

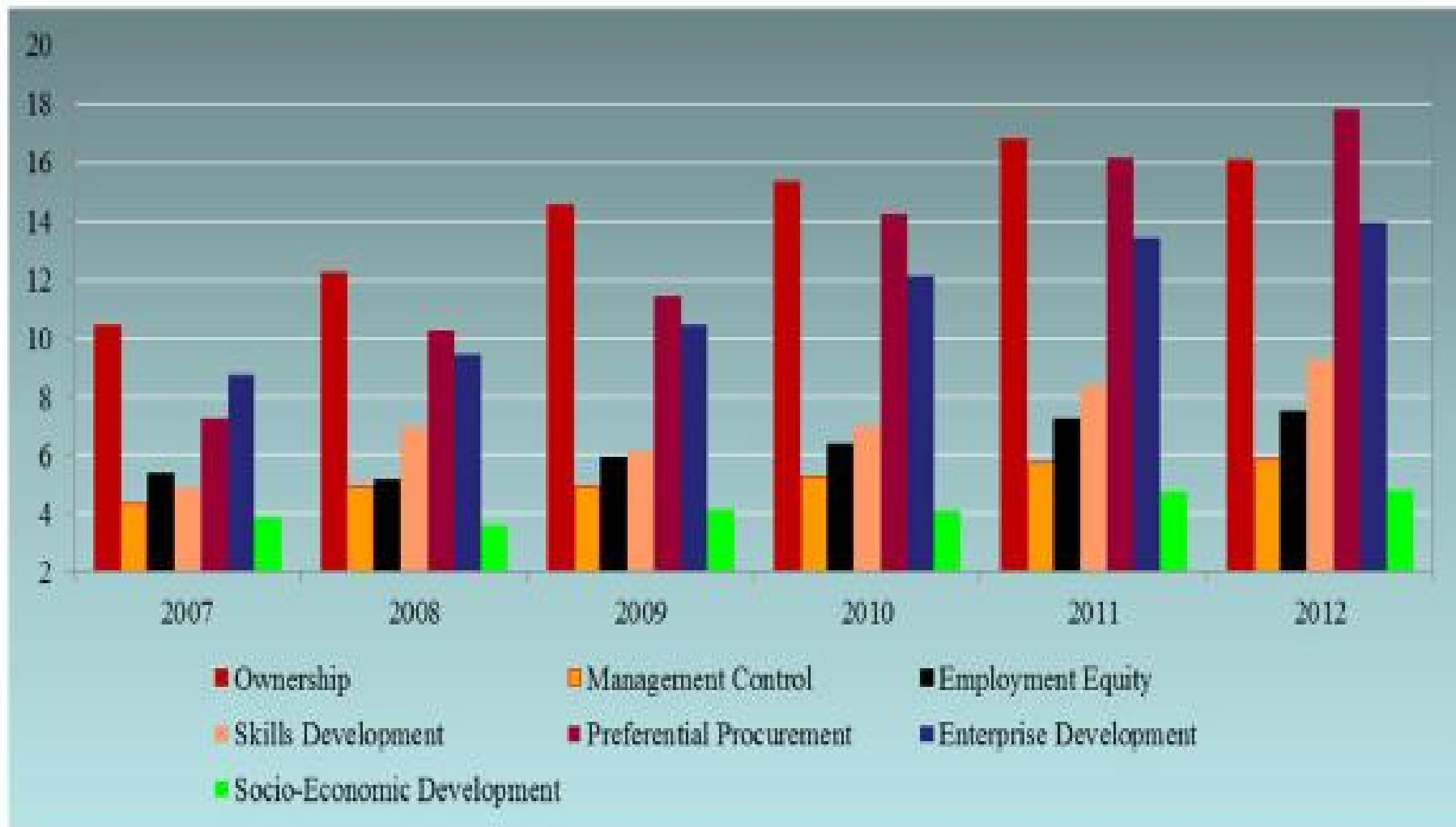
Wrong Turn on the Way to BEE

Presented and written by King Percy Abelkop in
November 2012

It's clear that we still need you King

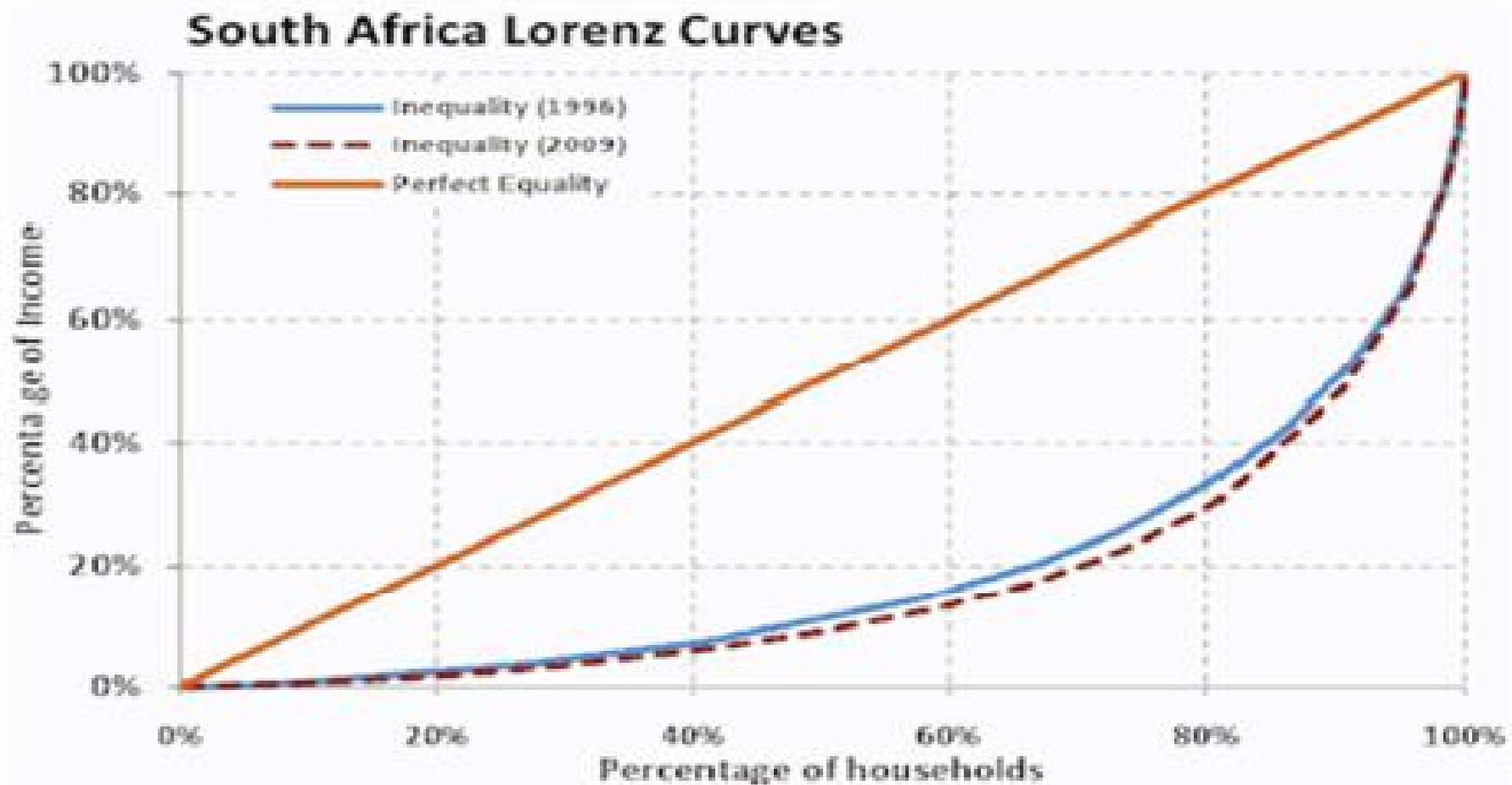
What does the dti say about BEE's success?

Empowerdex's Progress Graph as published in Min Davies' presentation of revised Codes:



What does the dti say about BEE's success?

Min Davies' Lorenz Curves presented in his introduction of the revised Codes:



Some initial comments

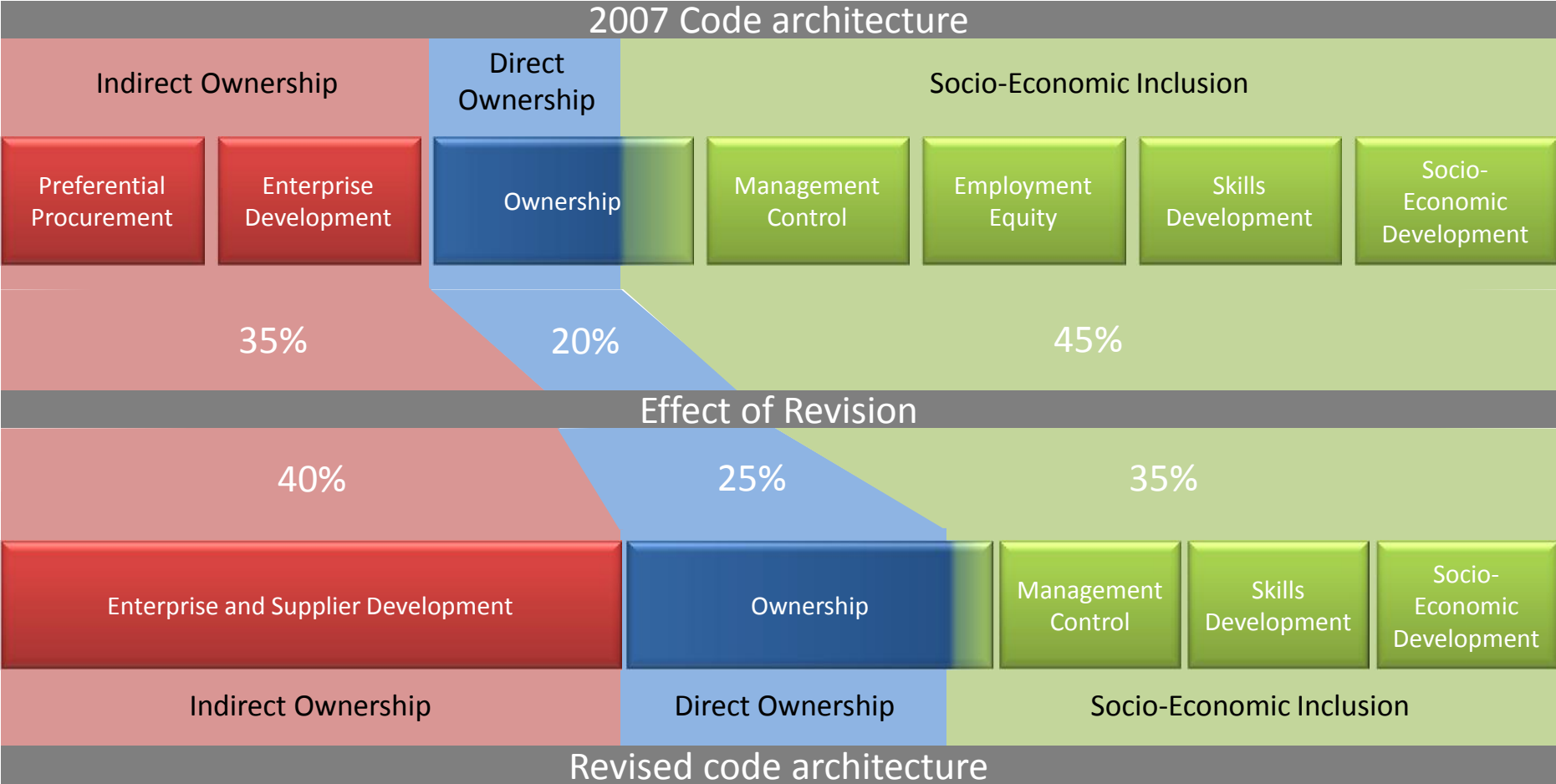
- The Empowerdex graphic demonstrates a significant overall improvement trend in every element for the past 5 years. There are exceptions:
 - Ownership is trending downwards in 2012
 - Employment Equity retreated in 2008 but recovered consistently thereafter
- The Lorenz Curve show a worsening trend of household income inequality from 1996 to 2009
- So what to make of this:
 - Ownership decline is a problem
 - Overall progress is insufficient
 - Codes must be amended to address worsening inequality
- In this presentation, I will seek to address those issues within the context of the changes being proposed

First, some statistics

Indicator		Source
Going concerns in SA	±1,000,000	SARS and DTI 2012
Going concerns subject to BEE	46,000 (5%)	DTI 2012
Going concerns on JSE	405 (<1%)	JSE 2011
Taxpayers earning Directors Remuneration	123,324	SARS 2011
Taxpayers earning Business Income	121,917	SARS 2011
Taxpayers exercising Share Options	36,308	SARS 2011
Natural Person Shareholders on JSE	1,275,513	IOSCO 2005

Indicator		Source
Working Age Population (WAP)	32,555,000 (100%)	STATS-SA 2011
Size of Economically Active Populations (EAP)	17,761,000 (54%)	STATS-SA 2011
Employed	13,318,000 (41%)	STATS-SA 2011
Management, Professionals and Technicians	3,333,000 (10%)	STATS-SA 2011
Unemployed	4,442,000 (14%)	STATS-SA 2011
Discouraged	2,204,000 (7%)	STATS-SA 2011
Not Economically Active	12,591,000 (39%)	STATS-SA 2011

Second, unpacking the architecture



Key Ownership Considerations

Consideration	Number	Relative %
Total going concerns in SA	1,000,000	100%
Subject to measurement under Code 100	46,000	4.6%
Private	43,300	4.3%
Public Unlisted	3,300	0.3%
Public Listed	400	0.0%
Potential maximum reach in individual owners		
Private Companies (ESOPs)	13,000,000	41% WAP
Public Companies (ESOPs and Broadly held)	55,000,000	100%
Individuals currently taxed for equity related income (real coverage)	1,000,000	2%
% of JSE free float currently held by BEE		32%
Empowerdex score as at 2012	16/20	80%
Change in weighting under Revised Code	+5	+25%
New share of Scorecard		25%

What don't we know about ownership?

- Number of individual shareholders in the economy is unknown – surely you do this research before you start reviewing codes. How has BEE improved ownership participation? If so, by how much?
- Broad-based schemes have never been studied in any detail and neither have ESOPs. If verification agencies assure this stuff, why is the data not being collected?
- Nobody knows the actual distribution of equity ownership across the economy because the dti is not keeping statistics. In developed economies, share ownership rises as high as 30% of the WAP, but real benefit generally limited to 1%. What is the position in SA?

What are the key changes?

Minimum Threshold linked to black ownership debt profile

- Linked to Net Equity realisation of 40% - implies that under water BEE deals with delayed realisation will need to be topped-up
- Applies regardless of date of commencement of ownership

Elimination of Bonus Points for broadly held

- Participation by Broad Based Schemes, ESOPs and New entrants now hardcoded as a required component of ownership at a fixed 3% and 2% respectively

Comment on ownership

Progress under old Codes

- Very strong performance even at JSE level

Socio-economic inclusion under revised Codes

- Inclusion no longer incentivised
- Poor and marginalised now locked into 3% Ghetto

Who benefits?

- BEE investors reliant on 3rd party finance

What drives changes?

- Overcoming sluggish realisation
- Squeezing extra opportunities of diminishing resource
- Limiting loss to broadly held ownership

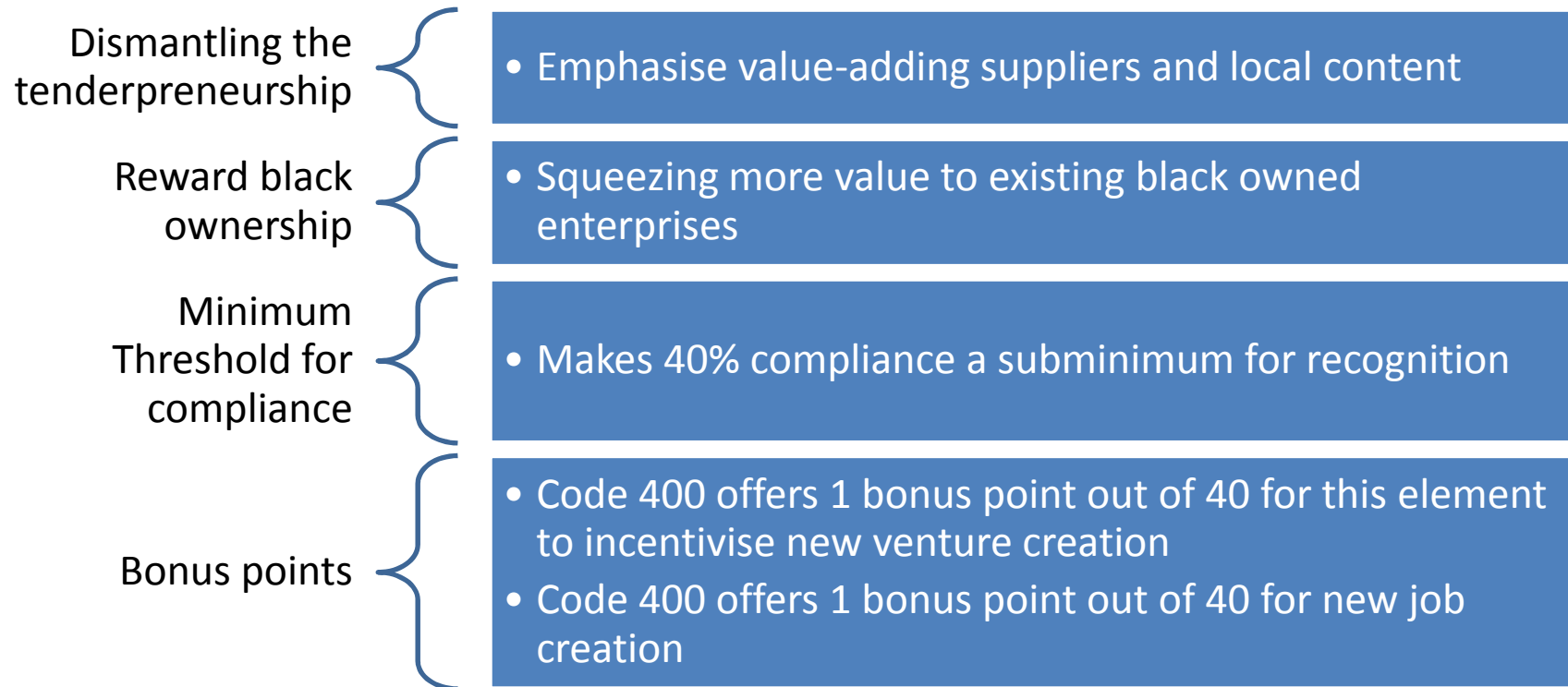
Assessment

- 25 points is too many if your true beneficiary class remains at around 1 million people including non-black people

Key Enterprise and Supplier Development Considerations

Consideration	Number	Relative %
Total going concerns in SA	1,000,000	100%
Subject to measurement under Code 400	46,000	4.6%
Individuals currently taxed for equity related income (real coverage)	1,000,000	2%
Empowerdex score as at 2012		
Preferential Procurement	18/20	90%
Enterprise Development	14/15	93%
Change in combined weighting under Revised Code	+5	+14%
New share of scorecard		40%

What are the key changes?



Comment on Enterprise and Supplier Development

Progress under old Codes

- Extremely good progress

Socio-economic inclusion under revised Codes

- No real change at all
- Inclusion level is low particularly because new venture and job creation is not really incentivised

Who benefits?

- Owners of existing 46,000 businesses (5%) with T/O in excess of R 10 million
- Possibly some smaller entities, but generally unlikely

What drives changes?

- Dismantling tenderpreneurialism
- Promoting local content
- Squeezing more value for existing black owned companies

Assessment

- Tougher scorecard
- Likely to have even handed impact except for black owned suppliers
- Job and new venture creation side-lined
- Local beneficiation and manufacturing not really promoted

Key Management Control Considerations

Consideration	Number	Relative %
WAP	32,555,000	100%
Employed	13,318,000	41%
Previously measured under Codes 200 and 300	8,500,000	26%
Measured under new Code 200	3,300,000	10%
Empowerdex score as at 2012		
Management Control	6/10	60%
Employment Equity	7.5/15	50%
Change in combined weighting under Revised Code	-5	-20%
New share of scorecard		15%

What are the key changes?

Reduce
coverage

- Reduce the number of job in the WAP subject to measurement by 61%

Reintroduce
Apartheid era
classifications

- There is the re-introduction of Apartheid era differentiation between African, Coloured and Indian, but this appears to be mathematically irrelevant .

Comment on Management Control

Progress under old Codes

- Lagging badly Employment Equity in particular has shown poor progress

Socio-economic inclusion under revised Codes

- Coverage reduced by 61%
- Drive attention to jobs representing 10% of the WAP

Who benefits?

- Black managerial, professional and technical aspirants
- Jimmy Manyi

What drives change?

- Need to free up points for ownership and Enterprise and Supplier Development
- Sentiment and emotion around black minorities

Assessment

- Toughness of targets is no surprise
- The return of Apartheid era classifications is profoundly sad

Key Skills Development Considerations

Consideration	Number	Relative %
WAP	32,555,000	100%
Measured under Code 300 (employed)	13,318,000	41%
Incentivised as employed Learners, Apprentices and Interns	332,000	2.5%
Incentivised as unemployed Learners, Apprentices and Interns (sic)	332,000	2.5%
Real coverage*	3,330,000	10.2%
Empowerdex score as at 2012	9/15	60%
Target		
Current Codes % of leviabale amount		3%
Revised Codes % of leviabale amount		6%
Change in combined weighting under Revised Code	+5	+33%
New share of scorecard		20%

What are the key changes?

More spend on same people

- Skills Development, in its natural form, benefits only the employed - 13.3 million (41% of WAP)
- Because it is measured primarily based on Rand spend, it favours the upper quartile of that base because higher order skills are more expensive

Developmental Skills recognised

- Recognition for unemployed people participating in Learnerships, Apprenticeships and Internships
- Labour law precludes people from working if they are not employees
- Maximum recognition based on a headcount of formerly unemployed black people at 2.5% of total staff headcount, this can add at most 340,000 jobs a year if everybody complies
- At this rate, it would take 20 years to onboard the currently unemployed and discouraged work seekers.

Higher Target

- The targeted spend has doubled to 6% of leviable amount

Subminimum

- Introduce subminimum for Skills Development

Comment on Skills Development

Progress under old Codes

- Moderate, no shooting the lights out!

Socio-economic inclusion under revised Codes

- The beneficiary group skews overwhelmingly to the upper 10% of WAP
- The efforts made to include non-employees are, at best weak, and, at worst, disingenuous

Who benefits?

- Existing black employees and in particular upper quartile

What drives changes?

- Not at all clear
- Possibly sentiment and emotion

Assessment

- Tougher compliance targets are not unexpected
- Doubling of spend levels is irrational
- Not including options for investment in primary, secondary and tertiary education represent a lost opportunity

Key Socio-Economic Development Considerations

Consideration	Number	Relative %
Real potential coverage	55,000,000	100%
Real coverage – additional self taxation		1% NPAT
Empowerdex score as at 2012	5/5	100%
Change in combined weighting under Revised Code	0	0%
New share of scorecard		5%

What are the key changes?

Stripping
away
recognition
of “non
racial”
contributions

- The most obvious change strips away companies’ right to make investments into overwhelmingly, but not 100%, black benefitting SED initiatives
- Heaven help the mixed race women’s shelters and orphanages

Comment on Socio-Economic Development

Progress under old Codes

- Excellent

Socio-economic inclusivity

- Only element that targets 100% of the economically marginalised
- Stripping of 75% benefit punishes black people benefitting from non racial initiatives

Who benefits?

- Not at clear

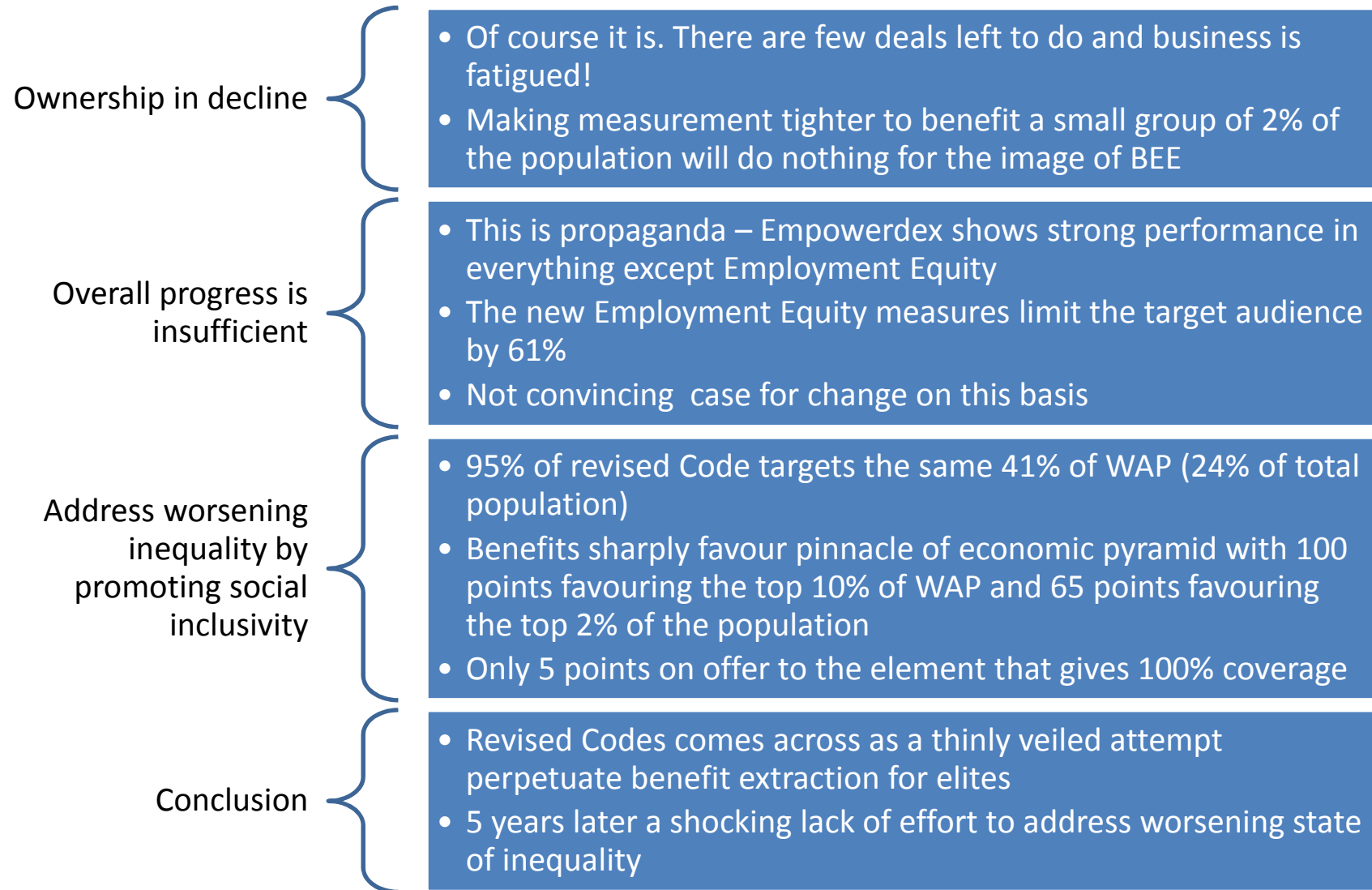
What drives changes?

- Not at all clear
- Possibly sentiment and emotion

Assessment

- Opportunity to increase CSI, health care and education as well as other social initiatives is lost

So how do we stack up?



What should you do?

- Make representations to the dti
- Demand a greater weight to SED and in particular bonus points for contributions to:
 - Poverty alleviation
 - Education at primary, secondary and tertiary level
 - Health care strengthening
- Demand more recognition within enterprise and supplier development for new business creation
- Demand more recognition for job creation