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Department:  
Trade and Industry  
REPUBLIC OF SOUTH AFRICA

# **Amended Broad-Based Black Economic Empowerment Codes of Good Practice 2013**

**PRESENTATION TO PORTFOLIO COMMITTEE  
ON TRADE & INDUSTRY**

**20 FEBRUARY 2013**



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## Official delegation

- Lionel October : Director General
- Siphosiso Zikode : Deputy Director General
- Nomonde Mesatywa: Chief Director
- Janeez Hafizulla : Deputy Director



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## Introduction and Background

B-BBEE seeks to accelerate the de-racialization of the South African economy and to fast track the re-entry of previously marginalized communities into the mainstream of the economy

Furthermore, B-BBEE endeavours to transform the South African economy to enable the meaningful participation of Black people, Women, and Rural communities in the mainstream of the economy in a manner that has a positive impact on employment, income redistribution, structural readjustment and economic growth.

In terms of Sec 9 of the B-BBEE Act the Minister is empowered to issue Codes of good practice to promote the objectives of the B-BBEE



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## Introduction & background: policy objectives

- Increase in the number of black people who have **ownership and control of enterprises**
- Increase in the number of black owned or black women **owned enterprises**
- Increase in the number of black people in **executive and senior management**
- **Increased income levels of black persons and a reduction of income inequalities** between and within race groups.
- **Increased inclusion of community and broad-based enterprises, and co-operatives** in economic opportunities.

## Introduction & background cont....

- The enactment of the BBBEE framework in 2007, a legally conducive and enabling environment to transform and build capacity in the economy was created through broaden the framework to include elements of :
- Human resource development: Employment Equity, Management and Skills Development
- Indirect Empowerment: Enterprise development, Procurement and Socio economic development
- 7 pillars of the scorecard developed which came to be know as the borad based scorecard



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## 2007 BBBEE GENERIC SCORECARD

| Element                    | Weighting  | Compliance Targets |
|----------------------------|------------|--------------------|
| Ownership                  | 20 points  | 25% +1             |
| Management control         | 10 points  | (40% to 50%)       |
| Employment Equity          | 15 points  | (43% to 80%)       |
| Skills Development         | 15 points  | 3% of payroll      |
| Preferential Procurement   | 20 points  | 70%                |
| Enterprise Development     | 15 points  | 3% (NPAT)          |
| Socio-Economic Development | 5 points   | 1% (NPAT)          |
| TOTAL                      | 100 points |                    |

## Observations

- Moderate progress has been observed and noted, slight improvement achieved in the direct equity element as evidenced by the number of deal mergers in the past 5 years.
- Many existing legislations are still misaligned to the principles of the Codes and the BBBEE Act, thus leading to ineffective implementation (Granting of licenses, PPP & Govt work)
- Tick box approach and circumvention has become prevalent
- Substantive application and the broad based component lacking
- Presidential council identified key areas of refinement in order to enhance and re-orientate the application of the Codes

# Bodies consulted

- Presidential advisory Council on B-BBEE
- Sector Charter Councils
- National and Provincial Government and public institutions
- Business Unity SA
- Black Business Council
- Chambers of commerce
- Multinational companies
- Professional Associations
- Financial services sector
- Developmental finance institutions



# Process of gazette and public commentary

- 2 October 2012 the revised B-BBEE Codes of Good Practice were unveiled by the Minister of Trade and Industry
- 5 October 2012, the revised BBEE Codes were gazetted for 60 days public comment.
- 35 strategic consultative engagements conducted over a 60 day period.
- National and provincial departments
- The commentary period ended on the 6 December 2012 and 550 submission were received.

## Revised principles

- ❑ Aligning the key elements to government 's priority programmes
- ❑ Refocused the scorecard into 5 targeted elements
- ❑ Enhanced the recognition status of black owned and black controlled Exempted Micro(EME) and Qualifying Small Enterprises(QSE)
- ❑ All companies except EME to comply with the refocused scorecard
- ❑ Introduced priority elements: Ownership, Skills Development, and Enterprise & Supplier Development



## Revised principles cont..

- ❑ Employment Equity and Management Control merged into one element: **Management Control ( MC)**
- ❑ Preferential Procurement and Enterprise Development merged into one element : **Enterprise and Supplier Development (ESD)**
- ❑ Introduced **minimum requirements for priority elements:** Ownership, Skills Development, and Enterprise & Supplier Development

## Revised principles cont..

- ❑ All measured entities to comply with **priority elements** under the following conditions:
  - ❑ QSEs to comply with **at least two** of the priority elements
    - ❑ Ownership **is compulsory** and either
    - ❑ ESD or Skills Development;
  - ❑ Large entities to comply with **all priority elements** ;
- ❑ Entities **who do not meet the thresholds** in priority elements, the overall Score will be **discounted** as follows:
  - ❑ Large entities score : two (2) levels down
  - ❑ QSE score : one (1) level down

# Revised principles cont..

- ❑ An **EME** that is **100% owned by black people** qualifies as a **level 1 contributor**;
- ❑ An **EME** that is more than **50% owned by black people** qualifies as a **level 2 contributor**;
- ❑ Early payment is applicable to **Exempted Micro Enterprises** and **QSEs** that are **more than 50% black owned**.
  - maximum points that can be scored is **15% of 15 points** under Enterprise & supplier development

## Revised principles cont..

- ❑ Increased the weighting of the Ownership scorecard from **20 to 25** points, and included designated groups in the main.
- ❑ Alignment between the BBBEE & Employment Equity in terms of compliance targets for Management Control
- ❑ **Junior level category taken out of management control**
- ❑ on Skills points increased to 20 & broadened the learner ship sub-element to include apprenticeships and internships, & targeted training
- ❑ Training initiatives broadened to encompass the unemployed (outward focused) & introduced learners absorption target

## Revised principles cont..

- ❑ On Enterprise and supplier development companies will obtain enhanced recognition if they procure from new enterprises, and black QSEs and EMEs if there is a 3 year contract in place
- ❑ alignment between enterprise and supplier development initiatives with the supply chains of companies and broader government objectives
- ❑ Supplier Development beneficiaries to only include black owned, black controlled and black women owned and controlled QSEs and EMEs
- ❑ Adjusted the benefit factor matrix & all suppliers are required to be support local production to be awarded points on the scorecard

# Revised thresholds

The **thresholds** have been adjusted as follows:

- ❑ EME increased from **R5m** to **R10 m**
- ❑ QSE: **R5 m -R35 m** to **R10m - R50m**
- ❑ Large entities: **R50 m and above**



# Economic impact of the thresholds

| SIZE OF THE COMPANY                            | NO      | %    | BEE compliance     |
|--|---------|------|--------------------|
| Survivalists, Micro and Very Small<br>( EME's) | 878 032 | 95 % | No compliance      |
| QSE (R 10 m to R 50 m)                         | 34 118  | 3%   | Relaxed compliance |
| Large ( More than R 50 m)                      | 11 871  | 2%   | Full Compliance    |

SOURCE: SARS 2012

- Above companies include only current active filers/ economically active companies totaling 924 021

- Up to 95% of all economically active companies have been exempted from B-BBEE compliance

- Companies that are expected to comply with the generic scorecard represents 2% of all active fillers.

# Adjusted levels

| B-BBEE Status             | Current Qualification                        | New Qualification                            | B-BBEE recognition level |
|---------------------------|--|--|--------------------------|
| Level One Contributor     | ≥100 points on the Generic Scorecard         | ≥100 points on the Generic Scorecard         | 135%                     |
| Level Two Contributor     | ≥85 but <100 points on the Generic Scorecard | ≥90 but <100 points on the Generic Scorecard | 125%                     |
| Level Three Contributor   | ≥75 but <85 on the Generic Scorecard         | ≥85 but <90 on the Generic Scorecard         | 110%                     |
| Level Four Contributor    | ≥65 but <75 on the Generic Scorecard         | ≥80 but <85 on the Generic Scorecard         | 100%                     |
| Level Five Contributor    | ≥55 but <65 on the Generic Scorecard         | ≥75 but <80 on the Generic Scorecard         | 80%                      |
| Level Six Contributor     | ≥45 but <55 on the Generic Scorecard         | ≥70 but <75 on the Generic Scorecard         | 60%                      |
| Level Seven Contributor   | ≥40 but <45 on the Generic Scorecard         | ≥55 but <70 on the Generic Scorecard         | 50%                      |
| Level Eight Contributor   | ≥30 but <40 on the Generic Scorecard         | ≥40 but <55 on the Generic Scorecard         | 10%                      |
| Non-Compliant Contributor | <30 on the Generic Scorecard                 | <40 on the Generic Scorecard                 | 0%                       |

# Revised B-BBEE Scorecard

| Element   | Code series | Revised Weighting |
|---|-------------|-------------------|
| Ownership                                       | 100         | 25 points         |
| Management Control(MC)                          | 200         | 15 points         |
| Skills Development(SD)                          | 300         | 20 points         |
| Enterprise & Supplier Development( <b>ESD</b> ) | 400         | 40 points         |
| Socio-economic development( <b>SED</b> )        | 500         | 5 points          |
| <b>TOTAL</b>                                    |             | <b>105 POINTS</b> |



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## New Trajectory

- Change SA culture to be supportive of entrepreneurship and diversification of value chains
- Concerted effort in linking B-BBEE with other government economic development strategies such as IPAP, CSDP, New Growth Path , etc. (the real economy) to create effective black capacity & industrialist
- Focus on businesses and industries that result in significant job creation
- Symbiotic relationship between the public and the private sector and amongst private sector players to unlock opportunities
- General support for the broader direction based on the submissions however more technical clarification required



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**Thank You!**