new code, even QSEs are required to be compliant with all five scorecard elements. BEE Online's Rao concurs: **"SOEs don't appear to understand the codes and frequently interpret the requirements incorrectly,"** he says.

A third obstacle is that there is a lack of awareness of a requirement – since December 2017 – that all suppliers and manufacturers to the construction industry, including materials and plant suppliers, fall under the construction sector charter. It is therefore not being sufficiently implemented, says Rao.

A significant issue, says Campbell, is the "policing" of scorecards. **"Forged, fraudulent and incorrect scorecards are rife and private companies are at risk if they claim preferential spend on a company with fraudulent paperwork. The BEE Commissioner**

faces numerous cases of "fronting"." She adds that individual sector councils have a key role to play in assisting with these cases.

FACTORS INFLUENCING COMPLIANCE

Although the sector has traditionally adapted well to the construction sector charter's requirements, Rao expects that with the impact of the Covid-19 pandemic there will be more companies with non-compliant certificates. Larger entities, in particular, will find it even more challenging to comply, given the higher targets set for them.

"The code, in its current structure, works optimally to enable transformation if there is economic growth," says Mansoor Salee, a partner at BEE verification agency Mazars . **"Compliance with the code, particularly in terms of the requirements around enterprise & supplier development, is both time consuming and expensive. The challenge for the construction industry was the slowdown in economic growth and a decline in projects even prior to the pandemic, which resulted in the demise of a number of companies in the sector."**

A significant incentive for compliance in this sector traditionally is the requirement to be 51% black-owned in order to win public sector contracts. "Compliance will always shift to where market demand resides," says Salee.

Patel agrees, saying that in her experience, the main factors which influence compliance are particular customer requirements on B-BBEE, given that most work in this sector is procured through a competitive tendering process.

Another challenge, particularly for EMEs and QSEs, is the fact that even 100% black ownership is not sufficient to get to level one, says Mazars director Mohammed Khan. Companies need to comply with both ownership and skills development – or one other priority element – in order to be rated a level one entity, he says.

In a poorly performing economy with few construction projects in the pipeline, compliance becomes a growing challenge, says Cesa's Chris Campbell. Numerous companies had to retrench before the pandemic and now face tough choices in its aftermath: do they retain their staff or continue to invest in external enterprise development?

"Some will find themselves dropping a notch or two in their rating if they choose to retain staff rather than spend money on external enterprise development and that, in turn, will make it harder for them to pick up new projects," he says. **"Those who are faced with having to make a trade-off could be faced with consequences, including putting the business into a death spiral given that we're not in a growth economy right now."**

He points out that larger companies have the benefit of a bigger financial buffer, but smaller companies will likely struggle.

Although there is no question that the sector needs transformation, Campbell says the unintended consequences of the challenge companies may have in meeting the code's targets need to be taken into consideration in order to avoid more companies going out of business.

He says another problematic issue that has arisen recently is the fact that QSEs in the consulting engineering environment which are slightly beyond the R25m turnover threshold have suddenly found themselves forced to compete with companies with legacy turnovers of R200m or more. This often forces them out of the bidding as they are unable to compete. **"The turnover threshold limits may need to be adjusted in order to assist entities to be sustainable."**

Another flaw is the fact that companies have to declare the full bid price for a project, even if the direct fee they will derive is only a fraction of that amount.

CONFLICTING REGULATION

There is also the issue of conflicting legislation and regulation. A point raised by the South African Forum of Civil Engineering Contractors is that black-owned companies with turnover below R50m do not have employment equity measured for their scorecard in the sector code, but are most likely employing more than 50 people. As a result, these companies – through the Employment Equity Amendment Act – will now also be required to conform to the industry targets in order to do business with the state. However, this arguably puts two acts – the B-BBEE Act and Employment Equity Amendment Act – in conflict with each other.

MANAGEMENT CONTROL AND EMPLOYMENT EQUITY

For WBHO, the greatest challenges have been in management control and employment equity. These two areas, the company says, work hand in hand to achieve a transformed management structure.

In its publication, WBHO: Our Transformation Journey, it says there are mitigating factors with respect to senior and top management demographics. The first relates to education levels. Not only is engineering a scarce skill, but matriculants with the required maths and science skills required to study engineering are at record low levels. Maths and science proficiencies in South African pupils have been voted the lowest among 48 countries measured. In response, WBHO has focused on educational and bursary assistance.

The second factor to consider is that while education can be fast-tracked, experience – and the wisdom that comes with that experience – cannot be. As such, WBHO encourages the "old guard" in its business to engage in mentorship roles both before and after retirement in order to transfer scarce skills.

A third factor is that gender equality will always be problematic when it comes to contracting.

"Our development programme recognises that there is no short cut or acceleration to top management – it is a cycle of education, on-site experience, management experience, personal growth and ultimately the wisdom based on experience that is needed at top management level," says the company.

ENABLING ENVIRONMENT NEEDED

Being a 100% black-owned entity was not an added advantage for civil and structural consulting engineering firm, Malani Padayachee & Associates (MPA), says CEO Malani Padayachee-Saman, who founded the company more than 23 years ago. Last year MPA acquired 100% of engineering and development firm Mott MacDonald Africa, the South African subsidiary of Mott MacDonald, with the help of a co-investment from Motseng Women Investments. The new entity, MPAMOT, is the largest 100% black women-owned engineering and infrastructure development consulting firm in South Africa.

Padayachee-Saman argues that the Construction Sector Code is not creating an enabling environment and as such, is not addressing transformation effectively. **"The code needs to adopt a more integrated and holistic approach to procurement. As a result of the current requirements for QSEs and EMEs, many businesses are downscaling to ensure they don't exceed the turnover threshold."**

Skills development targets also need to be reassessed, she says. **"In recent years there has been a drive to build skills, in particular to grow the number of engineers in the country. Universities responded but now we are producing many more engineers than we did previously. However, even before Covid-19, the industry was battling to employ all the engineering graduates coming out of our universities due to the slowdown in infrastructure investment."** She says that the industry needs to protect these skills or they will be lost to emigration or move into other professions

The code provides different thresholds for contractors and built environment professionals. Padayachee-Saman has long argued that in the consulting and professional services environment, the thresholds do not create an enabling environment for growth. "To meet transformation targets there must be support for organisations that meet the criteria, irrespective of size. This will also ensure that gender issues are taken seriously and that organisations have a focused approach in addressing the imbalances that exist. Organisations should not be compromised because their growth means they are no longer classified as a QSE."

FINANCIAL

BY ANGELIQUE ARDÉ

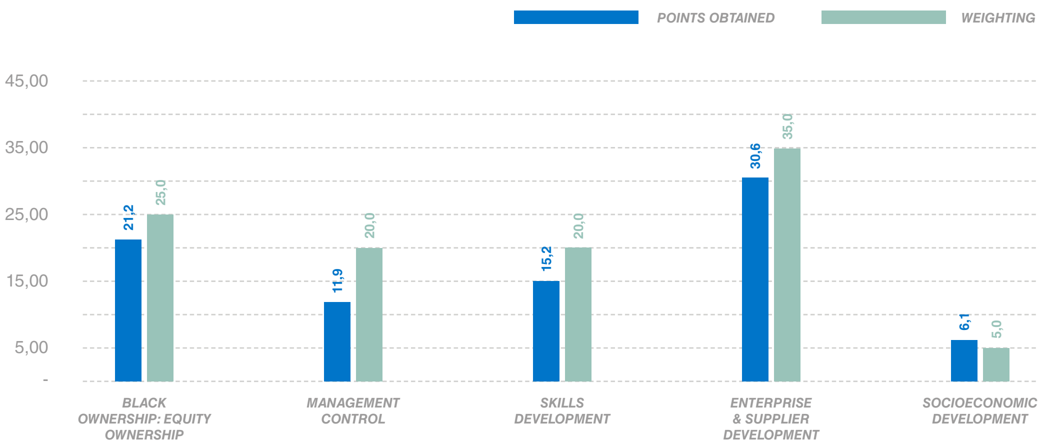
LARGE BASE OF SMALL ENTITIES CLOUDS THE OVERALL PICTURE

The financial sector scores well overall, achieving 97.1% of its B-BBEE contribution target, behind only the tourism sector's 99.5%. But, says Norma Sephuma, policy and research manager at the Financial Sector Transformation Council (FSTC), getting a clear picture of transformation in the sector in its entirety is a serious challenge.

The challenge is twofold: the council bases its analysis of the sector on BEE scorecards signed off by verification agencies, which means it works with secondary data. Second, Sephuma says that in recent years, when the council called on the sector to submit their reports, it received 170 in response to the first call and fewer than 300 in response to the second. There are upwards of 10,000 entities licensed to operate in the financial sector.

She says it's difficult to say whether the poor response is indicative of a lack of compliance with the code or owing to entities not knowing that once they've been issued with a BEE certificate, they are supposed to submit it to the council. **"The code is very specific that it be sent annually to the council."**

FINANCIAL



> ***"It's not dissimilar to the picture we see in our business - management control is always an issue."***

While some entities have said they thought their verification agency was supposed to submit their certificates on their behalf, she says others are openly non-compliant. **"They say: 'We know we're non-compliant. We don't want to spend between R20,0000 and R50,000 on an audit that will reveal what we already know.' They ask us what will happen to them if they don't report. We tell them the penalty is being dropped one level. But that has absolutely no impact. They're already non-compliant so there's no level to drop. So, some are willing to draw the inference that reports are not being submitted because of non-compliance,"** she says.

Most of the 10,000 licensed entities are very small, such as brokerages and one-man shop financial advisers. Companies that don't have to be measured (because their turnover is too small) are allowed to submit affidavits to the council. The FSTC received about 3,000 such affidavits, Sephuma says.

"So, there are layers in the sector. However, the overall sentiment is that the sector is not transforming, not doing enough. There are some aspects where the sector is regressing. And I think the sector scores probably speak to that."

In the Sanlam Gauge results, the small/very small financial companies in our database scored 106.4 contribution level points against 103 points for large financial companies.

CALL FOR DISAGGREGATION

One transformation practitioner, who has been in the field for more than 20 years and asked not to be named, says that to get an accurate picture of the sector, the data needs to be disaggregated. He says most of the big players in the sector are **"very empowered"** but **"there's a long tail of tiny organisations, like financial intermediaries, that aren't".**

"I would go so far as to say that in financial services the big businesses are the most transformed in the economy. The rest of the sector is among the least transformed. That's how disparate it is."

He says listed companies are subject to scrutiny, having to report to the BEE Commission every year and submit their compliance reports to the JSE as a listing requirement. "Everything is in the public domain at your AGM, so your shareholders can scrutinise you too."

For the middle tier, however, there's no scrutiny of businesses, he says. **"I deal with so many businesses that still sit at level eight, and the only reason they're doing anything is because they need a licence to obtain a state contract. The middle tier is severely problematic."**

He says retirement funds, asset consultants and asset managers are also problematic.

"If I was the Financial Sector Conduct Authority, I would regulate asset consultants, which are massive gatekeepers to the allocation of capital. Life companies and banks report into the FSCA, but not asset consultants. Yes, they are licensed by the FSCA but are not required to report on what they do about transformation.

"Retirement funds are technically the biggest allocators of capital. The challenge with retirement funds is that your trustees are responsible for billions and don't have the skills to manage that money, which means they largely abdicate their responsibility to asset consultants. They, or a large number of them, pay lip service to transformation in the way they deal with capital allocation. That's a massive systemic challenge in the asset management space."

Rob Formby, the chief operating officer at Allan Gray, says the asset manager is feeling pressure from trustees and certain clients.

"We're definitely seeing that pressure. I don't think it's lip service. I think it is built into the process. Again, it goes back to how you measure diversity and transformation. Is it just on the ownership measure, or is it across multiple dimensions? For example, we're owned by a charitable foundation – we're very unlikely to be 51% black-owned. Does that make us less transformed? I don't know. But it's got to take that into account. If you have international owners of a business, is that less transformed? I would be more of an advocate for a balanced view of transformation within the business."

On the question of the responsibility of trustees, Formby says they have to look after members' best interests. **"If it gets too focused on transformation, I think there's a risk that you go too far. If trustees start selecting asset managers based on considerations that are not necessarily in the members' best interests, they run the risk of failing in their fiduciary duties."**

"You want to see more transformation across the board. It's just that there's a lot in how you do it and the practicalities of how it's measured," he says.

Formby says the sector scores aren't surprising. "It's not dissimilar to the picture we see in our business - management control is always an issue." He says that while it's improving, there is room for more improvement.

COULD HAVE DONE BETTER

Lehlohonolo Mokomela, the group head of transformation at Momentum Metropolitan, says the sector hasn't done enough, considering that the legislation came into effect 20 years ago. "We could have done better, particularly on ownership and management control, because there were plenty of opportunities," he says.

The sector achieves 84.8% of the target for black ownership but only 59.5% for management control – its lowest score across all elements.

"We come from a period where there was good economic growth, and I think we missed opportunities to include your rapidly expanding black middle class to bring them in as owners. Unfortunately, with ownership, there have been politically driven issues involving politicians and BEE shares instead of real broad-based employment equity. Similarly, you could have broadened your management control, by getting in more black people."

Mokomela says that when your Exco consists of only 10 people, one appointment moves the dial 10%. **"We fixate on that layer and say we're doing well or we aren't. But one layer down, at senior management level, that's where the effort should be. The focus should be on empowering junior managers to become the senior managers of tomorrow and the top managers of the future."**

The brain drain in the country has made talent at the top level expensive to acquire, Mokomela says. "That gives rise to its own challenges in the implementation of employment equity because at the top level you're competing for scarce talent."

"It's not the only reason. One can have a long chat about the education system. It's a practical reality and if you look at the labour market dynamic as well, you have a civil service that has ballooned to about 2.2-million people and so many of your black graduates have migrated to that space, so that also places pressure on the private sector to create opportunities because black skilled people work somewhere else. So, there's a shortage of black talent."

The Banking Association South Africa recently released its transformation report covering 2019, which showed that seven banks had majority black directors, up from five banks in 2018, and seven banks had majority black executive directors (compared to three in 2018). And for the first time, there are more African middle managers than white.

ECONOMIC HANDBRAKE

Khulekani Mathe, the head of financial inclusion at Basa, says that in an economy that's underperforming, transformation is more difficult. **"When there's a growing head count, it's easy to say, 'For future employees, this is how we want to recruit,' as opposed to saying, 'who do we have to kick out in order to create space'."**

Referring to empowerment deals that have matured so that black shareholders are allowed to sell their shares, Mathe says it's concerning that the subsequent decline in the ownership profile of some of the larger financial institutions is reported as a bad thing. It's natural to want to sell shares to diversify as soon as they become unencumbered. He says this decline will continue as black shareholders sell off their stakes to either diversify their investment portfolios or to realise some value.

"The related challenge is then you get calls for banks to enter into second-round deals. That creates a lot of difficulties. When those early deals were concluded Basel III wasn't in place. (Basel III is a 2009 international regulatory accord designed to mitigate risk within the international banking sector). It was introduced in response to the global financial crisis and the capital requirements in Basel III make it much harder to do these kinds of deals. Again, when you explain some of these things it looks like banks are refusing to transform, but there have been changes in the regulatory environment making it difficult."

The fact that black investors are exiting doesn't mean they're being kicked out. **"People are saying, 'I now have an asset in my hand, that I can sell to realise some value or diversify my portfolio,' which is what any investor would do."**

> ***"That gives rise to its own challenges in the implementation of employment equity because at the top level you're competing for scarce talent."***

Mathe says Basa's latest Transformation Report will show that in the banking sector, improvements have been made in management control, both at executive and board level. The improved scores are attributed in part to the banking industry sponsoring the creation of a programme at the GIBS Business School some years ago to train potential board members, Mathe says.

"Developing skill takes time," he says, adding that people on the executive as well as on the boards of banks have to be approved by the Reserve Bank because of the threshold of knowledge and experience required.

Sources across the sector are critical of the administrative and cost burden that comes with compliance, as well as the complexity in the scorecard.

"The way in which the scores are calculated is so complex you need a PhD to understand it. And in many ways, that complexity is contributing to creating this compliance culture rather than a culture of wanting to do more. Because companies don't want to fall foul of any elements," Mathe says.

Kershini Govender, the executive head of transformation and strategy at Nedbank, says the scorecard **"has no flex"** and **"hasn't pivoted to be relevant to the current environmental context".**

She says employment equity and skills development shouldn't be measured in isolation. "That's what happens now: you spend money on upskilling people and you get a tick. But what you're not seeing from your skills pool is how many are ascending from junior to middle to senior. And if you measured pace of ascension you might get a different result," she says.

Mathe and Govender are both critical of decision-making by consensus at the FSTC and the three-year long process of aligning the financial sector code with the codes of good practice. Since 2018, the sector has been reviewing the 2017 code, which has already been approved by the minister.

"And it's still incomplete," Mathe says. **"So the length of decision making is making things really difficult when it might change. This is the result of how contested it has become, I think for good reason. But I'm saying we need to speed up the decision-making process so that reporting institutions can get on with it and put systems in place and implement."**

Govender says it's like building the plane while flying. **"It hinders the ease of doing business, not only for larger companies but also for small companies,"** she says.

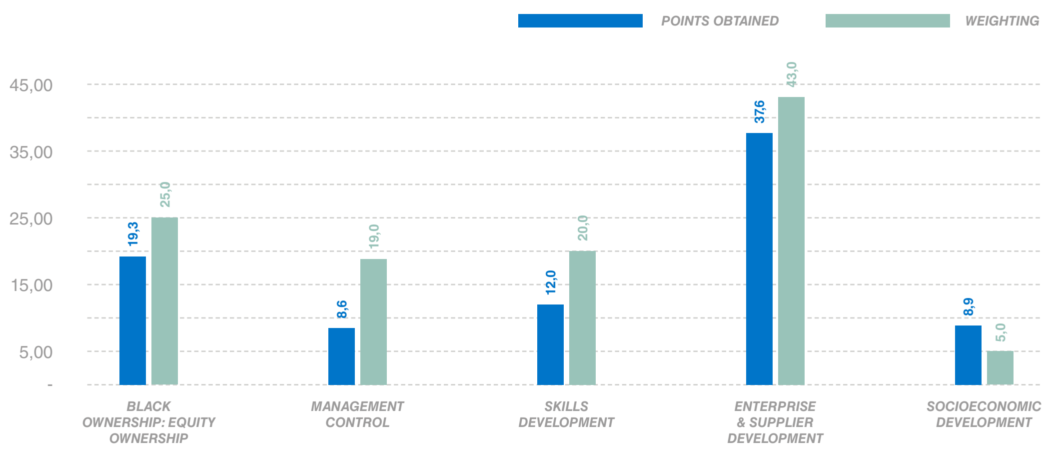
The flipside of "decision-making by consensus" is that you reach industry-appropriate outcomes and the industry crafts solutions to its own problems. For example, the financial sector charter provides for bonus points if you provide funding to a stockbroker, an independent financial adviser or an enterprise development beneficiary (which is one that is not part of your supply chain) and during the course of that year you start procuring from them and they become a supplier.

FORESTRY

BY ANGELIQUE ARDÉ AND AURELIA MBOKAZI

MASTERPLAN TO ACCELERATE GROWTH AND TRANSFORMATION

FORESTRY



The forestry sector holds a B-BBEE recognition Level 3, having achieved 82.1% of the target. The sector is growing in importance to the South African economy and much hope is pinned on the Forestry Sector Masterplan to accelerate transformation in the sector, which is a high-level policy strategy document stemming from a call to action made by President Cyril Ramaphosa to stimulate the economy. The masterplan was prepared by Strategy Execution Advisers and submitted to the Department of Environment, Forestry and Fisheries in September last year.

In less than 10 years, forestry export earnings have almost trebled, with the sector providing a positive trade balance of close to R10bn. Forestry contributes almost 25% to agricultural GDP; and most forestry operations are rurally based, making it a significant contributor to rural economies and social wellbeing. It is estimated that the sector supports about 700,000 livelihoods. Forestry products contribute at least 4.5% of SA's total manufacturing – putting it among the top five sectors in manufacturing.

In terms of the scorecard elements, the sector is below the overall average for black ownership (72% of target achieved vs all-sector average of 85.4%), management control (45.3% vs 57.4% average) and skills development 60% vs 76.1% average). But it outperforms the averages in enterprise & supplier development (87.4% vs 85.1%) and socioeconomic development (178% of target vs 101.2% average).

Forestry SA executive director Michael Peter says ownership can be difficult to effect for small and medium-sized entities in the sector because many are owned by white farmers and are "often one-man or one-woman businesses and aren't inclined to divide their businesses" and take on a black partner.

"Politicians like success stories of ownership of large companies because that politically works for them. But ownership is not passive … there is also a liability for shareholders." He tells the story of a BEE partner in a timber company who wanted to sell when the share price was high but

> ***"The share price plummeted and he had to sell at a much lower price and lost a lot of his money."***

was persuaded to stay on because the company did not want to lose its BEE partner. "The share price plummeted and he had to sell at a much lower price and lost a lot of his money."

Peter says he would like to see more B-BBEE ownership deals in medium and small enterprises "because that creates sustainability for black partners and employment".

He says larger companies in the sector probably perform better in the management control element because their head offices are in urban areas and attract professionals with MBAs. **"The problem with retaining black executives is that forestry is rural based and its difficult for them to retain young, black executives in management positions, who mostly prefer to be urban based. There a very few senior black managers in plantations and processing plants, but it gets better around the mills because mills are located closer to urban areas."**

For ESD, Peter points out that socioeconomic challenges are especially prevalent in the rural areas where forestry and related companies operate. "Enterprise development and skills development have been great successes in our sector. We support black people to get into the economy through entrepreneurship. This is genuine and meaningful empowerment."

He highlights "sustainable, knock-on benefits" that result in employment creation. **"We have over 20,000 small-scale black growers with lots of success stories. Some of those ladies started off with three hectors and have grown in leaps and bounds. One lady started very small about seven years ago and today owns more than 3,000 hectares of land. She was upskilled by the company that contracted her. There are lots of upstream and downstream suppliers throughout the value chain."**

MASTERPLAN OBJECTIVES

The masterplan identifies two broad objectives that support growth and inclusivity in the sector. The first is to increase community ownership and economic benefits related to the primary subsector; and the second is to expand community and black business opportunities throughout the sector with improved commercial viability.

To achieve this, specific deliverables and key actions are required in a number of areas including land claims and post-settlement support; funding specifically for the sector; community and small enterprise advisory support; and certification of small growers.

These are among the key findings contained in the masterplan, in which transformation is one of the "foundational focus areas". It states that **"land reform, if expedited and effectively implemented, could result in as much as 50% black and community ownership of land available for plantations".**

Two "standout constraints" to future growth are identified in the plan: lack of new afforestation as well as impediments to bringing more land under commercial farms. Quoting a report by the Forest Sector Charter Council (FSCC), which states that one cannot beneficiate that which doesn't exist, the masterplan states that additional plantations and, by implication, land reform are **"the leading priorities".**

Representatives of the FSCC agree, citing the issues of land and water licences as major obstacles in the implementation of B-BBEE, resulting in small growers and rural communities drawing the short straw.

Sikhumbuzo Nxumalo, a researcher at the FSCC, says these issues have a disabling effect on the industry. **"If the land cannot be given to industry due to procedural issues, such as the slow pace of issuing water licences or completing environmental impact assessments where needed, these things form part of the bigger problem. There's limited land, but with issues of water licensing and others, you end up disadvantaging the beneficiaries, because at the end of the day they don't see the impacts of B-BBEE. The implementers really want to implement [but] they are prohibited."**

He says this doesn't mean implementers don't have their shortcomings, but the "biggest problem at the moment is land".

Makhosazana Mavimbela, the executive director of the FSCC, says the problem of land goes beyond ownership to the commitment of stakeholders to transform. "Beneficiaries may be given land, but without resources they will not be able to make that land productive." Another problem is that government may attempt to prescribe to the land beneficiary whom to partner with.

She says that if there are no consequences for failure to transform, then the pace of change will be slow. **"B-BEEE is still voluntary – so it's a matter of the heart, and that boils down to commitment and a collaborative relationship."**

Mavimbela says collaboration between stakeholders is lacking and **"there is this element of mistrust. I think we need a mediator to bring us all together so that we aren't looking at each other with those eyes that see an enemy instead of a partner."**

The devastating fires that ravaged forests in the Western Cape and Eastern Cape in 2017 highlighted the lack of collaboration between key stakeholders, she says. "Those fires destroyed a vast number of trees – some of the sawmillers who were relying on those trees lost their businesses. There have been a number of calls to meet with government, but there has been no response. What does that mean in the entirety of transformation? It basically means, the biggest losers, or those most affected – the beneficiaries – have no voice. There are no trees on the ground as we speak. How much revenue are we losing? But there is no understanding of the cascading effect of (receiving) no response to a matter that is so urgent."

THE PLIGHT OF SMALL GROWERS

Government assistance is also required to develop small-scale operators, who operate with considerable constraints.

Busisiwe Mnguni, a 67-year-old small forestry grower in Port Durnford near Richards Bay, is vice-chairperson of Forestry South Africa. FSA represents 11 forestry companies, approximately 1,100 commercial timber farmers and 20,000 small-scale growers. Collectively, these growers own or control no less than 93% of the country's total plantation area of 1.2-million hectares, according to the FSA website.

Mnguni says small growers are powerless. If you have only five hectares, you will die owning five hectares. **"It's about land. We [small growers] are saying, give us 20 hectares. Let us create a co-op."** Not owning equipment such as chainsaws, trucks or mills also contribute to why small growers can't turn a profit. "I'm in FSA. They help us because we don't have mills. We take our timber to their mills, but there's no negotiating around price. Take it or leave it. If you leave it you have nowhere to go."

Mnguni says government has failed the industry in other spheres. **"There was a fire in my area in 2014. Our forests were burned to the ground. I appealed to the provincial office of the Department of Agriculture, Forestry and Fisheries for fertiliser and seedlings. They came to see the damage – but nothing. Not one seedling. Government insists forestry is controlled by national. What are the provincial offices doing? Government is not assisting us,"** she says.

The masterplan appears to be cognisant of the problems. It notes that engagements with industry participants highlighted grievances related to funding support for industry, which raised two issues: that the sector needs its own finance instrument, and that there needs to be a special focus on small black businesses.

The plan recommends a "blended finance instrument" for communities and small growers, as well as small black businesses across the value chain. **"The instrument needs to encompass project development (grant funding) and project implementation (soft and commercial financing). The IDC, which has a forestry programme, has provided a benchmark for successful implementation, notably 60% grant and soft financing and 40% commercial. This implies an important role for government in the provision of grant and soft funding, with industry also required to provide soft funding where there are strategic partnerships."**

It says that given the strong role of strategic partners, particularly in terms of soft finance for community and small growers, it is important that such a funding instrument is a partnership between industry and government.

Small growers like Mnguni would agree. **"Government – I know them – if funding comes direct from them … if it's R10m, we will get R1m, because people up there have big stomachs. They aren't afraid to squander millions. It's better if it goes to the FSA. They know our problems. They will be accountable."**

FUTURE HOLDS PROMISE

Overall, the sector's transformation efforts are progressing. The 2019/20 Annual Report on the Status of Transformation in the Forestry Sector states that for the first time, there was an improvement in all five scorecard elements for all company size categories since its 2018/19 report.

The masterplan is a positive step forwards for the sector. The plan identifies objectives, outlines measure to achieve them and recognises constraints. Any acceleration of transformation could yield significant gains for participants in the forestry sector.

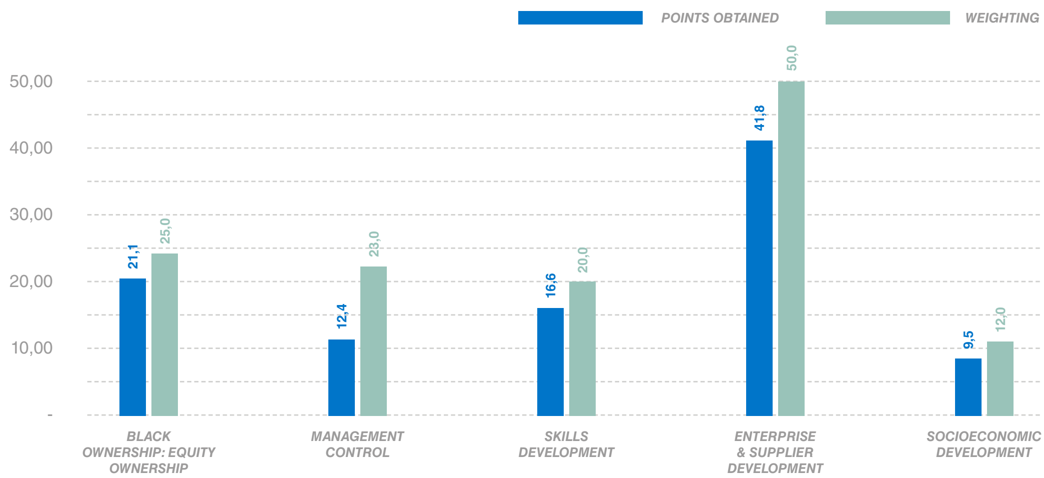
"I THINK WE NEED A MEDIATOR TO BRING US ALL TOGETHER SO THAT WE AREN'T LOOKING AT EACH OTHER WITH THOSE EYES THAT SEE AN ENEMY INSTEAD OF A PARTNER."

INFORMATION COMMUNICATIONS TECHNOLOGY

BY LYNETTE DICEY

HIGHER TARGETS COMPLICATE THE CHALLENGES

ICT



The ICT sector receives a B-BBEE contribution score of 107 points – 82.3% of the target – and is on Level 4.

Many companies in the sector struggle to comply with the requirements of the sector code which could, in part, be due to high targets on ownership, enterprise development and socioeconomic development compared to the generic codes, although there are more points available in these pillars than in the generic codes.

On the generic codes, for example, 107 points would yield a Level 1 rating. Essentially, what this suggests is that it's potentially more expensive to comply with the ICT sector codes than it is with the generic codes.

While more than 95% of companies in the ICT sector are small or micro companies, the sector is dominated by a few large enterprises. But many of the small players fly below the radar when it comes to statutory reporting.

In 2020 the ICT Sector Council released a Monitoring Report which noted a concern around the number of reports submitted, possibly indicating a low commitment across the sector to transformation initiatives. The report acknowledges that the Amended ICT Sector Code 2016 makes it harder for measured entities to achieve the same levels of B-BBEE status that they enjoyed under the former codes before they were revised in 2013.

Medium to large entities, however, are making progress, with the council noting that 72% (up from 68% in 2019) of these companies are achieving Level 4 or above status while only 20% are non-compliant or at Level 8. The Monitoring Report also highlights low levels of senior black management and slow skills development.

"This is one of the most challenging codes in terms of compliance with the ownership targets, particularly as there are finite opportunities for female ownership," says Mohammed Khan, a director at BEE verification agency Mazars.

Leading South African technology group EOH believes the ICT sector codes are aligned to the sector's transformation objectives but with a greater emphasis on ownership, skills development and supplier enterprise development than the generic codes.

The biggest challenge with the codes, says Candice Meyer, a corporate law partner at Webber Wentzel, revolves around the meaningful inclusion of black women in the sector. **"The ICT codes seek to benefit black women as a focus, stating that in principle, 40%-50% of the benefits under all elements of B-BBEE should accrue to black women. However, the specific targets in the codes under each measured element don't speak to this 40%-50% principle which means that, practically, black women won't receive 40%-50% of the benefits under each element."**

BLACK OWNERSHIP

The ICT sector achieves 84.4% of the target for this element, slightly behind the overall average of 85.4%.

The code classifies companies with annual turnover exceeding R50m as large enterprises. As Meyer points out, investment into this size enterprise is costly and often requires financing at a high cost. Debt financing relating to black investment in enterprises can adversely impact the level of recognition of that black ownership if not structured correctly.

"Dividends from the investment are often required to be used to reduce the debt of the black investment over time," she explains. "However, the income from the investment is frequently insufficient to adequately reduce the outstanding debt in line with the minimum requirements in the codes, which prejudices the extent of that black ownership recognition."

Worse still, she adds, is that at the end of the debt period, the black investor often can't settle the outstanding amount and may even be required to forfeit the investment with no real gain.

Compliance with the ownership targets is more a fact of how much control the entity has over its ownership structure, maintains EOH. The company acknowledges that it is a high hurdle to navigate for larger listed entities, due to the capital that would be required for an equity partner to buy shares on either the open market or contribute to such as an extent that it would not dilute current shareholder value.

Another issue is that the some of the big companies that dominate the ICT sector are multinationals which are not allowed to sell shares locally, slightly distorting the picture of ownership in the sector. For such companies, the Codes of Good Practice make provision for other contributions towards transformation in lieu of equity – referred to as equity equivalent contributions.

With smaller ICT companies, EOH believes the reluctance of owner-managers to dilute their control is probably a larger influence than actual value dilution, given that a higher B-BBEE rating would increase the company's ability to market itself, grow its revenue and increasing profit for distribution.

> ***"To then factor in finding people with the right skills who are both the 'right' gender and colour is almost impossible."***

Exempted micro enterprises with total revenue of R10m or less a year have deemed level 4 status and 100% B-BBEE recognition level by default. This, maintains Meyer, alleviates pressure on small businesses to be racially transformed from inception, potentially taking their eyes off this goal at a critical development stage of the organisation.

However, she argues that this stage is where transformation is easiest to achieve on a long-term, sustainable basis, particularly in terms of black ownership cost. **"It is preferable to encourage real direct black ownership in enterprises from their outset. This is easier to achieve than when entities are larger as investment cost at start-up phase is typically lower."**

MANAGEMENT CONTROL

For management control, ICT only attains 54% of the target – behind the 57.4% average of all sectors.

Meyer says racial transformation within enterprises typically happens at more junior levels first and the ICT sector, which scores 12,3 out of 23 in this Sanlam Gauge scorecard category, is no different. The pace of transformation at senior management and executive levels, however, is slow.

"This may be attributable to the fact that senior positions are seldom vacated and incumbents remain in these roles for long periods, making a 'changing of the guard' slow and difficult. Frequently, lack of support of colleagues and in turn, access to experiential opportunities, counts against black candidates' progression to, and success at, senior levels," she says.

Meyer adds that it is critical that black candidates are mentored, trained and exposed to every opportunity so that they can gain the required managerial and leadership skills needed to confidently fill senior positions in order to ensure that empowerment is not merely lip service.

"Given the shortage of ICT skills in South Africa it is enough of a challenge simply to find the right people," says Mansoor Salee, a partner at Mazars. "To then factor in finding people with the right skills who are both the 'right' gender and colour is almost impossible."

The scorecard requires compliance with South Africa's racial demographics in terms of employment equity. Essentially what this means is that even if four out of a company's five managers are black, they will still only score 32% of the available scorecard points if those managers are coloured or Indian.

Salee says a more balanced approach is required, possibly one which allocates bonus points for achieving this target or by not differentiating between coloured, Indian and and black African employees.

SKILLS DEVELOPMENT

Here ICT, having achieved 83% of the target, is ahead of the average for all sectors of 76.1%.

The amended codes require that measured entities allocate what essentially amounts to 6% of payroll to bursary spend. That's a tough target to meet for many businesses, says Salee, with the result that very few businesses hit this target.

Not surprisingly, spend on skills development for QSEs is a challenge given their resource constraints. The B-BBEE ICT Sector Council Monitoring Report 2020 notes that achieving meaningful skills development investment for smaller enterprises can be difficult **"since a single training programme can represent a very high proportion of their leviable amount."**

ENTERPRISE & SUPPLIER DEVELOPMENT

In 2018 the target for B-BBEE procurement as a percentage of total measured procurement spend was raised to 80% under the Amended Code and the ICT sector scores 83.6% of the target, slightly behind the overall average for ESD of 85.1%.

The Sector Council's Monitoring Report says many measured entities were able to get close to this target, although QSEs and EMEs were less successful with very few achieving the bonus points in this element, underlining that the new targets are harder to achieve for small businesses and may in fact be a step too far for an entity of this size.

The codes require that the measured entity must identity a black owned ICT company to assist in development. Companies in the sector say this is not always practical.

Meyer points out that the sector may lack sufficiently transformed suppliers, which may adversely impact the extent of preferential procurement.

SOCIOECONOMIC DEVELOPMENT

The sector receives 9,5 out of 12 points for this element – that's 79.1% of the target achieved, which is well behind the overall average which exceeds the target with 101.2%.

The Sector Council's Monitoring Report says the targets – based on a percentage of net profit after tax (NPAT) – are easy to achieve. However, its 2020 report found that the average performance for large entities in this category fell compared with the previous three years. Similarly, QSEs are finding it hard to achieve this target. This could be a direct consequence of the distressed state of the national economy which curbs company profits.

FACTORS INFLUENCING COMPLIANCE

The amended codes have placed a far higher burden on companies wanting to be compliant. As Salee explains: **"A business that was compliant under level 4 or 5 under the old codes will no longer be compliant under the amended codes. The goalposts have shifted so significantly that for some companies, compliance with the codes is no longer practical."**

He says while the need for transformation in the ICT sector is not in question, the codes need to adopt more of a carrot and less of a stick approach. "Ultimately the biggest driver of B-BBEE compliance is always going to be whether customers demand it or not. If a company's customer doesn't care about its BEE status there is little commercial incentive to comply. However, if there is an economic penalty for non-compliance – for example, a company does not win new business due to its lack of BEE credentials – that will incentivise them to comply."

Most entities typically focus on achieving and maintaining the targets set in the codes on verification each year, which affects the pace of transformation progress, says Meyer. "Once a target in the codes is attained, from a compliance perspective, the focus is to maintain that level, creating a static environment. There is no incentive to invest further resources beyond meeting the compliance targets," she says.

According to the Sector Council's Monitoring Report, no real progress has been made in meeting the targets for ownership, management control and preferential procurement among large companies. The technology industry is characterised by rapid evolution and it needs to attract, engage and retain top talent, invest in skills development and career progression while supporting balance and quality of life, especially in the light of the **"new way of work"** phenomena currently being experienced in the ICT sector. A skills shortage in the sector presents a significant hurdle, EOH says.

A South African BEE consultancy which asked not to be named highlights the fact that there needs to be better alignment between the BEE sector codes and the tender requirements put out by public entities. **"Many of the challenges in the ICT sector are the result of a misalignment between the BEE codes and what is laid out as requirements in tender documents – requirements which are not always practically achievable."**

An apparent difference of opinion between the sector council and the Department of Trade, Industry and Competition has hampered the true efficiency of the codes itself, reveals Diveshan Rao, MD of verification agency, BEE Online. **"The key challenges have been indecision around changes in practice notes from the council and the recent requirement for sector participants to make payments to the council,"** says Rao.

Companies appear to be grappling with the requirement to permanently absorb unemployed people arguing that the ability to absorb 5% of a company's headcount each year is neither practical nor cost-effective.

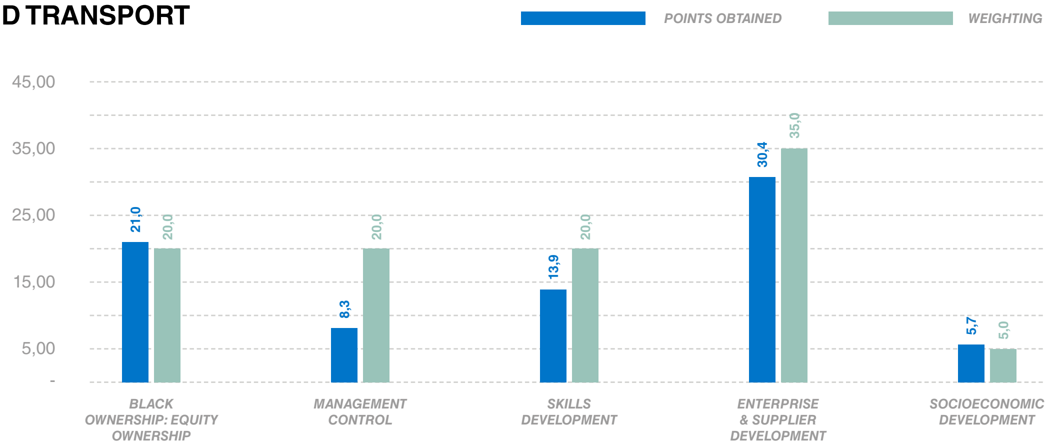
INTEGRATED TRANSPORT

BY LYNETTE DICEY

STILL ON OLD CODES WITH SEVEN SCORECARD ELEMENTS

The integrated transport sector code is an anomaly in that it was not updated in 2013 when all others were to fall in line with the revised Broad-Based Black Economic Empowerment (B-BBEE) Codes of Good Practice.

INTEGRATED TRANSPORT



While the chartered accountancy code which was repealed because it failed to be updated and aligned with the revised generic codes, the integrated transport sector code of 2009 – with seven scorecard elements as opposed to five for the rest – remains applicable.

The B-BEE Commission says it is not responsible for updating and aligning the codes and only has responsibility for regulating the existing legislative framework. The power to repeal any sector code resides with the Minister of Trade, Industry and Competition. The department was asked to comment on why the transport code has not been updated to align with the generic codes or has not been repealed like the chartered accountancy code but did not respond.

> ***"Our clients don't care that we're still being assessed according to the old codes, as long as we can produce a B-BBEE certificate."***

Because there is no functioning sector charter council in place, industry players say it is difficult to get clarity on the codes when queries arise.

What has happened, though, is that because transport has not been updated, those operating in the sector are subject to an easier framework of compliance compared with other sectors, says Safiyya Patel, a partner at Webber Wentzel.

Roanna Pather, verification manager at SANAS-approved verification agency Elevate BEE, concurs, adding that it is relatively simple for a transport entity to achieve a fairly high B-BBEE score and level. However, she points out that as a result, it's not fair to compare the sector's transformation progress with other sectors given that there are too many differences between the original B-BBEE codes and the amended codes gazetted in 2013. **"It does not make sense to use a certificate based on completely different measurement principles compared to a company being measured on another set of measurement principles."**

With 92.3 contribution points in the Sanlam Gauge, the integrated transport sector received Level 2 B-BBEE recognition, according to the criteria in the code. However, as the code is not aligned to the generic criteria, this average should not be compared to those sector codes which have been aligned.

The integrated transport code consists of eight subsectors: bus commuter and coach services; taxi industry; road freight; public; maritime transport and services industry; forwarding and clearing; rail; and domestic aviation.

In this code exempt micro enterprises (EMEs) are classified as those with an annual turnover not exceeding R5m. EMEs with a black shareholding exceeding 50% are automatically allocated level three status, while those with a black shareholding of 50% or less are allocated level four status.

Qualifying small enterprises (QSE) are those with an annual turnover of between R5m and R35m. QSEs are required to select four of the seven elements to be rated on: ownership, management control, employment equity, skills development, preferential procurement, enterprise development, or socioeconomic development. Generic or large enterprises are those with an annual turnover exceeding R35m.

FACTORS INFLUENCING COMPLIANCE

Despite the fact that the sector still works off the 2009 codes, compliance in certain elements continues to be a challenge. According to Pather, involving more women in the industry is a difficult task. At the same time compliance thresholds are an issue, particularly those for enterprise development which are very high.

"The QSE scorecard (for medium-sized companies) does not allow for the training of black people in general and it has to be employees. This can be difficult for transport companies as most of their employees are not based in an office," says Pather.

Patel says the main factors influencing compliance are particular customer requirements as they pertain to B-BBEE, particularly given that most work in this sector is procured through a competitive tendering process which typically takes into account B-BBEE compliance levels.

Tony D'Almeida has been integrally involved in consultations with the revised transport sector codes on behalf of the Road Freight Association. He says the new generic codes have drifted away from their broad-based mandate given their bigger focus on black ownership.

He explains that the way procurement has changed and is measured in the new codes has changed everything – even for companies complying with the original BEE scorecards. Under the revised codes companies can only derive procurement points from businesses which are 51% black owned – even though they get full points for 25% black ownership.

Procurement, he says, is the engine driver of transformation. As such the fact that the transport codes have not been updated is largely irrelevant given that customers want companies in the sector to have 51% black ownership so that they can derive maximum procurement points. They are typically less concerned about the company's BEE level.

If the procurement criteria of the codes are all strategically pointed in the direction of black ownership, that has to be considered narrow-based rather than broad-based transformation, he says.

For ESD, the transport sector achieves 86.8% of the target in the Sanlam Gauge results – ahead of the all-sector average of 85.1%. But for skills development it is well behind the overall average of 85.1% with 69.5% of the target achieved.

The amended generic codes require that 6% of payroll must be spent on bursaries at institutions of higher learning. **"Within the road freight industry we loved the concept of vocational education which allowed us to absorb people into the industry after they had obtained years of practical experience. However, the industry is now being forced to spend money on bursaries for logistics degrees. This is problematic given the irrelevant and outdated information that is typically taught to logistics students at South African universities. As a result, the industry is required to 'un-teach' these students everything they have learned and re-teach them,"** says D'Almeida.

The Road Freight Association, he says, is encouraging the transport sector codes – once they are eventually aligned – to put greater emphasis on broad-based transformation. It maintains that skills development and procurement are where the bulk of transformation efforts and initiatives should be directed. "The transformation agenda is so important for South Africa but to be effective, BEE has got to be substantially aligned to the transformation agenda."

THE EXPERIENCE OF COMPANIES

Most of the companies approached for comment on their experience of the transport code agree that it is a mystery as to why the sector code has not been updated and aligned to the new generic codes. The challenge for many is that although their companies are rated according to the old transport sector codes, their clients and suppliers are subject to the generic codes or revised sector codes.

A JSE-listed logistics provider who agreed to provide comment on the condition of anonymity says the old codes are an advantage for the sector given the more stringent requirements of the amended codes. "Our clients don't care that we're still being assessed according to the old codes. as long as we can produce a B-BBEE certificate," he says.

However, even though it's easier to get a higher rating on the old codes, he says the company has had to introduce some creative initiatives to achieve a favourable BEE rating. One such initiative has been to develop a property which it sold to a BEE consortium on a lease-back transaction basis over a 10-year period. At the end of the period the company assumes 50% black ownership.

Another initiative aimed at improving the company's enterprise development points involves the creation of a new entity in a joint venture with a black woman who owns 51% of the new entity. The company is mentoring her in terms of how to successfully run the business. The company has also partnered with a commercial driver academy to grow its pool of commercial drivers – which includes women drivers.

Acknowledging the need for more commercial women drivers, the company representative says there are practical challenges including the fact that truck stops on major routes don't have facilities for women drivers.

The chief operating officer of a company in the sector says he is puzzled as to why it has taken so long to align transport with the generic codes, particularly given the value of the sector to the economy. Pointing out that it is difficult to get any clarity on the codes, he says the scoring system of the codes makes little sense. The company, which is 70% black-owned, is only rated on Level 6 as the 'old' codes don't provide the same enhanced recognition of 51% or more black ownership.

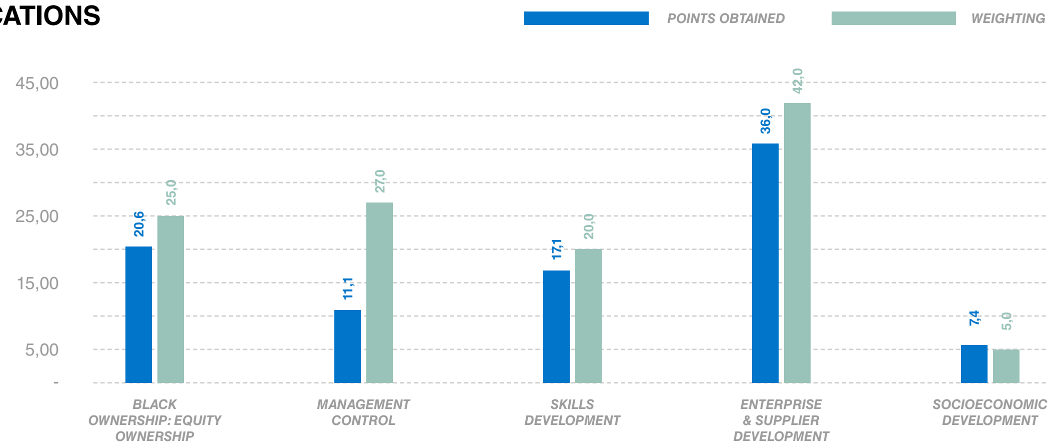
"THE TRANSFORMATION AGENDA IS SO IMPORTANT FOR SOUTH AFRICA BUT TO BE EFFECTIVE, BEE HAS GOT TO BE SUBSTANTIALLY ALIGNED TO THE TRANSFORMATION AGENDA."

MARKETING, ADVERTISING, COMMUNICATIONS

BY YVONNE FONTYN AND AURELIA MBOKAZI

FOCUS SWITCHING FROM CITIES TO DRIVE MORE INCLUSIVE EMPOWERMENT

MARKETING, ADVERTISING, COMMUNICATIONS



The marketing, advertising & communications (MAC) sector achieved Level 1 recognition in the Sanlam Gauge results, having achieved 86.5% of its overall B-BBEE target.

"We are an industry that leads in communication and communication must always reflect the temperament and the psyche of the societies it operates in," says Karabo Songo, CEO of Brave Group advertising agency.

Unfortunately, though, he says transformation has been slow in the advertising industry. **"In recent years there's been some positive moves but I'm not happy with the pace."**

Songo says the industry is largely owned by multinationals based in London and New York. **"There are five big groups that control about 90% of market activity that is worth just over R50bn."**

While the majority of people who work in the industry are black, **"we don't see diversity in ownership of more than 51% in black hands, or youth who are actually the drivers of the industry in terms of producing the creative product. There's no drive to empower black women as agency owners and executives at senior levels. It's quite a challenge."**

Enterprise & supplier development, he says, is done in a manner that is not sustainable. **"We see very few exits from the companies that start up, while most new entrants struggle to build sustainable businesses because they have very little margin."**

He also says the transformation agenda has been shelved because people are fighting for survival because of Covid-19. But, he says, this is the time when they should be prioritising transformation. **"Government and responsible institutions must really reinforce the need for transformation because it is even more important now."**

Sandile Nene, head of media policy at the Government Communications and Information System, says government acknowledges the strides this sector has made, as well as its crucial importance due to its influence over consumers' choices and employment opportunities in the creative sector.

Government recognises the importance of the sector for transformation especially in areas outside of cities, he says, and it has plans to increase education about the MAC sector in townships and rural areas. **"We want people to know exactly what goes into a billboard, for example – buying the space, construction, graphic design and copywriting."** This kind of education is vital in bringing business growth to these areas. Enterprise & supplier development for this industry, which scored 36 out of 42 in the Sanlam Gauge, is improving. "It is not ideal but in time it will improve."

Rustenburg rabbit farmer Orateng Ntsime represents a perfect example of what government is trying to achieve with B-BBEE in small towns and rural areas, though Ntsime is not a recipient of any government assistance. He likes to believe he's raising awareness of the healthy, low-fat alternative to red meat, providing information to a market that previously did not consider it. His adverts on Twitter depict tasty-looking roasted joints covered in a rich sauce, making even your most sceptical prospective buyer water at the mouth. Ntsime's marketing bent is reflected in his posters, which are bold and simple to read in English and seTswana.

Ntsime is convinced that his interest in media and marketing is what has given his enterprise the added boost. Instead of just being a small-town farmer with a backyard business, supplying local butcheries and passers-by, he is a successful businessman with a growing national network.

Government is playing a long game with this sector, says Nene, acknowledging that the majority of companies are following the sector code, whether voluntarily or not. **"Because of the importance of this sector we want full compliance, not box-ticking."**

He acknowledges the extraordinary change the MAC sector has been through since the charter was introduced in 2001, and where the industry came from: **"There was no guidance before that."**

The charter was amended in 2016 to keep pace with the rapid changes in the industry, including the move from linear to digital media, the breaking up of big companies into smaller, independent entities and a proliferation of new SMMEs. **"There is a plethora of companies competing online, some not even based in SA, so how do we as government ensure sustainability? We have to deal with transformation happening through competition, by creating a sustainable and conducive environment."**

As a means of promoting transformation in the sector, as well as monitoring and reporting on it annually in line with the provisions of the B-BBE Act, government is developing the MAC Charter Council in March this year and Nene says a launch date is being finalised.

Mathe Okaba, CEO of the Association for Communication and Advertising (ACA), believes the council will help to increase compliance: **"Stricter and legislated adherence to the charter will become more entrenched once the charter council has been constituted, and the ACA looks forward to announcements from government on the formalisation of this structure. At that point, the ACA will be empowered to drive and guide the transformation process as it applies to the charter."**

To the charge that companies often feel government is standing in their way instead of helping them grow, Nene says that perception is unfortunate and those who think that don't understand the transformation issues involved.

The new council will go some way to increase trust and buy-in. Made up of members of various MAC sub-sectors, there is a diverse sampling of representatives from regulation, marketing, public relations and advertising, among others. "Government and the private sector cannot review the code," says Nene. **"The sector council must do this and develop an annual sector report that measures all the categories, with all participants able to contribute."**

Youth, women and people with disabilities – groups which are often excluded from economic participation – will also be represented on the council. There will also be a drive to include rural and township participants.

Companies need to put extra effort into attracting and retaining staff from out of town, says Sinethemba Mashibini, an HR assistant at Port Elizabeth-based Boomtown Media. **"In the Eastern Cape, geographical barriers are an issue. Careers in bigger cities are more attractive and it is difficult to attract and retain employees from designated groups. A lot of black talent moves to the bigger cities because they will earn more there."**

Reflecting on the Sanlam Gauge research results, Mashibini says it is clear certain job categories enjoy more success, but black ownership and management are lagging. For ownership, the MAC sector achieves 82.4% of its target but in management control it's only at 41.1%.

On management control, Mashibini says: **"You will find that 'skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents' are doing well enough; there is visible diversity at this level. However, as you go up in the levels, the numbers start to go down."**

She says companies need to:

- Actively seek out specific designated groups and make them an integral part of their recruitment, especially with short-listing.
- Make a special effort to enlarge the pool of appointable candidates from designated groups by evaluating minimum job requirements to see if they are appropriate for the effective execution of functions related to the post. Unnecessary ones such as requiring young graduates to have a car or a licence for an internship; or to be able to speak Afrikaans, should be scrapped.
- Make efforts to extend search periods when an employment equity candidate is not easy to find.

Okaba says the ACA has previously focused on the metropolitan areas but plans to expand this. **"Part of the ACA's focus is to become more inclusive and the association will be launching a new membership proposition, one which is substantially more inclusive and will provide access to all, not just to the established agencies. For those that want a voice and representation, the ACA will become their home,"** she says.

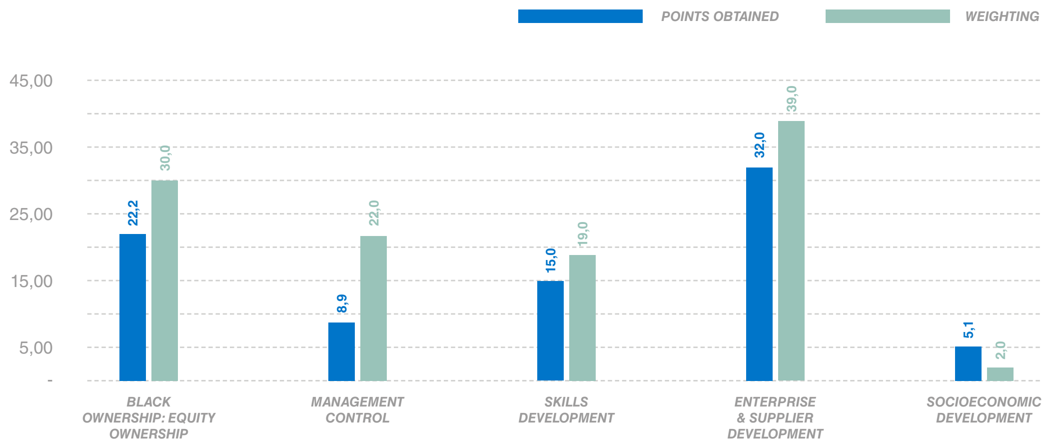
For now, rabbit farmer Ntsime is happy to be moving his operations to bigger and better premises – and planning his next media campaign.

PROPERTY

BY MARGARET-ANNE HALSE AND AURELIA MBOKAZI

HIGH BARRIERS TO ENTRY NEED ATTENTION

PROPERTY



The immediate, striking factor about this sector is that it has seven scorecard elements, adding economic development and employment equity to the five standard categories of ownership, management control, skills development, ESD and socioeconomic development.

The economic development element measures the extent to which entities contribute to investment and development in geographically under-resourced areas. Employment equity has been split out of management control, as was the case prior to the Codes of Good Practice being revised in 2013.

The Sanlam Gauge research measures the sector according to the five regular elements. For ESD it achieves 82% of the target against the overall average of 85,1%; 85.5% for skills development (overall average: 76.1%); and exceeds the socioeconomic development target.

It is estimated that around 10% of property companies in the formal sector are black-owned, according to Vuyiswa Mutshekwane, CEO of the South African Institute of Black Property Practitioners. The Sanlam Gauge results show the sector achieved 74% if its ownership target, well behind the 85.4% average of all sectors.

"Ownership has been a big challenge for listed companies in this sector," Mutshekwane says. **"It's hard to find people who have the kind of money to come into a company and take 50% ownership or whatever it may be. So, the focus then goes to other areas of the scorecard. There are billions spent in enterprise development because that is another area where they can get points."**

LOW-HANGING FRUIT

The economic development element though, provides low-hanging fruit, Mutshekwane says. This is often realised through infrastructure investment commitments, such as a company that develops shopping centres in under-developed areas may be required to build a road that leads to the shopping centre. **"They may also need to get into B-BBEE partnerships on bulk services and that, in turn, would influence their development score."** She sees this as a win-win for companies as well as communities that benefit from socioeconomic development spend.

The field of property development has high barriers to entry, requiring significant amounts of capital and other resources. Anyone seeking equity investment or raising debt must also be able to satisfy the often exacting criteria of lenders or investors, and few black would-be developers are in that position.

Generally, the networks and ecosystems that provide finance and support for black entrepreneurs and developers are weak; however, according to Shawn Theunissen of GrowthPoint, the recent growth of mezzanine financing – a combination of debt and equity financing – has helped some black developers **"bridge the equity funding gap".**

Another constraint on expanding ownership is that the idea of a career in property is not promoted by schools or universities, and students generally have an inadequate understanding of what such a career entails. "People tend to think if you work in property, it means you are an estate agent," says one young property manager.

Organisations such as the Women's Property Network (WPN) are working to reverse this attitude by engaging with students while they are still at school. WPN also promotes gender diversity and brings young women into the industry by providing bursaries and scholarships at university level.

MICRO-PROPERTY DEVELOPERS

At the opposite end of the spectrum, micro-property development in informal settlements can provide entry into property ownership for black women, enabling them to own rental property and become landlords. Start-up company Bitprop's pilot project in Khayelitsha, Cape Town is such an example. In addition, it educates the new owner in the skills necessary to manage her rental property successfully. Research has shown that women are better at repaying micro-lending loans, hence the preference given so far to black women.

Claire du Trevou, the Bitprop architect, says it has been **"incredibly challenging to change perceptions around low-income markets".** This type of project is just a beginning, but the potential is tremendous. Theunissen has also called on local government as well as developers themselves to engage effectively with the local community to ensure long-term sustainability.

In the real estate industry, about 10% of registered agencies' owners are black, says Jan le Roux, chief executive of the Real Estate Business Owners of South Africa (Rebosa). However, there are thousands of unlicensed small black-owned agencies which are therefore not accounted for in the statistics. Industry sources say they remain unlicensed partly because of the onerous formal requirements for registration, and partly because the Estate Agency Affairs Board, the industry watchdog, does not enforce compliance with the regulations.

Rebosa has proposed that illegal operators be granted amnesty, giving them a period in which to bring themselves into compliance

> ***"People tend to think if you work in property, it means you are an estate agent."***

with industry regulations. This would quickly increase the percentage of black agency ownerships from around 10% to 20%-25%.

Management control remains a huge challenge in the sector with the Sanlam Gauge research showing it achieved 40.5% of its target. All sectors perform the worst in this scorecard element but property is still far behind the average of 76.1%

Mutshekwane believes that this so because companies approach transformation from a compliance perspective instead of understanding the value of diversity of senior management and its impact on the organisation's bottom line. A consequence of box-ticking, she says, is that companies diversify their boards by bringing in black non-executive directors but leave their executive teams – who are decision-makers – untransformed.

"CEOs are groomed and nurtured within companies and that requires a concerted effort and a clear succession plan. The journey to become a CEO starts at middle management level. I believe that's where it falls apart because a lot of talented black candidates end up frustrated by the dynamics, such as limited upward mobility, and tap out of the corporate space to start their own businesses.

"There's new regulation for property practitioners that is going to be promulgated soon and I think there is going to be a big shake up in the industry if it is implemented correctly," adds Mutshekwane.

The Property Practitioners Act, due to be promulgated in 2021, stipulates that all property practitioners, which includes estate agents, must present a valid Fidelity Fund Certificate in order to be paid. Robyn Downs, of the law firm Eversheds Sutherland, states: **"Qualifying enterprises will have to submit a B-BBEE report, a certificate and a scorecard, verified by an accredited BEE verification agency, to the [Property Sector] Charter Council on an annual basis in order to receive their BEE certificate."**

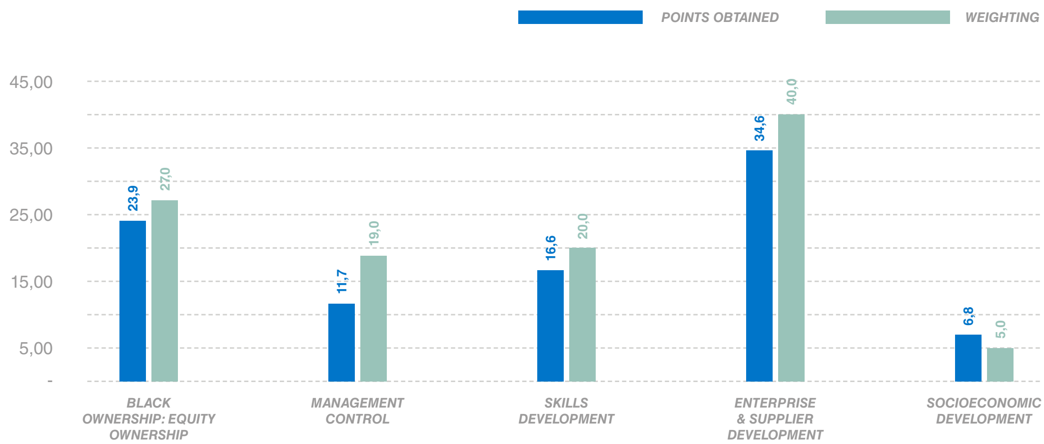
TOURISM

BY YVONNE FONTYN AND AURELIA MBOKAZI

TO BE MEANINGFUL, TRANSFORMATION MUST BE SUSTAINABLE

Tourism is viewed as a game changer for the economy as it can create much-needed jobs and provide a range of entrepreneurial opportunities. Yet this sector has been and is still being ravaged by Covid-19 – it's one of the few industries still significantly constrained by lockdown restrictions.

TOURISM



But even before the pandemic, the sector was transforming too slowly, says Blessing Manale, chief director of communications in the tourism department. He says the sector is struggling to become globally competitive while trying to successfully facilitate the inclusion of previously disadvantaged people.

The sector needs to recover economically to be able to improve its global competitiveness. Addressing that challenge is critical to enhancing the pace of transformation to facilitate and integrate industry-wide processes in the sector, he says, as well as to map out a comprehensive set of targeted actions for transforming it beyond B-BBEE compliance.

A growing, healthy tourism sector would accelerate transformation, says Rob Hetem, vice-chairperson of the Southern African Tourism Services Association (Satsa). **"One of the best ways to bring more (black) people in tourism is to create more businesses and for that to happen we need more tourists to visit South Africa."**

Manale says that for transformation to be successful, "there is a need for both a willing heart and mind. As much as compliance is important in that it will assist in fast-tracking the much-needed change, a willing heart will go a long way in effecting more sustainable and effective changes. With a more supportive and enabling environment, the tourism sector can reach its full potential and help address the core socioeconomic challenges SA faces. "The South African adage to 'BEE or not to BEE' is clearly no longer the question: sustainable black economic empowerment is the core to the changes required for the sector to grow."

The 2018 State of Tourism Transformation Report stated that many tourism enterprises were still not compliant with the B-BBEE codes. Fewer than 50% of enterprises in the three sub-sectors (accommodation, hospitality and travel) had achieved the minimum ownership targets, says Manale.

Ajay Lalu, founder and director of Black Lite Consulting BEE verification agency, says ownership is problematic, querying its score in the research (23.9 points out of a scorecard weighting of 27). He says this fails to take into account how many of these companies are +51% black owned, or in townships. **"By focusing on the scorecards, we focus only on a particular perspective, which looks good on paper but does not translate into improvements on the ground."**

Hetem says many companies in tourism are mom and pops shops, often on a Level 4 rating purely because of the race of the owners and size. **"These SMMEs make up about 85% of our members. There's a small percentage of big enterprises in tourism and they are B-BBEE compliant."**

Satsa, he says, is also looking for ways to improve black ownership levels as older people retire **"so that we don't lose those businesses".** A successful example is a project in the Wild Coast, Eastern Cape, where a white business owner brought in locals as equity partners and wants eventually to hand over the business to them. **"He is very commitment to the process and we are really excited about that."**

Access to funding for black people who want to buy equity in existing businesses, however, continues to be a big barrier, says Hetem. **"Another issue is that this is an industry whose asset value is based on reputation and goodwill."**

The target of 25% company ownership is too low, says Lalu; it is motivating companies to just tick the box for the sake of compliance. **"We have lost the idea of what real empowerment means. We haven't really addressed it as a country, what does a normalised society that is empowered look like?"**

Lalu concedes that tough economic times and prevailing corruption have chipped away at the appetite for BEE in the business community, with many becoming jaded. But he concurs with Manale that B-BBEE is not a nice-to-have, but an imperative. **"The reality is, if we don't seriously effect black economic empowerment, we will have a society that is more and more disrupted, with mass poverty."**

Another problem is what Lalu terms companies' **"deliberate manipulation"** of scorecards, to the detriment of the spirit and intention of the initiative. **"B-BBEE has become a corporate tick-box exercise with inherent manipulation, which shows up in the survey."**

However, surely even the most well-intentioned corporate executive may feel dispirited with the complexities of implementing B-BBEE. Manale says the level of detail in the requirements does affect compliance. **"More education is required and awareness needs to be raised to outline the requirements for compliance with the Tourism B-BBEE Sector Code. Entities that are aware about the goals of transformation are more likely and more willing to transform."**

Skills development shows good progress (82% of target achieved). However, Satsa's Hetem says skills development and transfer is probably one of the industry's weakest points but initiatives are under way to improve it. "When we were building a database of the projects that we have done, we realised that a large bulk is focused on skills transfer. I've been reviewing the mentorship programme that we run with the Tourism Business Council of South Africa, the national Department of Tourism and various organisations. There's massive interest in mentorship opportunities and we also received a great response from mentors who want to share their knowledge voluntarily and mentor new players.

"JSE-LISTED COMPANIES WILL CLOSE DOWN, PEOPLE WILL LOSE SHARES, PROPERTY, EVERYTHING. WE NEED TO CREATE REAL JOBS IN OUR COUNTRY, EVEN IF IT COMES AT A PERSONAL COST."

"I was recently approached by the University of Johannesburg to build a mentorship and experiential stream into course material. This means we are starting to build bridges to get more youth involved in tourism."

With enterprise and supplier development, Manale says the majority of large businesses do not comply with the set targets. This is particularly disappointing because ESD was meant to be a key driver of transformation in the economy and presents a significant opportunity through preferential procurement from black-owned suppliers and inclusion of SMMEs in supply chains.

The tourism sector achieves 86.2% of its ESD target in the Sanlam Gauge results, ahead of the overall average of 85%. Hetem says there has been a lot of work done in this area. **"Most businesses want diverse suppliers within their communities. There is a substantial number of grassroots producers and business owners who are not a part of the formal economy and are not on the radar. They are often not suitably registered. This is where we need to look for enterprise development opportunities to help them improve their businesses."**

Within ESD there is always a need for seed capital investments but apart from that, Hetem says there is also an urgent need for business skills development. **"These are not academic skills but skills to enable people to run their businesses effectively, including mentorship and coaching."**

Manale says the State of Tourism Report further highlighted that the tourism sector performed well on socioeconomic development and in its contribution to the Tourism Marketing South Africa (Tomsa) levy: about 66% of large enterprises contributed to Tomsa and 56% to socioeconomic development.

Manale emphasises that policies alone are not enough to transform the sector. "This issue was addressed in January 2021 with the launch of the R1.2bn Tourism Equity Fund. The Small Enterprise Finance Agency, an entity of the Department of Small Business Development, is also a partner, and commercial banks made a large contribution to provide a combination of debt finance and grant funding to facilitate equity acquisition and new project development in the tourism sector by black entrepreneurs. The fund is intended to help fast-track transformation in the tourism sector."

Manale says it is hoped the fund will enhance broad-based transformation by increasing access to finance for black-owned entities and enterprises, including new entrants, SMMEs, co-operatives and black entrepreurs. **"This will help achieve a substantial change in the racial composition of ownership and management, increasing effective economic participation and black-owned and managed enterprises and advancing the meaningful participation of black people in the mainstream economy."**

Lalu says there will be disastrous effects for large companies if B-BBEE is not accelerated: "JSE-listed companies will close down, people will lose shares, property, everything. We need to create real jobs in our country, even if it comes at a personal cost." He suggests fully sponsoring a township youth.

The Doppio Zero restaurant chain did just that, pre-Covid, when it offered a three-month training programme to unskilled black candidates. **"Seven to 10 people trained in each of our 15 stores. We found them through charities and NPOs,"** says Doppio Zero CEO Paul Christie. **"We paid their transport and food, and when they finished, we offered the best candidates jobs."** He adds that restaurants are major providers of entry-level jobs for unskilled people.

However, the industry was only now making a slow recovery from the devastating hit it took from the pandemic. **"With the added expenses of taxes, labour and compliance, it is harder to make money,"** says Christie.

Management control, which the research shows is consistently the lowest scoring scorecard element, is flagged as another pressing concern. The tourism sector achieves only 62.6% of the target which is still well ahead of the overall average of 56.7%.

Manale says: **"It was shown (in the State of Tourism report) that despite the tourism sector employing a large number of women, only 11% of enterprises had black women representation at board, executive and senior management levels, with overall poor performance on the promotion of black management in general."**

Lalu says it is easier for companies in the tourism sector to focus on socioeconomic development – where the sector's score of 6.8 points exceeds the target of five points – and skills development because they are made up of service industries driven by human capital, and this is borne out in the high scores. **"In tourism, for example, there is a heavy emphasis on the socioeconomic category as the sector often includes game lodges and rural businesses where there is an emphasis on uplifting surrounding communities. But why are these companies not focused on management control and ownership?"**

Satsa is focusing on those elements, however, through its Board Access, Inclusivity and Diversity committee. It is working on an ownership transformation proof of concept that will serve as a blueprint for B-BBEE ownership transfer for the industry.

Hetem says: The tourism industry is not transformed at the level of scalability that we would like to see as an organisation and that's fundamentally why we've moved away from a simple approach to transformation and broadened it out to access, inclusivity and diversity (AID) to encourage more women to get into leadership roles in tourism."

Mandisa Magwaxaza, chairperson of Satsa's Eastern Cape Chapter, says AID is part of a greater drive to identify receptive legacy tourism business owners willing to embark on transformation. **"There is still a lot of fear in the industry, so it is vital that we get across the message that if all partners are supported in the process, it can be successful and sustainable,"** she says. **"At the same time, we need to create awareness of why transformation is so important, and of the risks involved in failing to transform."**

Together with the custodian of the Ocean View Hotel in Coffee Bay, Russell Kruger, AID has been working to secure new partners to ensure the business is successful long after the transfer of ownership. **"There is no one entity that can make this work sustainable – all need to be involved, from government through to training and mentorship partners. Equally important is a robust development plan and only once all of this is in place will we go out to the wider tourism industry to seek out the right owner for the business."**

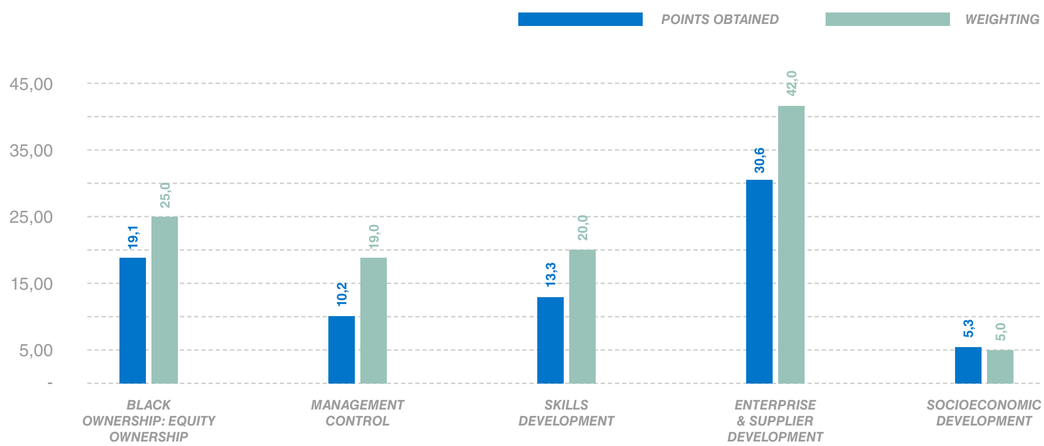
MINING

BY GAYE CROSSLEY AND COLIN ANTHONY

TRANSFORMATION POLICY IN PARALYSIS

Mining arguably is the most emotionally charged industry in South Africa, with the sector's history deeply intertwined both with the development of apartheid's cheap labour migrant system as well as apartheid's demise through militant labour protest actions. Yet its B-BBEE policy framework is in a state of paralysis as legal challenges to the Mining Charter mean mining companies are being scored according to the generic scorecard.

MINING



The mining industry was the vanguard of the labour movement's anti-apartheid campaign and was instrumental in entrenching workers' rights even as the apartheid government was brutally suppressing protest actions through its states of emergencies in the 1980s.

It is emotive also because the minerals in the country's soil are considered to belong to all South Africans. Indeed, the Mineral and Petroleum Resources Development Act (2004) states: **"Mineral and petroleum resources are the common heritage of all South Africans and the state is the custodian thereof."**

Given this history, transformation in the mining sector is closely watched – yet it is riven by difficulties and is operating without any B-BBEE framework on which to measure transformation. Mining companies are thus being scored under the generic scorecard while having to adhere also to the Mining Charter Act. The sector achieves 66.7% of the target for B-BBEE contribution level points.

Mining now contributes about 7% of GDP having, fallen over the decades from 21% of GDP in 1980. Yet it remains a crucial industry, not only because in 2020 it employed more than 450,000 people and contributed R362bn in taxes, according to the Minerals Council SA's 's Facts and Figures Pocketbook 2020, but also because it is a deeply emotive issue in South Africa.

> ***"As such the industry is ... trying to meet the targets set out in the Mining Charter while needing to meet a different set of requirements if they wish to receive a B-BBEE rating."***

Tebello Chabana, senior executive for public affairs and transformation at the Minerals Council, says although there is the Mining Charter, there is no reporting template giving mines a standard by which to report their transformation numbers. This lack of a formal structure makes understanding transformation of the sector extremely difficult.

Chabana explains that every five years the Department of Mineral Resources and Energy (DMRE) releases a report on transformation within the industry, as per the Mining Charter. But, he says, the industry is far from static; and when one tracks movement in the industry, it is easy to see that levels of compliance can change from one day to the next. Chabana also says the DMRE model offers no transparency around transformation, and that government is the sole voice in the debate.

In order to get a measure of what is going on, the Minerals Council, which has 84 members and represents 90% of SA's mineral production by value, has turned to polling its membership base to try and understand and inform on the level of transformation in the sector.

In 2019, the council released a report that assessed the industry's progress on transformation as per targets outlined in the DMRE's Mining Charter. Representing 93% of the sector's employee base, 32 companies responded. According to the report, in all but three categories, the industry is exceeding targets set out in the 2010 Mining Charter. The report stated: **"The industry met most Mining Charter 2 targets and is committed to Mining Charter 3."**

This report came out shortly after Mining Charter 3 was introduced in 2018. However, due to the industry contesting ownership and procurement targets set out in this third charter, there is a lot of confusion as to which charter the industry is working towards. Alan Fine, strategic director of R&A Communications and who has extensive experience working in the mining sector, confirms that the industry is working to meet all the targets contained in the third iteration of the Mining Charter, except for procurement and ownership because there is still no resolution to the Minerals Council's legal challenge to these two aspects of the charter.

Challenges to the charter's procurement provisions relate to local content requirements and increasing the target of procuring from B-BBEE suppliers from 70% to 80%.

The ownership challenge relates to ownership targets and the once-empowered always-empowered principle, and in 2018 in a case brought by the Chamber of Mines, the High Court ruled in favour of it. Law firm Fasken in a report on the issue writes: **"It held that a mining right holder has no obligation to 'top-up' the reduction in the [then] 26% Historically Disadvantaged South African (HDSA) ownership (which was required by the 2010 Mining Charter) on the exit of the HDSA shareholder."**

In August last year Minerals and Energy Minister Gwede Mantashe dropped his appeal against the High Court ruling, which **"means that the High Court order is undisputed law",** Fasken says.

While there is no official scorecard for mining, verification agencies are scoring mining companies using the generic scorecard. Although this does give an indication of how the industry is progressing, the generic scorecard uses different points and standards of measurement. As such, this paints a different picture to what the industry itself is reporting.

Kyle Mitchell, director of BEE verification agency Honeycomb, says this is a huge struggle for mining entities as they need to be compliant with two different acts, the Mining Charter Act (2018) and the B-BBEE Act (2003). These two acts, he says, do not synchronise – there is no similarity between them. As such the industry is walking a tightrope of trying to meet the targets set out in the Mining Charter,

> **“Whether it be on ownership scores, enterprise supplier development spend or even socioeconomic development, companies are doing just enough to get their scores. BEE is expensive, so if the process is rushed, companies are more likely to skirt the rules than spend the time or money on real transformation.”**

while needing to meet a different set of requirements if they wish to receive a B-BBEE rating.

THE STATE OF TRANSFORMATION

While transformation is taking place, the question remains whether this is meaningful in nature. The Minerals Council believes the industry is doing well in terms of transformation, although Chabana acknowledges that a lot more work needs to be done, adding that the sector is keen to do more.

Part of the problem, says Mitchell, is that although mining companies are meeting the Mining Charter targets, they are not checking that they are meeting the rules of the B-BBEE Act. As a result, companies may score highly against the Mining Charter targets but fall short of what is required by the generic code.

Other challenges further complicate the reporting process. The first is that goalposts keep moving. Industry charters are reviewed every five years and with each iteration, targets change. So, when it comes to ownership, for example, mines which were once compliant might no longer be once the new version has been released.

Vusi Mabena, former executive responsible for transformation at the Minerals Council SA, says that when you invest in a mine, you can only expect to reap benefits in about 15 to 20 years. This becomes problematic for empowerment shareholders who expect returns within a short space of time **“Some carry large debts that need to be serviced and cannot wait for the long haul.”**

The targets have also become increasingly onerous. Chabana gives the example of the 2018 Mining Charter 3. Mines were given five years to ensure their procurement spend was made up of 60% local content, a target Chabana says is near impossible to achieve. The vehicle manufacturing industry was given 35 years to achieve a similar target, he explains.

There is also confusion around the definitions contained in certain targets. Ownership is one issue, as community and employee trusts are now given a far lower weighting in terms of ownership. The charter demands meaningful economic participation, which essentially means ownership by individuals as opposed to trusts.

Political interference, especially at municipal level, is also hampering mining companies’ ability to transform meaningfully, especially when it comes to communities. Chabana believes that at municipal level, B-BBEE initiatives have to be depoliticised so that political agendas do not influence the outcomes of work being done by mines.

Mitchell, who has 15 years’ experience as a verification agent, cautions not to take the industry at face value. There are still too many companies finding loopholes or fronting, he says. Whether it be on ownership scores, enterprise supplier development spend or even socioeconomic development, companies are doing just enough to get their scores. BEE is expensive, so if the process is rushed, he says, companies are more likely to skirt the rules than spend the time or money on real transformation.

MANAGEMENT CONTROL

Noting the low scores across all sectors for management control, Mabena says the majority of CEOs in South Africa are mostly white males while there are still very few women at board level. “However, mining companies try really hard to empower black

executives. There's a female CEO designate at Exxaro. When I left the Minerals Council in 2017, the sector was nearing 10% of black executive positions and about 25% in middle management. Also, when it comes the target of 10% women employees, the mining sector exceeded that target.

"Because mining is highly specialised, there are challenges to advancing people because they need the necessary skills and experience. For example, it takes three years for a mining artisan to qualify for an entry-level position and that person will need about five more years on the job to gain adequate experience."

Separately, female representation in mining at all levels remains a challenge, with higher targets set in Mining Charter 3, says Thabile Makgala, Implats Eastern Limb executive and immediate past chairperson of Women in Mining South Africa. To streamline the industry's strategies to advance women in the industry, the Minerals Council South Africa last year published the White Paper on Women in Mining.

"The culture, attitudes and facilities in mines have, historically, not been conducive to or designed for the inclusion of women," Makgala says. To address this, Implats last year established gender mainstreaming committees at its operations, which was one of a package of strategic interventions.

GOVERNMENT PARALYSIS

Chabana and Mitchell agree that there is an inordinate amount of government paralysis around the management of government's transformation programme.

From a verification agency's perspective, Mitchell believes that government is leaving the mining industry to its own devices and has not implemented sufficient checks and balances. He says nobody is confirming the accuracy of the numbers being submitted. And without anybody holding the industry to account, he stresses that we cannot assume that transformation is taking place. But beyond the mining industry, Mitchell says that even the Department of Trade, Industry and Competition and the SA National Accreditation System are experiencing issues around standardising requirements within the industry. The different bodies are working in silos, making it impossible to work to a unified B-BBEE goal, he says.

Chabana says the Minerals Council's membership base wants to be compliant, but the industry needs government and the DMRE to set up an industry council where issues specifically related to mining can be fleshed out between all stakeholders. He also says they need a transparent and independent verification standard with which to work – something government has never provided, even before there were legal challenges to the Mining Charter.

The lack of a framework is hobbling transformation efforts, believes Chabana, making it impossible to compare what is happening in the mining industry with other sectors in the economy. When quizzed as to why this is, Chabana attributes this to capacity issues. The DMRE simply does not have the capacity to allocate resources to overseeing the transformation agenda of the industry.

Ultimately, until the mining industry gets a clear and unambiguous reporting template and government works to clear up ambiguity around definitions and targets, understanding the true level of transformation within this important sector is near impossible.

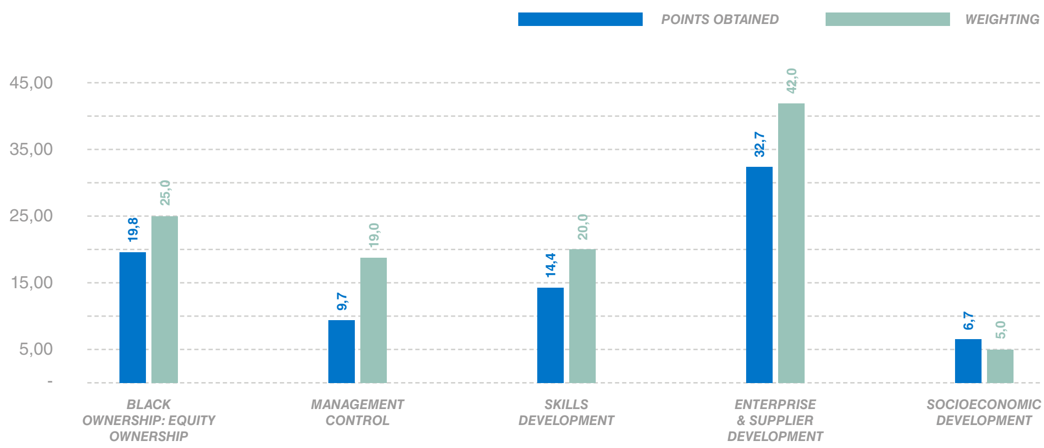
GENERIC

BY JAMES VAN DEN HEEVER

ONE SIZE DOESN'T FIT ALL

When it comes to something as important as B-BBEE, it pays to take a focused approach – one reason why the generic scorecard doesn't suit every business. All businesses that do not have a specific sector code are measured according to the generic scorecard criteria. This is not a desirable situation.

GENERIC



Industries that fall under the generic umbrella include manufacturing, retail & wholesale, education, chemicals and fertilisers, energy and water, food and beverage, research & development and textiles. Even mining companies are being scored under the generic category while issues with the mining charter are being resolved, which we cover in the following article on the mining sector.

What's immediately noticeable is that the 1,229 companies that make up the respondent sample for the generic scorecard in the Sanlam Gauge – by far the largest group – achieved only 77.7% of the generic sector's target for contribution level points. That puts it on Level 4 and makes it by far the worst-performing sector. Defence, with 80.4% is second-lowest.

"As the regulator, we are of the view that we need to strengthen implementation of the current framework in driving transformation."

Important to note here is that this score represents an average. Certain industries that fall under the generic umbrella that combine low scores with a high number of companies can bring down the average.

Diveshan Rao, MD of verification agency BEE Online, argues that changes gazetted in May 2019 may also have contributed to the relatively low overall rating. The changes became effective on 1 December 2019 for the generic scorecard, while implementation for the sector scorecards was inevitably slower as the respective codes had to be changed. In some cases, the change is still pending.

A key change relates to skills development. The amended regulations make claiming five bonus points for absorption much more difficult. Prior to 2019, companies could claim the points for beneficiaries who were given temporary employment of six months or longer after completing training, or if the beneficiary was transitioned onto further training with a higher NQF rating. Since 2019, however, points for absorption can only be claimed if the beneficiary is offered a permanent contract until retirement. In addition, transitioning a beneficiary onto a second, higher training course does not count at all towards bonus points.

"These changes would have had an impact across the board," Rao says.

The B-BBEE Commission's Mofihli Teleki agrees that absorption remains a key issue for black youth and entrepreneurs. "As the regulator, we are of the view that we need to strengthen implementation of the current framework in driving transformation," he says.

On a more positive note, Teleki points out that according to the 2019 National Status Report compiled by the commission, the generic category scores 12% for female ownership, fractionally higher than the average of 10%. The generic sector scores 19 points for black female ownership in the Sanlam Gauge, which is in the mid-range – forestry is lowest with 10.5 points and the marketing, advertising and communications sector the top performer with 24.4 points.

Gerhard Stols, director at Amax, a BEE verification agency, says the real issue is that the Codes of Good Practice are simply too blunt an instrument to achieve the transformation goals inspiring the B-BBEE legislation. He likens the generic scorecard to a pair of cross trainers, good enough for multiple sports but which put the athlete at a disadvantage against those wearing footgear designed specifically for a particular sport. **"The best way to address the lagging of the generic sector is, as the legislation intended, to develop as many sector-specific codes as possible,"** he says.

One particular area that needs attention, Stols argues, is the heavy emphasis on ownership in the Codes of Good Practice. This has devastating and presumably unintended consequences for the ostensible aim of the legislation: a more inclusive economy.

For example, he says, a foreign or white-owned company that focuses on employing and training black people and spends large sums to develop black businesses and uplift black communities, can at best hope for a level six or seven certificate, while a company owned by a black individual with a turnover of under R50m that only employs foreign nationals, does little or no training or development and imports all its product, can achieve a level one. **"One must ask which entity has developed and done more in the spirit of transformation, and given more previously disadvantaged people access to the economy?"**

Retail and manufacturing are two cases that highlight the desirability of sector-specific codes.

Manufacturing is arguably the most important industry in the country given its massive multiplier effect - the jobs pay well and the industry sustains a broad ecosystem of service industries. As a result, there is a strong correlation between manufacturing and GDP. According to the US Bureau of Economic Analysis, every dollar in sales of manufactured goods supports $1.33 in output from other sectors, the highest multiplier of any sector.

Tellingly, according to the 2008 Commission on Growth and Development, 10 of the 13 countries that achieved high and sustained growth (GDP per capita increase in excess of 7% for 25 years) did so on the back of manufacturing-led growth.

Given the importance of manufacturing to a stable and growing economy, it's surely a cause for concern that the sector has only 92.3 recognition points (Level 3) in the Sanlam Gauge, fractionally more than the generic average. Professor Justin Barnes, the executive director of Toyota Wessels Institute for Manufacturing Studies, says: **"I have been arguing for years that manufacturing should have its own B-BBEE scorecard, one focused less on ownership and more on employment equity, management development, enterprise development and productivity raising skills development. This would encourage multinational investment in the country, which we desperately need."**

Even for local manufacturers, ownership is likely to be a huge stumbling block given the big investments they have to make and the lengthy and relatively low investment payback period.

Retail & wholesale also has a low recognition score of 80.5 in the Sanlam Gauge, putting it on Level 4. The two subsectors are major employers, with 894,966 and 603,774 employees respectively, (September 2018 figures), according to Employment in South Africa's Trade (wholesale, retail and motor) Industry 2019 report.

However, the recognition here is perhaps not what it seems given the fact that some retailers actually fall under certain sector codes. It's clear, though, that there are issues when it comes to B-BBEE in retail, with three of the country's major retailers doing poorly (Pick n Pay – Level 7; Shoprite – Level 7 and Woolworths – Level 6, according to their latest BEE certificates).

Retailers, however, do not rely on their B-BBEE profile to do business as they do not supply to government nor to big business so there is no incentive.

AND THEN THERE'S COVID

BEE Online's Rao argues that the economic crisis sparked by the lockdowns must be considered when looking at these figures. A survey commissioned by the Covid-19 BEE Impact Collaboration (CBIC) paints a dire picture. CBIC is a group of B-BBEE professionals that came together to engage with the Department of Trade, Industry and Competition for regulatory relief to ensure the sustainability of empowerment initiatives despite the economic turmoil. The survey found that the vast majority of respondents (85%-91%) intended to reduce spending on B-BBEE initiatives in the current financial year. The reason for this is simple: the sustainability of the company and the retention of employees is seen as a higher priority.

Skills development and enterprise & supplier development (ESD) were under particular strain, the survey shows, with high proportions (91.2% and 88.8% respectively) indicating they would spend less or zero on these initiatives.

Rao believes the focus should be on rebuilding the economy and that the application of the codes should be temporarily adjusted to support this. Survey respondents made several recommendations for support that would help ensure the continuity of their B-BBEE programmes. Ideas include allowing projects that support economic recovery in the wake of the pandemic to count towards B-BBEE; extending the validity of current B-BBEE certificates; reducing the targets for skills development and employment equity in recognition of the widespread restructuring necessitated by the pandemic; and revaluating targets based on net profit.

Another important impact has been the loss of value on the JSE, which in turn has reduced the value of shareholdings held by black people. This will, in turn, affect the calculations relating to ownership. The CBIC recommends that net-value calculations should be based on the previous year's audit, provided the shareholding has remained constant.

MOVING FROM THE TICK-BOX APPROACH

A major challenge of any compliance reporting, and B-BBEE is no exception, is the tendency to adopt a mindless tick-box approach. The B-BBEE Commission's Teleki says that tick-boxing occurs across all elements but singles out "fronting" as the reason for the majority of complaints the commission has received since 2016.

Both Rao and Stols pinpoint skills development and ESD as areas where a tick-box approach is common. In each case, simply spending the requisite amount of money just to comply is counterproductive in every sense, and certainly creates no value for the company. By contrast, taking a strategic approach and using these elements to upskill staff and develop the value chain would enhance the company's sustainability while contributing to transformation.

"The ethos and spirit of the codes and the BEE act should be embraced, and companies should take pride in developing causes and people close to their sphere, rather than spending externally just to tick a box," says Stols. He says a change in mindset is needed to simplify the codes and take a holistic approach to implementing them, rather than overburdening entities with more targets and more requirements that effectively become more checkboxes. He believes this is achievable, though says: **"It is a very fine line to balance by having over-regulation on the one side and the spirit of transformation and the possibilities of abuse on the other."**

METHODOLOGY


3

REPRESENTATIVITY ANALYSIS: SANLAM GAUGE VS STATISTICS SA QUARTERLY FINANCIAL SURVEY

Our database, like the sample used by Statistics South Africa (Stats SA) in its Quarterly Financial Statistics Survey (QFS), is stratified in nature. The QFS sample is drawn from a population of enterprises that contribute approximately 95% to the industry's total turnover and is also used to estimate the GDP of SA.

There are two dimensions to the stratification: size and sector. Both data sets use the same sector or industry classification criteria (see Table 1 below for more details). However, Stats SA excludes a few sectors from its survey. Also, Stats SA excludes micro enterprises in its survey.

Notably, while Stats SA partially discloses the distribution of constituents according to their size, the same is not done for sectors. Therefore, we cannot compare how well our sectors map to Stats SA's. However, in terms of size our data reflects QFS well, where both samples have 54% of data as large firms.

TABLE 1: COMPARISONS BETWEEN STATS SA QFS DATA AND THE GAUGE DATABASE

PROPERTY	STATS SA QFS DATA	GAUGE DATABASE
SAMPLE SIZE	4,766	3,157
ADJUSTED SAMPLE SIZE*	4,766	760*
% LARGE COMPANIES	54%	54%*
SECTOR CATEGORISATION	SIC	SIC
SIZE CATEGORISATION	By turnover: uses DTI cut-off points that are adjusted by Stats SA for QFS. Criteria is based on National Small Business Amendment Bill (DTI 2003).	By turnover and number of employees: The criteria are also based on the international Standard Industrial Classification (SIC) Codes.

* a. In our database only 760 firms provided turnover/revenue information, and we used it to categorise firm sizes, where 54% were found to be large companies.
b. By sector, Stats SA excludes agriculture (SIC1), financial intermediation and insurance (SIC81, SIC82 and SIC83), and government and educational institutions.
c. By size, Stats SA excludes micro enterprises.

STATS SA SECTOR	LARGE	MEDIUM	SMALL	VERY SMALL
AGRICULTURE*	5,000,000	3,000,000	500,000	200,000
MINING & QUARRYING	526,500,000	135,000,000	54,000,000	2,000,000
MANUFACTURING	688,500,000	175,500,000	67,500,000	2,000,000
ELECTRICITY, GAS, & WATER	688,500,000	175,500,000	68,850,000	2,000,000
CONSTRUCTION	351,000,000	81,000,000	40,500,000	2,000,000
WHOLESALE TRADE, COMMERCIAL AGENTS & ALLIED SERVICES	864,000,000	432,000,000	81,000,000	2,000,000
RETAIL & MOTOR TRADE & REPAIRS	526,500,000	256,500,000	54,000,000	2,000,000
CATERING, ACCOMMODATION & OTHER TRADE	175,500,000	81,000,000	68,850,000	2,000,000
TRANSPORT, STORAGE, COMMUNICATION	351,000,000	175,500,000	40,500,000	2,000,000
REAL ESTATE & OTHER BUSINESS SERVICES	351,000,000	175,500,000	40,500,000	2,000,000
INSURANCE, PENSION FUNDING, FINANCIAL INTERMEDIATION & AUXILIARY SERVICES*	800,000,000	125,000,000	50,000,000	2,000,000
COMMUNITY, SOCIAL & PERSONAL SERVICES	175,500,000	81,000,000	13,500,000	2,000,000

* Stats SA excludes these two sectors; we have incorporated them with Who Owns Whom turnover thresholds.

SAMPLING: STATS SA VS GAUGE

The Stats SA survey is conducted on a quarterly basis. In its latest survey end-June 2020 questionnaires were sent to a sample of **4,766** enterprises drawn from a population of VAT-registered enterprises. The sample was drawn from a population of enterprises that contributed approximately 95% to the total turnover per industry.

All large enterprises, which make up 54% of the number of enterprises in the sample, are completely **enumerated**[1], while simple random sampling is applied for medium-sized, small and very small enterprises.

In contrast the entire Gauge database has been **enumerated**. Companies file their BEE data through a website, and where companies fail to file their data, we try to get their BEE certificates information by desktop research, telephone or email. Furthermore, Intellidex gathered data manually to add companies to the core database. While most of the data collected is for the period 2019 to 2020, there are scores of dated data from 2018.

While our sample, like Stats SA, is stratified, a major weakness is that it is not random. However, enumeration means our focus is to include important companies that contribute most to GDP and employment in SA. Therefore, we have confidence that our sample is more encompassing of the population: like Stats SA it includes all the important companies in SA. So while a random sample is statistically sound, it might not be the best in our case, as enumeration does seem to have more merits than downside.

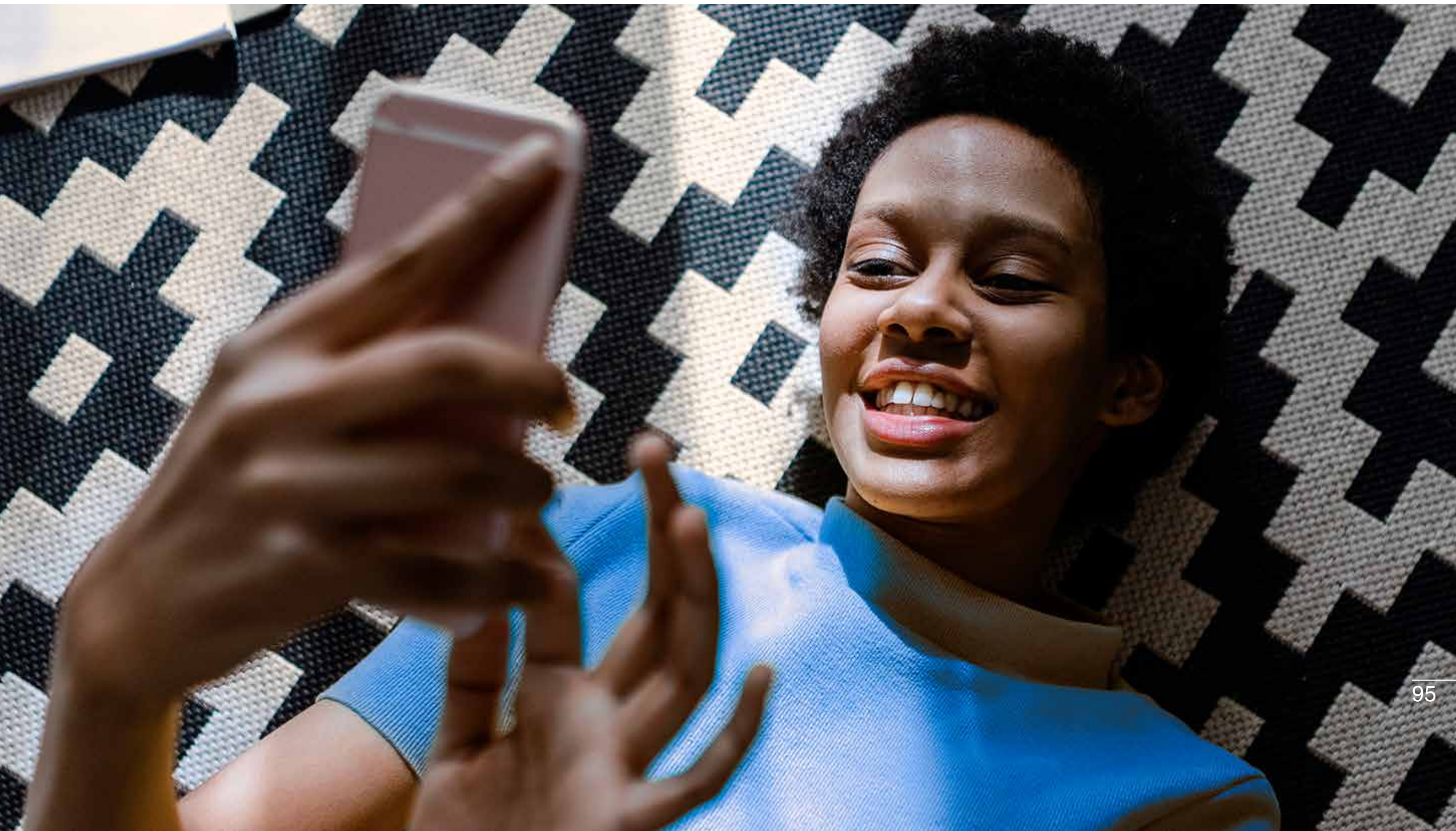
SECTOR CLASSIFICATION

Industries were classified according to the international Standard Industrial Classification (SIC) Codes.

Each company was allocated into a sector according to the SIC Codes. We then allocated all SICC sectors and subsectors into the appropriate B-BBEE Sector Code, or Generic Codes.

The tables below reflect how the SICC sectors & subsectors were allocated to B-BBEE/generic sectors.

[1] For our purposes, enumeration is when you purposefully and manually identify subjects to include in a study based on some important criteria that you believe gives you the best outcome from the study.



SECTOR BREAKDOWN: HOW SICC SECTORS FEED INTO THE B-BBEE SECTORS

B-BBEE SECTOR CODE	MAIN SICC SECTOR	SICC SUBSECTORS
AGRI-BEE	AGRICULTURE	Agricultural and Animal Husbandry Services, Except Veterinary Activities Growing of Fruit, Nuts, Beverage and Spice Crops Other Animal Farming; Production of Animal Products n.e.c. Other Central Government Activities Production of Organic Fertiliser
	FISHERIES & AQUACULTURE	Fish Hatcheries & Fish Farms Ocean & Coastal Fishing
CONSTRUCTION	CONSTRUCTION	Activities of Quantity Surveyors Architectural Activities Building of Complete Constructions or Parts Thereof; Civil Engineering Consulting Engineering Activities Electrical Contracting Manufacture of Articles of Concrete, Cement & Plaster Manufacture of Basic Iron and Steel Manufacture of Cement, Lime & Plaster Manufacture of Machinery for Mining, Quarrying and Construction Manufacture of Metal Fasteners Manufacture of Structural Non-Refractory Clay & Ceramic Products Other Building Completion n.e.c. Other Building Installation n.e.c. Other Structural Metal Products; e.g. Metal Doors, Windows & Gates. Plumbing Renting of Construction and Civil Engineering Machinery and Equipment Renting of Construction or Demolition Equipment With Operators Site Preparation Wholesale Trade in Construction Materials, Hardware, Plumbing and Heating Equipment and Supplies
FINANCIAL	FINANCIAL INSTITUTIONS	Activities Auxiliary to Financial Intermediation n.e.c. Activities Auxiliary to Insurance and Pension Funding Administration of Financial Markets Discount Houses & Commercial & Other Banking Services Lease Financing Life Insurance Medical Aid Funding Other Central Government Activities Other Credit Granting Other Financial Intermediation n.e.c. Other Insurance n.e.c., Including Direct & Travel Insurance Pension Funding Security Dealing Activities
FORESTRY	FORESTRY & WOOD	Forestry & Related Services
ICT	COMMUNICATION, MEDIA & TECHNOLOGY (CMT)	Manufacture of Television and Radio Receivers, Sound or Video Recording or Reproducing Apparatus and Associated Goods Computer & Related Activities Printing Telecommunications Radio & Television Activities Retail Trade In Reading Matter And Stationery Motion Picture and Video Production and Distribution Renting of Other Machinery and Equipment n.e.c. Publication of Books, Brochures, Musical Books & Other Publications Publishing of Newspapers, Journals and Periodicals Music Publishing Reproduction of Recorded Media

B-BBEE SECTOR CODE	MAIN SICC SECTOR	SICC SUBSECTORS
ICT (CONTINUATION)	COMMUNICATION, MEDIA & TECHNOLOGY (CMT)	National Postal Activities Renting of personal and household goods n.e.c. Signwriting and Industrial and Commercial Artistry
INTEGRATED TRANSPORT	AUTOMOTIVE & PARTS	Maintenance and Repair of Motor Vehicles Manufacture of Bodies (Coachwork) for Motor Vehicles; Manufacture of Trailers & Semi Trailers Manufacture of Motor Vehicles Manufacturing of Parts and Accessories for Motor Vehicles Manufacturing of Tyres and Tubes Rebuilding and Retreading of Tyres Sale of Motor Vehicles Sale of Other New Parts and Accessories Sale of Tyres Sale of Used Parts & Accessories Sale, Maintenance and Repair of Motor Cycles and Related Parts and Accessories
	AVIATION	Air Transport Operation of Airports, Flying Fields & Air Navigation Facilities
	MARINE	Sea and Coastal Water Transport
	TRANSPORTATION	Activities of Other Transport Agencies Cargo Handling Courier Activities other than National Postal Activities Distribution of Gases, Liquids, Slurry and other Commodities via Pipelines Freight Transport by Road Manufacture of Railway & Tramway Locomotives & Rolling Stock Operation of Roads & Toll Roads Other Central Government Activities Other Passenger Transport, Including The Renting of Passenger Motor Vehicles With Drivers Other Supporting Transport Activities n.e.c. Parking Garages and Parking Lots Railway Transport Renting of Land Transport Equipment Storage and Warehousing The Metered Taxi Industry Urban, Suburban & Inter-urban Bus & Coach Passenger Lines
MARKETING, ADVERTISING, COMMUNICATIONS	BUSINESS SUPPORT SERVICES	Accounting, Bookkeeping & Auditing Activities, Tax Consultancy Activities of Advertising Agents Business and Management Consultancy Activities Cleaning of Interiors and Exteriors of All Types of Buildings Credit Rating Agency Activities Investigation and Security Activities Labour Recruitment and Provision of Staff Legal Activities Market Research and Public Opinion Polling Other Activities - Engineering and Other Commercial Research, Developing and Testing Other Business Activities n.e.c. Photographic Activities
PROPERTY	REAL ESTATE	Developing Real Estate, Subdividing Real Estate into Lots & Residential Development on Own Account Real Estate Activities On a Fee or Contract Basis Real Estate Activities With Own or Rented Property

B-BBEE SECTOR CODE	MAIN SICC SECTOR	SICC SUBSECTORS
TOURISM	HOSPITALITY, GAMING & ENTERTAINMENT	Activities of other membership organisations n.e.c. Hotels, Camping Sites & Other Provision of Short-Stay Accommodation Museum Activities and Preservation of Historical Sites and Buildings Other Entertainment Activities n.e.c. Other Recreational Activities Restaurants, Bars and Canteens Sporting Activities Travel Agencies and Related Activities
GENERIC	CHEMICALS & FERTILISERS	Manufacture of Adhesives, Glues, Sizes and Cements Manufacture of Other Chemical Products n.e.c. Manufacture of Paints, Varnishes and Similar Coatings, Printing Ink and Mastics Manufacture of Perfumes, Cosmetics and Other Toilet Preparations Manufacture of Plastics In Primary Form and of Synthetic Rubber Manufacturing of Basic Chemicals, Except Fertilisers and Nitrogen Compounds Manufacturing of Pesticides and Other Agro-Chemical Products Manufacturing of Soap & Other Cleaning Compounds
	COMMUNITY AND PERSONAL SERVICES	Activities of Business and Employers' Organisation Activities of Professional Organisations Funeral and Related Activities Other Service Activities n.e.c. Social Work Activities Washing and (Dry-) Cleaning of Textiles and Fur Products
	EDUCATION	Education by Correspondence and Private Vocational Colleges Education by Universities Primary and Secondary Education
	ENERGY & WATER	Collection, Purification & Distribution of Water Generation of Electricity Manufacture of Accumulators, Primary Cells and Primary Batteries Manufacture of Electric Lamps and Lighting Equipment Manufacture of Electric Motors, Generators and Transformers Petrol, Fuel Oils, Lubricating Oils and Greases, Primarily From Crude Oil Retail Sale of Automotive Fuel The Manufacture of Gas Wholesale Trade in Solid, Liquid and Gaseous Fuels and Related Products
	FOOD & BEVERAGE	Distilling, Rectifying and Blending of Spirits; Ethyl Alcohol Production From Fermented Materials; Manufacture of Wine Manufacture of Bakery Products Manufacture of Beer and Other Malt Liquors and Malt Manufacture of Breakfast Foods Manufacture of Cocoa, Chocolate and Sugar Confectionery Manufacture of Coffee, Coffee Substitutes and Tea Manufacture of Dairy Products Manufacture of Edible Salt Manufacture of Flour and Grain Mill Products, Including Rice & Vegetable Milling; Grain Mill Residues Manufacture of Macaroni, Noodles, Couscous and Similar Farinaceous Products Manufacture of Prepared and Preserved Meat, Including Sausage; By-Products (Hides, Bones, etc) Manufacture of Prepared Animal Feeds Manufacture of Soft Drinks; Production of Mineral Waters

B-BBEE SECTOR CODE	MAIN SICC SECTOR	SICC SUBSECTORS
	FOOD & BEVERAGE (CONTINUATION)	Manufacture of Spices, Condiments, Vinegar, Yeast, Egg Products, Soups and Other Food Products n.e.c. Manufacture of Sugar Including Golden Syrup and Castor Sugar Manufacture of Vegetable and Animal Oils and Fats Processing and Preserving of Fruit and Vegetables Retail Trade In Beverages (Bottle Stores) Retail Trade in Non-specialised Stores with Food, Beverages and Tobacco Predominating Slaughtering, Dressing & Packing Of Livestock, Including Poultry & Small Game For Meat Wholesale Trade in Beverages Wholesale Trade in Foodstuffs
	HEALTHCARE	General Hospitals, Including Medical Staff, Radiology and Anaesthesiology. Manufacture of Medical and Surgical Equipment and Orthopaedic Appliances Manufacture of Pharmaceuticals, Medicinal Chemicals and Botanical Products Medical and Dental Practice Activities Other Health Services Retail Trade in Pharmaceuticals & Medical Goods, Cosmetics & Toilet Articles Wholesale Trade in Pharmaceuticals and Toiletries
	RESEARCH AND DEVELOPMENT	Other Research n.e.c.
	RETAIL & WHOLESALE	General Wholesale Trade Office Machinery and Equipment Including Computers Other Retail Trade Not in Stores Other Wholesale Trade n.e.c. Other Wholesale Trade on a Fee or Contract Basis Retail Trade by Other Specialised Stores Retail Trade in Hardware, Paint & Glass Retail Trade in Household Furniture, Appliances, Articles & Equipment Retail Trade in Sports Goods & Entertainment Requisites Retail Trade in Textiles, Clothing, Footwear and Leather Goods Retail Trade Via Stalls and Markets Sales by Commodity Brokers Wholesale of Other Machinery Wholesale Trade in Agricultural Raw Materials and Livestock Wholesale Trade in Books and Stationery Wholesale Trade in Household Furniture, Requisites and Appliances Wholesale Trade in Other Household Goods n.e.c. Wholesale Trade In Other Intermediate Products, Waste and Scrap
	SANITATION & WASTE MANAGEMENT	Recycling of Metal Waste and Scrap Recycling of Non-Metal Waste and Scrap n.e.c. Sewage & Refuse Disposal, Sanitation & Similar Activities
	TEXTILES, CLOTHING AND FOOTWEAR	Manufacture of blankets, made-up furnishing articles and stuffed articles Manufacture of carpets, rugs and mats Manufacture of Footwear Manufacture of tents, tarpaulins, sails and other canvas goods Manufacture of Wearing Apparel, Except Fur Apparel Preparation and Spinning of Textile Fibres; Weaving of Textiles Wholesale Trade in Textiles, Clothing and Footwear
DEFENCE	DEFENCE	Other Wholesale Trade n.e.c.

COMPANY SIZE CATEGORIES

SECTOR	CATEGORY	TURNOVER (RM)	EMPLOYEES
AGRICULTURE	Large	5.0 m	101
	Medium	3.0 m	51
	Small	0.5 m	11
	Very Small	0.2 m	6
	Micro	-	1
MINING & QUARRYING	Large	39.0 m	201
	Medium	10.0 m	51
	Small	4.0 m	21
	Very Small	0.2 m	6
	Micro	-	1
MANUFACTURING	Large	51.0m	201
	Medium	13.0m	51
	Small	5.0m	21
	Very Small	0.2m	6
	Micro	-	1
ELECTRICITY, GAS, & WATER	Large	51.0m	201
	Medium	13.0m	51
	Small	5.1m	21
	Very Small	0.2m	6
	Micro	-	1
CONSTRUCTION	Large	26.0m	201
	Medium	6.0m	51
	Small	3.0m	21
	Very Small	0.2m	6
	Micro	-	1
WHOLESALE TRADE, COMMERCIAL AGENTS & ALLIED SERVICES	Large	64.0m	201
	Medium	32.0m	51
	Small	6.0m	21
	Very Small	0.2m	6
	Micro	-	1

SECTOR	CATEGORY	TURNOVER (RM)	EMPLOYEES
RETAIL & MOTOR TRADE & REPAIRS	Large	39.0m	201
	Medium	19.0m	51
	Small	4.0m	21
	Very Small	0.2m	6
	Micro	-	1
CATERING, ACCOMMODATION & OTHER TRADE	Large	13.0m	201
	Medium	6.0m	51
	Small	5.1m	21
	Very Small	0.2m	6
	Micro	-	1
TRANSPORT, STORAGE, COMMUNICATION	Large	26.0m	201
	Medium	13.0m	51
	Small	3.0m	21
	Very Small	0.2m	6
	Micro	-	1
INSURANCE, PENSION FUNDING, FINANCIAL INTERMEDIATION & AUXILIARY SERVICES	Large	800.0m	201
	Medium	125.0m	51
	Small	50.0m	21
	Very Small	2.0m	6
	Micro	-	1
REAL ESTATE & OTHER BUSINESS SERVICES	Large	26.0m	201
	Medium	13.0m	51
	Small	3.0m	21
	Very Small	0.2m	6
	Micro	-	1
COMMUNITY, SOCIAL & PERSONAL SERVICES	Large	13.0m	201
	Medium	6.0m	51
	Small	1.0m	21
	Very Small	0.2m	6
	Micro	-	1

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Sanlam is a Licensed Financial Services Provider.

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