Sanlam

TRANSFORMATION Gauge

REPORT

18 JULY 2023

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Sunday Times Business Times


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RESEARCH
Lead researcher: Everton Muberekwa
Assistant researchers: Elton Mpinyuri, Fezeka Thwala, Rudzani Ndwa; Nduduzo Langa
External consultant: Lerato Ratsoma, Empowerdex
Research co-ordinator: Stuart Theobald, Intellidex

EDITORIAL
Editorial consultant: Andile Khumalo
Editor: Colin Anthony
Editorial assistants: Janice Roberts
Editorial contributors: Zanele Sabela; Lynette Dicey; Aurelia Mbokazi-Kashe; Johann Barnard; Herb Payne; Gillian Klawansky; Andile Khumalo; Janice Roberts; Colin Anthony
Columnists:
Bonang Mohale: President, Business Unity South Africa
Lusapho Njenge: Manager, Enterprise & Supplier Development at Exxaro Resources
Halekopane Matsipa: CEO, Kleoss Capital
Tabea Kabinde: Managing Director, We Find Talent and chairperson of the Commission for Employment Equity
Nozizwe Vundla: Head of the Sanlam Foundation

LAYOUT & DESIGN
SUNSHINE Design Collective

Arena Holdings (Pty) Ltd
Hill on Empire, 16 Empire Road, Parktown, 2193,
Tel: +27 (0) 11 280 3000 | www.arena.africa

Intellidex (Pty) Ltd
1st Floor, Building 3, Inanda Greens Office Park,
54 Weirda Road West, Sandton, 2194
Tel: +27 (0) 10 072 0472 | www.intellidex.co.za

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PAUL HANRATTY,
CHIEF EXECUTIVE OFFICER, SANLAM GROUP

VALUABLE RESOURCE FOR THOSE SEEKING A DEEPER UNDERSTANDING OF THE SIGNIFICANCE OF B-BBEE

It has been three years since we partnered with Intellidex and Sunday Times Business Times to launch the Sanlam Transformation Gauge. Our collective goal was firstly to gain a very clear and accurate picture of the state of Broad-Based Black Economic Empowerment (B-BBEE) and transformation in South Africa. Secondly, and most importantly, to ignite meaningful dialogue, shape policies, and inspire actions that foster a more inclusive and prosperous future for all South Africans.

We are committed to breathing fresh life and impetus into this seminal national priority. The research is becoming deeper and more comprehensive each year with the number of participants growing by an impressive 361% since 2021.

We are not here, though, to celebrate the strength of our research. We are here to drive the creation of a more equal society. To make sure that B-BBEE does not only make an impact on paper, that it makes an impact on the lives of those who deserve to have an equal chance to live their best possible lives.

The 2023 study shows that SA Inc. has achieved a combined score of Level 3. We have seen increases in many key indicators, but disappointingly not in others. We must continue to explore solutions that foster a culture of care and go beyond mere compliance - that see success result from transformation driven for all the right reasons.

At Sanlam, we acknowledge the socio-economic challenges not only in South Africa but throughout Africa, and we recognise the urgency of creating a more inclusive and just economy. Instead of waiting for others to act, we have chosen to lead the way by enhancing our efforts in transformation and empowerment. Initiatives like this research exemplify our dedication.

Our perspective on transformation has evolved from mere compliance to positioning Sanlam as a catalyst for systemic socio-economic change. We are expanding our vision to encompass all African countries within our reach, collaborating with like-minded partners who share our goals.

As a Level 1 company for five consecutive years, I take great pride in Sanlam's transformation journey and our commitment to reaching new heights. While we are proud of our adherence to B-BBEE standards in our industry, we know there is still much work to be done and we remain committed to surpassing our achievements and setting new standards of excellence.

The Sanlam Transformation Gauge serves as a valuable resource for those seeking a deeper understanding of the significance of B-BBEE in South Africa's socio-economic transformation. We hope this report is a useful tool for you and that it helps spark a renewed commitment to transforming our workplaces, our societies, and our nation.

"We are here to drive the creation of a more equal society. To make sure that B-BBEE does not only make an impact on paper, that it makes an impact on the lives of those who deserve to have an equal chance to live their best possible lives."

INTRODUCTION

BY COLIN ANTHONY

SCORES IMPROVE BUT CONCERNS REMAIN

The third edition of the Sanlam Transformation Gauge is based on the B-BBEE scores of 14,542 companies across 10 sectors of the B-BBEE classifications system. This year it includes the results of a survey of B-BBEE verification agencies which are at the forefront of measuring B-BBEE in companies and are acutely aware of the challenges affecting transformation. The predominant theme is that transformation is not as advanced as the scorecards suggest while comment from industry participants suggests that B-BBEE policy is not keeping pace with major changes in the various sectors.

Scores improved across the scorecard except for socioeconomic development – which remains well above target – in this year's Sanlam Transformation Gauge report, which incorporates 14,542 companies in the sample, up from 10,336 last year and 3,154 in 2021.

This is by far the most comprehensive research into Broad-Based Black Economic Empowerment (B-BBEE) scores ever produced. Yet, the strong message emanating from the people we interviewed for this report is that in the workplace, the reality is that transformation is not as advanced as the scorecards suggest. A strong belief persists that the overall national B-BBEE strategy needs to be adapted, or possibly overhauled completely, so that it better reflects actual transformation (or lack thereof). There are also calls from some quarters for B-BBEE to be scrapped entirely.

Even if the scores that we reflect in this report, which are each drawn from individual company scorecards verified by approved agencies, are perceived to be "advanced", they're still not flattering to SA Inc.

Looking at ownership for example, many people would probably raise their eyebrows at the 80.81% of target it achieved nationally, considering it too high. This doesn't mean that nearly 81% of the economy is in black hands – far from it, the target itself is 25% voting rights in a company for black people. It simply means that companies have gained an average of 20.26 points (including bonus points) out of 25.05 available. So is 81% of that target an impressive achievement after nearly 30 years of democracy?

The worst performer remains management control. In all three reports it is the worst performer within each sector and this year it achieves 69% of target – albeit with a strong gain from 56% in last year's report.

For deeper insight, this year we include a survey conducted among B-BBEE verification agencies which 42 completed. We asked whether management's poor performance was due to "resistance by corporate South Africa to seeing black people in leadership positions"; a lack of skills; or both.

Just more than half of the agencies (51%) said it was due to the first option – racism. Certainly, lack of skills is a legitimate problem for corporate SA but only 23% said that was the main reason while 26% said both were relevant factors.

Perhaps understandably, government seems to be losing patience, pushing a raft of legislation through that attempts to enforce compliance in various ways, reflecting a notable shift from what is still voluntary B-BBEE participation – but necessary to secure business from government or big business.

Unfortunately, when government interferes in business activities, the results are often messy and the uproar has been loud and widespread.

Probably the most notorious new law is the Employment Equity Amendment Act 2020 (EEA Act), which was signed into law by President Cyril Ramaphosa on 12 April this year. The department of water and sanitation has also gazetted draft regulations stipulating that water use licences will be granted only to companies

with at least 75% black equity ownership. The draft public procurement bill has also been approved by cabinet.

The latter is an attempt to end the confusion stemming from the fact that several laws currently regulate procurement by public service entities, consolidating them into one framework. It retains a strong empowerment focus, envisaging preferential procurement with a points system for black-empowered businesses; measures to provide preference for certain categories of people as well as for designated economic sectors (such as local manufacturing and services), including measures to set aside contracts for those groups; as well as measures to subcontract to specific categories of people or businesses as a precondition for bidding.

The EEA Act and water licence legislation have been accused of being little more than racial quotas. The EEA Act gives the relevant minister the authority to impose numerical targets for each sector for companies with 50 or more employees. In terms of the legislation, the state is effectively determining for each company what percentage of their contingent must be African, Indian, Coloured and white.

Wherever you might stand on the merits or otherwise of the EEA Act, the one valid point is that it may display a lack of understanding by government about how business works, particularly when it comes to hiring employees who are not only appropriately qualified but also suitable for the post a company needs to fill.

The sectoral target for professionally qualified Africans in the construction sector is 65.2% in the next five years, up from 46.9%.

“These targets are not achievable over the short term because the supply of experienced staff is simply not there,” says Deon Fabel, chief operating officer at Bigen Group, an infrastructure development company. In the construction sector article in this report, he says the targets “may be achievable over the long term, allowing our young black professionals to gain the necessary experience and expertise, but it will have to be supported by substantial economic growth”.

The targets are also highly problematic in the ICT sector which, in five years, has to increase black participation in the workforce from about 28% to 61%. This is a sector where already companies compete intensely for talent, “not just locally in SA but globally”, says Shernon Davis, a director at BEE consultancy Transcend Corporate Advisors. “In a sector where it is already challenging to retain talent and appoint staff with the required skill, the sectoral targets reduce the available talent pool even further.”

Such anxiety over the EEA Act’s requirements is widespread. Perhaps recognising this, employment & labour minister Thulas Nxesi recently reached a settlement agreement with trade union Solidarity after it lodged a complaint with the International Labour Organisation that the legislation puts too much emphasis on race to determine who should be “hired, fired or promoted”. Penalties for noncompliance have also been softened, including a provision that no penalties or disadvantages will be imposed on employers who can demonstrate reasonable grounds for noncompliance.

Nxesi hailed this as a “groundbreaking” agreement, according to Business Day, saying it demonstrates the role social dialogue can fulfil in promoting social justice.

Solidarity chair Flip Buys' response was more measured, saying it was a step in the right direction but "a lot still needs to be done to solve the unemployment crisis in SA". He may be right about that, but the legislation is not intended to grow employment as it is unlikely to create jobs. According to some critics, it is likely to do the exact opposite.

The agreement, says Buys, stipulates that government and companies "may not use race to determine who is hired, fired or promoted. They must use a more nuanced approach. Race cannot be the only factor."

Not many are optimistic that the EEA Act and water use licences legislation will result in actual changed outcomes on the ground. "It's unworkable," one executive from a verification agency told me. "Enforcement will be a nightmare and I doubt many companies will comply."

The regulations mentioned above don't come in isolation but are part of an already regulatory heavy arena. Tshediso Matona, the new commissioner of the Broad-Based Black Economic Empowerment Commission, is well aware of this but also maintains that more legislation is required to address the problematic areas of transformation.

In a key interview with Andile Khumalo, co-founder of the Sanlam Transformation Gauge, published in this report, he speaks of a need to recalibrate the balance between incentives and penalties to improve compliance with the B-BBEE codes and targets.

While talking of the need to revitalise B-BBEE to address gaps in law, he says it is also important to "harmonise and tighten the holistic ecosystem supporting the policy, including strong advocacy and championing at all levels".

Policy ambiguities result in noncompliance and he aims to "dig deeper and investigate the underlying reasons why there is a poor reporting culture, and separate blatant refusal to comply as a reason from possible reporting fatigue".

Another move by government to accelerate the transformation agenda came from President Cyril Ramaphosa in July last year with the establishment of the Presidential B-BBEE Advisory Council. Councillors representing government, business, labour, the youth and other stakeholders were appointed with the primary mandate being to address the issues raised in the Gauge reports: that transformation is happening too slowly, that it is not meaningful particularly at the management and ownership levels and that, after 28 years of democracy, it is time to reassess the B-BBEE framework and address areas that are not working.

Unfortunately we could not get any indication of the council's progress, though we have learned that it has been meeting some sector charter councils to assess their challenges. The B-BBEE Commission referred our queries to the B-BBEE policy unit within the department of trade, industry and competition and they promised to respond but failed to meet our deadline.

One thing the government legislation mentioned above does not take into account is corruption. Of course, this cancer has crippled the governing party from top to bottom, making it difficult to successfully implementing most of its policies. It is probably fair to say that corruption has significantly crippled enterprise supplier development (ESD), the one aspect of the B-BBEE framework that could make a significant difference to the country's economic trajectory if implemented successfully.

It is under the ESD banner that procurement is conducted – by government, state-owned enterprises and the private sector. Procurement malfeasance through state organs has been widely reported. It was institutionalised during Jacob Zuma's presidency and Judge Raymond Zondo provided detailed explanations as to how much of it occurred, particularly through the Gupta and Watson families, with Eskom and Transnet suffering the worst of the ravages of state capture procurement contracts. But as the tender scandals during the Covid pandemic and other scandals have shown, the looting has barely slowed down since the Zuma era and ESD in its true sense has suffered.

Tebogo Khaas, chair of Public Interest SA, a nonprofit organisation that seeks to cultivate ethical leadership, good governance and responsible citizenship, wrote in the Sunday Times (6 November 2022; It's not BEE that bothers Nyati, it's corruption) that ESD, a key enabler for advancing empowerment, has become "the tool du jour for committing procurement corruption at Eskom".

If you could, imagine that every state organ and every private sector company practised ESD the way it was envisaged: to develop small and medium black-owned enterprises. The benefits would be widespread throughout the economy, with a strong base of SMEs having been developed that would now be providing a solid foundation for wider economic growth. No matter how profitable, it is difficult for even large multinationals to take on a big number of new employees. But if 100,000 small businesses are established through ESD and, beyond the start-up phase, are provided with the resources they lack, many of them would grow, gain new customers to wean them from their dependence on the original client company and start to hire more people. If each hired just two new people a year, over time that would make a significant difference to our high unemployment levels.

The drafters of the original "drip down" procurement policy from bigger to smaller companies certainly had that in mind but it has been subverted to such an extent that the entire B-BBEE framework is being called into question. Some say it is at risk of demise.

Another, more menacing form of corruption is hijacking the B-BBEE process, with mafia-type extortionists nefariously posing as “business forums” and demanding to be included in projects as B-BBEE beneficiaries. While some big businesses have the means to resist, this practice is increasing across industries and smaller businesses are usually incapable of opposing them.

Rather than chuck out the entire thing, a more reasonable approach would be to look at why certain aspects of the B-BBEE framework are not working and try to fix them. One theme we have highlighted in previous Gauge reports is the policy’s reliance on measuring inputs.

This means a company scored on the generic codes can, for example, spend 6% of its salary bill on skills development and get full points for skills development. But there’s nothing measuring the effectiveness of the skills training itself, nor whether it results in a positive outcome for the trainee. That means any approved training course will do, even if it doesn’t meet the needs of the employee or doesn’t improve anyone’s chances of being promoted: the company still gets the points and ticks the box.

Measuring outcomes – for example, the number of employees who got a promotion after receiving skills training – may be more onerous for companies already saddled with a high compliance burden even outside of B-BBEE. But it is certainly an option that is worth exploring.

The forestry sector is already moving in that direction. Forest Sector Charter Council executive director Makhosazana Mavimbela says in our report on the forestry sector that the council is exploring means to measure the impact of transformation “to validate the technical numbers” on the scorecards.

And B-BBEE Commissioner Matona concurs that measuring impact is important. He highlights a problem in that the legislation does not always embed monitoring and measurement mechanisms, which are needed to determine if intended outcomes and impact are being achieved or otherwise. “As a result,” he says, “it’s easy for someone to claim ‘BEE is not working’ based on an anecdote, just as it is for someone else to claim the policy is successful.”

This is the primary goal of the Gauge surveys – they measure scorecards and report the findings (such as the inputs) and this is intended to provide a foundation for robust debate on the direction of South Africa’s transformation policies, in the quest to reduce the socioeconomic inequality caused by decades of colonisation and apartheid.

The editorial in this report discusses these and other important issues facing South Africa’s transformation agenda and includes a diverse range of views from industry experts as well as entrepreneurs themselves in our case studies, where they describe their personal experiences in operating within the B-BBEE framework. Many of them say it hasn’t done much but, at times, it has helped. I would like to thank all of them as well as our special guest columnists – each of them highly successful in their fields – who present their opinions on how to improve transformation. Whatever transformation path the country takes from here, it will need to be an inclusive process with input from all facets of society.

THE SCORECARD

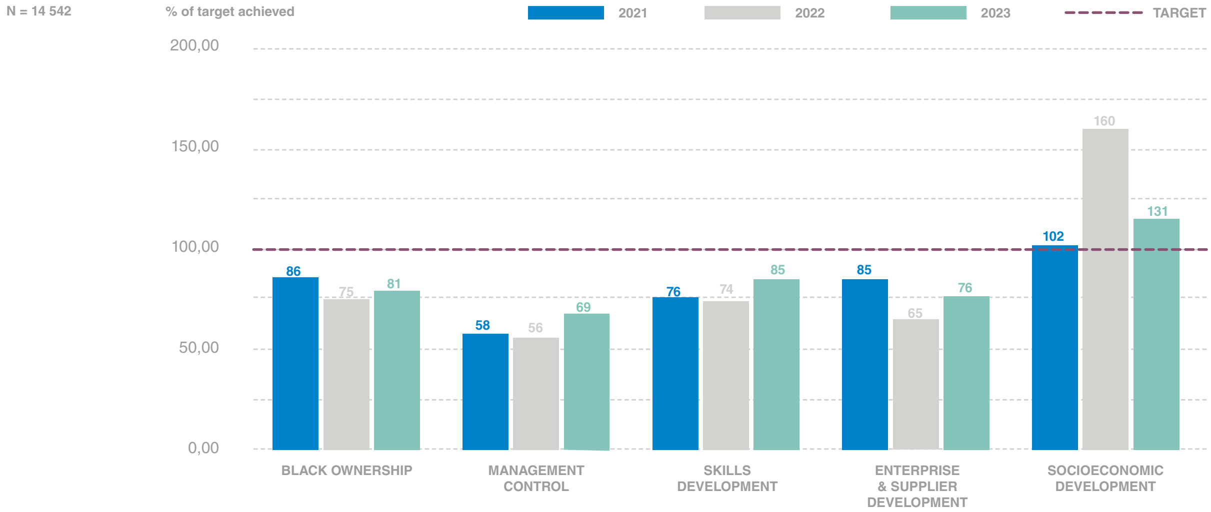
B-BBEE SCORES BY SECTOR: ALL COMPANIES

B-BBEE SECTOR	NUMBER OF COMPANIES	B-BBEE RECOGNITION LEVEL		BLACK OWNERSHIP: EQUITY OWNERSHIP			MANAGEMENT CONTROL		
		POINTS	LEVEL	POINTS	WEIGHTING	% OF TARGET	POINTS	WEIGHTING	% OF TARGET
AGRI-BEE	177	91.21	3	18.75	25	75.01	13.51	19	70.90
CONSTRUCTION	1.601	97.93	2	22.11	27	81.87	15.20	18	84.28
FINANCIAL	1 076	95.35	2	22.82	25	91.29	12.22	20	61.11
FORESTRY	28	93.07	3	23.04	25	92.16	10.63	19	53.95
ICT	815	90.9 (84.08)	4	22.00	25	88.00	14.14	23	61.48
INTEGRATED TRANSPORT	1.015	81.41	4	12.22	20	61.08	13.26	20	66.32
MARKETING, ADVERTISING, COMMUNICATION	143	82.98	4	21.87	25	87.48	13.80	27	51.11
PROPERTY	441	83.33	4	19.55	30	65.17	7.07	22	32.17
TOURISM	177	86.55	4	23.07	27	85.44	12.98	19	68.30
GENERIC	9.069	88.50	4	20.38	25	81.52	13.71	19	71.00
AVERAGE	14.542 (TOTAL)	90.23	3	20.26	25.05	80.84	13.49	20.05	67.43

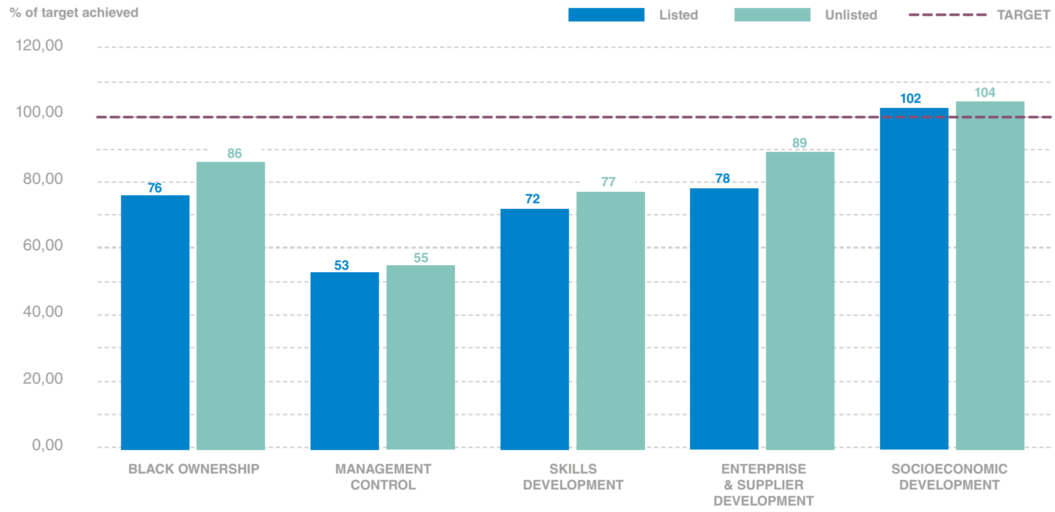
Data sources: BEE123; Who Owns Whom; Intellidex research; Mpowered Beagle database

B-BBEE SECTOR	SKILLS DEVELOPMENT			BLACK OWNERSHIP: EQUITY OWNERSHIP			MANAGEMENT CONTROL		
	POINTS	WEIGHTING	LEVEL	POINTS	WEIGHTING	% OF TARGET	POINTS	WEIGHTING	% OF TARGET
AGRI-BEE	14.89	20	74.46	28.48	40	71.20	11.38	15	75.89
CONSTRUCTION	17.33	21	82.54	26.92	34	79.17	9.37	5	183.15
FINANCIAL	15.58	20	77.89	31.70	35	90.56	6.78	5	132.59
FORESTRY	17.59	20	87.94	38.74	43	90.08	6.52	5	130.42
ICT	18.30	20	91.48	43.14	50	86.29	10.64	12	88.56
INTEGRATED TRANSPORT	16.01	20	80.07	22.89	35	65.41	4.64	5	92.81
MARKETING, ADVERTISING, COMMUNICATIONS	17.79	20	88.93	33.33	42	79.35	5.76	5	106.02
PROPERTY	15.15	19	79.75	32.97	39	84.54	2.37	2	115.95
TOURISM	17.31	20	86.56	32.45	40	81.12	7.46	5	127.87
GENERIC	17.35	20	86.75	30.93	42	73.65	8.44	5	137.52
AVERAGE	17.10	20.08	85.22	30.92	40.42	75.65	7.98	6	130.79

ALL COMPANIES
LEVEL 3



LISTED VS UNLISTED COMPANIES
LISTED COMPANIES: LEVEL 4
UNLISTED: LEVEL 3



SPECIAL SURVEY:
SCORECARD ELEMENTS

ASSESSING THE VIABILITY OF THE STATUS QUO

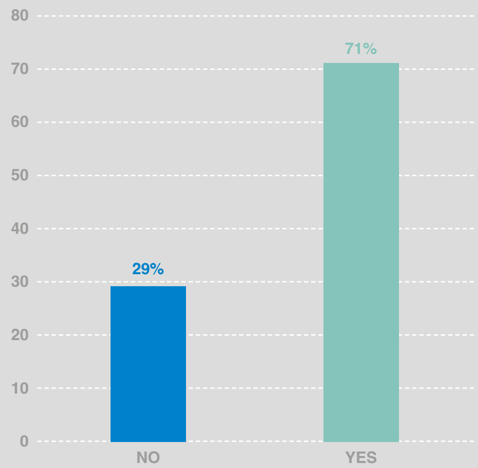
A key theme that emerged from the previous Sanlam Transformation Gauge reports (2021 and 2022) is that there is a mismatch between scorecards and reality, with many commentators stating that the relatively high scores present a skewed representation of the underlying transformation in the economy, which is not happening fast enough. As a result, there have been calls for an overhaul of the B-BBEE framework to improve the effectiveness of transformation on the ground, within each business. To help prepare the groundwork for such an important policy debate, the Gauge team decided to introduce a new element to this year's report: a survey of B-BBEE verification agencies. Intellidex conducted a short survey of just 10 questions, five of which are yes/no answers with five optional commentary boxes, to draw out views on each of the scorecard elements. The survey was sent to 93 agencies and we received 42 responses. We present the findings below with selected comments from the verification agencies, accompanied by columnists who discuss the core issues related to each scorecard element.

NEED FOR GOVERNMENT FINANCIAL INTERVENTION FOR BLACK OWNERSHIP 29 YEARS INTO DEMOCRACY

State organs should use financial institutions as a deep distribution channel to drive economic empowerment, writes Halekopane Matsipa.

OWNERSHIP SURVEY QUESTION 1:

Is the generic scoring system an appropriate way to measure transformation in terms of ownership?



OWNERSHIP SURVEY QUESTION 2: SELECTED RESPONSES

What aspects of the current measurements of black ownership should we improve upon and which should be abandoned?

You are only awarded points on that indicator for voting rights which is 4 out of 25 points. The improvement should be on economic interest, which has more points than voting rights. If dividends are not declared at the time of the verification, the company valuation should be in place; the valuation confirms the company's growth, which is economic growth and the share price exercise, if the shares increased from the previous year, therefore benefit for shareholders, growth shall be within the measured period.

The DTI Affidavits that need to be provided by EMEs and QSEs are not a valid way to measure the ownership of entities. There is also too much room for misstatements and fronting.

In my view it would be more appropriate to move towards 30% to 35% with an increase in BWO at 15% from the current 10%. The ownership points on the designated section should be reviewed as very few measured entities participate in this category. I believe it's not very attractive.

Many procurement departments don't understand that ownership is not someone sitting at the company and that there is a difference between ownership and management control.

The entire ownership element should be removed.

Government intervention modelled along the lines of the support provided during the Covid crisis could go a long way to accelerating the transfer of equity into black hands, particularly among small and medium enterprises (SMEs) where the support is most needed.

Essentially, the idea is for state structures to use local financial institutions to facilitate transformation.

The ownership element of the B-BBEE scorecard has four distinct categories, each with a series of measures to arrive at a total of 25 points. Of these total points, 19 (76%) pertain to the economic appreciation value of the investment. This is in turn divided into the economic interest among various groups (11 points) and net value based on a graduation factor (8 points). Ownership only has six points; this in my view is correct as it deals with voting and being represented as a shareholder but does not deal with what real empowerment is about – wealth creation.

Recognisable and impactful government support – involving a range of state entities that have the potential to facilitate transformation at this level – could form a mechanism to improve the economic interest and net value of the ownership element. This could be similar to the form envisioned during the Covid-19 pandemic where the fiscus through National Treasury and the South African Reserve Bank structured a loan guarantee scheme for businesses below a certain revenue threshold, using the local banking distribution channels. This was very powerful as the fiscus in essence became the first-loss absorber on such loans to SMES.

The impact of a similar scheme to enhance economic transformation throughout the economy would substantially enhance black ownership. For example, if the fiscus guaranteed the loans used to finance black empowerment equity transactions, then the cost of such funding would be much cheaper. This would naturally enhance the net value calculations. The equity finance would be cheaper as it would have a government explicit guarantee – the first loss would be government's.

Part of the major constraint of financing SME empowerment transactions is that the typical black entrepreneur lacks the equity capital to finance the deal. So, when they approach the local financial institutions, the cost of such capital is, rightly, priced as equity financing with returns that require upside participation, coupled with downside protection, driven mainly by their capital adequacy requirements. This type of financing assumes that the financial institution has appetite for the equity finance which isn't always a certainty, irrespective of terms and conditions. This onerous pricing would be removed through government support ideally via a "guaranteed global facility".

The partnership developed with local financial institutions for the bank guarantee scheme is ideal for government given its depth of reach. The local financial institutions also have the capacity to monitor compliance and performance through their deep human and technological resources accumulated over many years.

This concept could also extend to include the Government Employee Pension Fund, the Workmen's Compensation Fund and the Eskom Pension and Provident Fund, among others. They too should consider local financial institutions as a deep distribution channel to drive economic empowerment. This will also remove the mystique of how individuals are selected for transactions.

Local banks are seen as having large clientele and an open-door policy to transacting (you can simply walk into a branch), compared with state-related funding entities which are perceived as being difficult to approach without a network. Therefore, state entities using the same local financial institutions as distributors of their capital to further transformation within the SME sector should allow many more black entrepreneurs to access this source of capital.

The loan guarantee scheme should also not be limited to equity financing for purposes of the ownership element of the scorecard but should be extended through the entire capital structure of these companies. For example, if an entrepreneur approaches a local bank seeking debt financing which doesn't ordinarily suit the credit framework of the bank (or if the debt financing of the bank will be pricey for various reasons), then the bank should be able to access the guarantee scheme to lower the cost of the funding.

Matsipa is CEO of Kleoss Capital

THE SIGNIFICANCE OF MANAGEMENT CONTROL IN B-BBEE

We cannot fix the problems of economic justice in this country without first addressing racial justice, writes Bonang Mohale. Economic justice and racial fairness have always been one and the same thing. Successfully enlisting the support of the incumbents of positions of leadership requires sensitive, respectful, honest and transparent conversations.

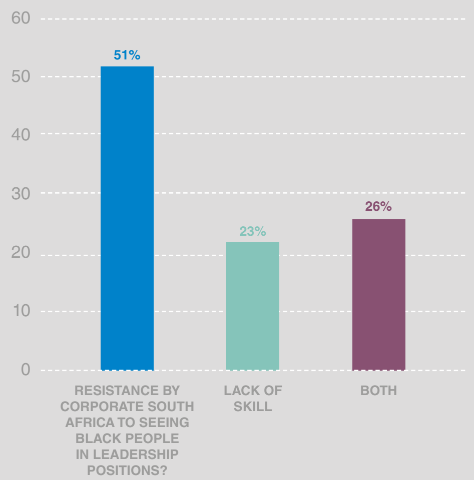
MANAGEMENT CONTROL SURVEY QUESTION 1:

Management control is consistently the worst-scoring element in the Sanlam Transformation Gauge, which measures transformation for all scorecard elements across all sectors. Is this due to:

A: Resistance by corporate South Africa to seeing black people in leadership positions?

B: Lack of skills?

C: Both?



MANAGEMENT CONTROL SURVEY QUESTION 2:

How can South African companies increase the number of black people in management and leadership positions?

Just hire them.

By opening up a free market, with lower tax rates for manufacturing and key production related enterprises, including companies, and lower related dividend/distribution rates.

In some instances there is still a GAP after bursaries and skills spending. Maybe mentoring and succession planning should be more focused.

I don't see there being resistance, I just see there being a few major problems: a) a general issue which comes from a poor education system; b) a resistance to hire people due to all the other red-tape and challenge in getting rid of poorly performing employees; and c) the mobility of high quality black management and black leaders. These high-performing black management know they are mobile, and in demand.

Fix schools, economy, create jobs etc. There is no silver bullet. Hire based on merit.

This will take years as the issue is about the resistance corporates have and the view that black people cannot lead. Changing the codes will not address racial issues with corporates.

Empowerment as a part of broader transformation is a planned and positive process and strategy that is aimed at transforming the socio-economic environment that has excluded individuals from disadvantaged groups from gaining access to opportunities, including developmental opportunities, based on their suitability.

Since the Government of National Unity from 1994-1997, a national transformation agenda has been an overarching policy priority, aiming to address the societal imbalance left by the apartheid regime. Economic programmes that followed, including the Reconstruction and Development Programme (RDP), Growth Employment and Redistribution (GEAR), Accelerated and Shared Growth Initiative for South Africa (ASGISA), the New Growth Path (NGP), the National Development Plan 2030 (NDP) and the more recent Economic Reconstruction and Recovery Plan (ERRP), all address the economic facet of the national process by focusing on, among others, infrastructure investment, skills enhancement, support for SMEs and macroeconomic stabilisation. These demonstrate beyond doubt that government has moved to tackle race and gender-related inequality in a direct fashion.

Additionally, the Broad-Based Black Economic Empowerment Act of 2003 sets out the government policy of situating B-BBEE within the context of a broader national empowerment strategy. The broad objectives of the B-BBEE policy include an alteration to the racial and gender composition of ownership and management structures of existing and new enterprises as well as in skilled occupations. They also aim to increase access to finance for black people and women, improve employment in rural communities, to develop black South Africans as human capital through programmes such as coaching, mentorships, sponsorships, internships and preferential procurement policies for black owned and black women owned businesses, etc. In both the spirit and letter of the law as well as in practice, companies must comply with B-BBEE Codes of Good Practice principles of 2007.

The intent is for economic inclusion and for the business sector to be broadly reflective of the demographics. It is clear that 29 years into democracy, we have not collectively succeeded in eradicating the legacy of apartheid as executive, top and senior management tiers are still dominated (>70%) by white males even though white people make up less than 9% of the population. Women make up 51% of the population and yet their representation in positions of leadership is less than 24%, with African women at less than 4%. As a result, we still pay women about 75% of what we pay men for work of equal value. This is despite the fact that, in the preamble to the South African Constitution, not only are we, the people of South Africa implored to "recognise the injustices of our past" but explicitly mandated to "heal the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights" AND "improve the quality of life of all citizens and free the potential of each person."

We cannot fix the problems of economic justice in this country without first addressing racial justice. The deck has always been stacked against poor people. Economic justice and racial fairness have always been one and the same thing. Asking for a hand-up is not the same as asking for a handout. B-BBEE is not a permanent crutch against which black people want to lean for the rest of their lives.

To successfully enlist the support of the incumbents of positions of leadership, we must answer both the "fear factor" and the "me factor". It is natural for people to feel threatened by change in general and transformation in particular. This requires sensitive, respectful, honest, open and transparent conversations. We must have clear plans about each leader's next path and succession and how the economy will continue to benefit from their skills and experience.

When you have black people and women in the C-Suite, they will find other competent, professional and experienced black people and women. They will also enrich our collective culture, thought processes, strategies and priorities. When your neighbour is hungry, you cannot sleep at night. From those that more is given to, much is expected. Because to truly act in your own interests, we must first act in the best interest of others. That is being truly human versus being just an insecure over-achiever.

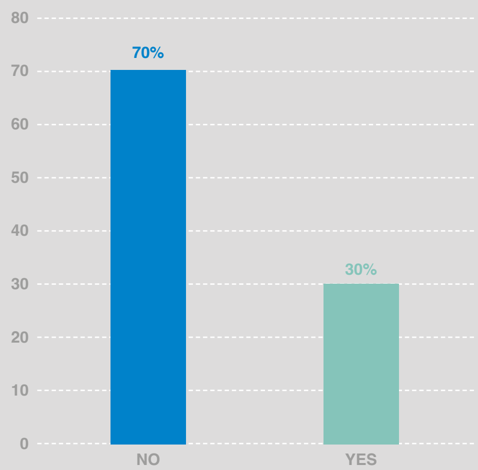
It is manifestly in the best interest of the "haves" to take the lead in bringing about and sustaining this worldview of abundance, precipitated by the love prism. Job creation is creating markets of the future. It is the moral duty of the beneficiaries of patriarchy and privilege to bring about both gender equality and pay parity in order to attain the ideals of social justice, nation building, social coherence and deliver the South Africa of Rolihlahla N Mandela's dreams – the South Africa we have all been praying for. The democracy dividend must surely percolate to all the social strata of our people.

Mohale is the president of Business Unity South Africa (BUSA), Chancellor of the University of the Free State, Professor of Practice in the Johannesburg Business School College of Business and Economics and Chairman of The Bidvest Group, SBV Services and ArcelorMittal. He is a member of the Community of Chairpersons of the World Economic Forum and author of the best-selling books, Lift As You Rise and Behold The Turtle. He has been included in Reputation Poll International's 2023 list of the 100 Most Reputable Africans, whose selection criteria are integrity, reputation, transparency, visibility and impact.

STRONG CORPORATE RESISTANCE TO USING SKILLS DEVELOPMENT TO FILL MANAGEMENT ROLES

Skills development practices are maintaining the status quo and blocking rather than facilitating upward mobility for black candidates, writes Tabea Kabinde.

SKILLS DEVELOPMENT QUESTION 1:	SKILLS DEVELOPMENT QUESTION 2:
Skills development is the second-highest scoring element in the 2022 Sanlam Transformation Gauge report. Companies spend 6% of their salary bill on skills development split between bursaries and skills spending. Is this proving effective in generating a strong pool of black managers?	How can this be improved?



Skills development is a tick box and of a low standard, and not developing true artisans and technical skills. Management skills and wisdom in this country are appalling, lack of holding people accountable with sanctions etc.

Each company should sponsor bursaries within their industry, then select interns from that pool. Learnerships should not be done in a vacuum but with the target of absorbing some and mentoring them with critical skills. Bursaries to employees should be on scarce/critical skills to the company, so that they can easily progress to management positions.

Talent of all races should be developed equally.

The problem with skills is that the academies involved are battling to get learners who complete and follow through on the courses.

Generally, companies just spend the money to get the points - and spend the money in the most cost-effective means possible, as the 6% is a very high target. Often this is money that is just thrown at black people (as opposed to black employees), with little actual interaction between the company and the person getting trained. The scorecard needs to add greater weight to actually getting that non-employee trained, and then employed, more than just some bonus points for absorption of learners. There are lots of people out there who aren't on learnerships, who could be trained and then gainfully employed.

One of the least celebrated but more impactful amendments in the Employment Equity Amendment Act of 2022 (EEA) is the change of definition of the designated employer. At inception, the EEA defined a designated employer as any employer who employs 50 or more employees, or who has a turnover that meets or exceeds the threshold stipulated in Schedule 4 of the EEA. This meant that employers who had a high turnover but a small headcount had to comply with the prescripts of the EEA, including making provisions for affirmative action measures. The Amendment Act now defines a designated employer based on the number of employees only, meaning that these are employers who have 50 or more employees.

An unintended consequence of the original definition is that small enterprises had to affirm designated people at top management, even when roles did not exist for them, just to comply with the law. These designated people would then be given limited power and authority. This created opportunities for all sorts of clandestine ways of evading the law, including fronting. South Africans have reported many such cases in engagements with authorities such as the Commission of Employment Equity (CEE) and the Broad-Based Black Economic Empowerment Commission.

Management control, which is tracked through the employment equity profile of organisations, especially at the top four occupational levels, seeks to ensure that designated employees are represented in line with the Economically Active Population (EAP) throughout the labour market. This way the country can have equitable representation of the different racial, gender and disability groups.

Over the past 25 years, the CEE suggests that at top and senior management levels, the country has experienced, on average, an increase of one percentage point per annum in favour of the black groups (African, Coloured and Indian).

What is being done within the skills development framework to facilitate promotion of black individuals to management? The CEE annual reports have, over the years, suggested that employers are continuing to offer skills development opportunities to their staff, but this is not done with the employment equity objective in mind.

The CEE Annual Report 2022 suggests that the white population is still the highest benefactor of skills development opportunities at top and senior management levels. This implies that not enough designated employees are being offered opportunities for growth through training in their organisations at these levels, thereby depriving them of promotion opportunities.

As per the CEE Annual Report based on 2022 reporting, the white population represents 62.9% of top management with 50.1% at senior management levels. When considered against an EAP of 8%, this suggests a gross imbalance in terms of representation. It also implies that the current skills development and training practices maintain the status quo. Employers should be looking for opportunities to improve the black talent pool to advance them to more senior roles.

Interestingly, only 26.5% of employers who reported in 2022 acknowledge having barriers in skills development as an affirmative action measure in their organisations. This implies that 73.5% of the employers consider their skills development initiatives as being responsive to the talent pool shortage that exists in their organisations.

This, without a doubt, is one of the explanations why the movement in favour of the black population is slow. While this remains the reality of the South African labour market, employers continue to use skills shortage as a “justifiable reason” why they cannot appoint black people at top and senior management. But behind this “justifiable reason” lies deep-rooted resistance to creating a labour pool that can be absorbed into these roles.

The skills development and management results in the Gauge survey tell a clear story. Employers are not embarking on substantive skills development. They are maintaining the status quo and continuing to keep the minority empowered. The Gauge survey of BEE verification agencies shows that 70% do not consider the skills development initiatives taking place in their workplaces as responding to the need to expand the pool of skilled managers. This confirms the findings in the CEE Annual Report.

Given this reality, are we comfortable to assume that we will achieve the sector targets proposed in the Employment Equity Amendment Act? The answer remains no. Unless employers can openly identify their barriers to affirmative action and proactively drive delivery on the skills development agenda, the sector targets will become unattainable.

Here are three initiatives that can change the narrative of transformation. First, we need employers who view their employees as important stakeholders in their businesses’ success, farming their own timber through skills development in areas of scarce skills. Second, we need enforcers who are bold and who are determined to meet punitive measures where they are needed. Finally, we need to ensure that noncompliant employers are not issued compliance certificates and can therefore not do business with government.

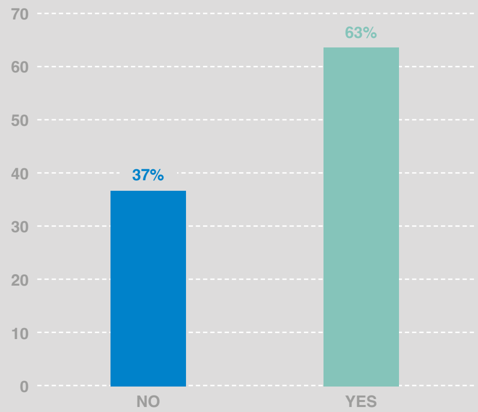
Tabea Kabinde is managing director: We Find Talent and chairperson of the Commission for Employment Equity

HOW CAN WE IMPROVE PRACTICE AND OUTCOMES?

Analysis of ESD performance points to an element that has a lot of potential but fails to live up to both its compliance and growth expectations. Lusapho Njenge argues that a broader lens than compliance should be used to assess performance.

ENTERPRISE AND SUPPLIER DEVELOPMENT SURVEY QUESTION 1:

Is the enterprise and supplier development component of the scorecard effective in developing a strong base of black-owned SMMEs?



ENTERPRISE AND SUPPLIER DEVELOPMENT SURVEY QUESTION 2:

How can South African companies contribute to the sustainable development of black-owned SMEs

Stop being corrupt.

This is generally a compliance aspect, and little interest is actually shown in developing the black-owned SMMEs. It tends to be a "cut a cheque and get the points" decision. If focus could be placed on the actual development of these black-owned SMMEs, other than just giving them money, it could help to develop a stronger base.

Continued procurement and assistance under SD/ED of black-owned SMMEs.

There must be a needs analysis done with the black-owned SMME so that the challenges they are facing are addressed.

The main problem in SA is access to market. Most ESD programmes in the market are just a tick box exercise and don't address the challenge of access to market. Amending the Codes to address this aspect will help build sustainable black businesses.

The importance of the enterprise and supplier development (ESD) element of the B-BBEE scorecard in driving inclusive economic growth cannot be overemphasised. This drive must be seen within the broader macro-economic aspirations of South Africa Inc, an economy where the small enterprise sector is a significant contributor.

Recent analysis of ESD performance points to an element that has a lot of potential but fails to live up to both its compliance and growth expectations. I believe a broader lens than compliance should be used to assess the performance of private sector led ESD.

The ESD element requires significant effort each year to ensure that a measured entity achieves its annual transformation objectives. This is because grants are recognised once off and loans are recognised on the outstanding loan balance at the end of the period of assessment (typically a 12-month financial year), even though the beneficiary continues to benefit from the support beyond the assessment period. This is not the case with elements such as ownership and management control, where an organisation continues to benefit from efforts of previous years for as long as the levels of ownership and management control are maintained.

The National Status and Trends on the B-BBEE Report for 2021 reported an aggregated spend of R26bn by measured entities, which is 46.6% of their set target. This R26bn is more than 10 times the R2.567bn allocated to the Department of Small Business Development (DSBD) and its agencies by National Treasury for the 2023/24 financial year. Basic Education has been allocated R30.788bn for the same period. This shows the relative scale of the investment in ESD by measured entities.

I believe that the private and public sector investments in small enterprise development provide a sufficient base to co-create a vibrant small enterprise sector in South Africa. This collaboration should improve current small enterprise development strategies and practices leading to improved outcomes, particularly positively transforming the economic landscape and demonstrating social progress in host communities and measured entities. No business can survive and thrive without an effective ecosystem. I outline three areas for collaboration and consideration that can contribute positively to the current effort.

1. Increased collaboration between the public and private sectors

Having worked on small enterprise development in both the public and private sectors, I believe the appetite for collaboration is much stronger than it has been in the past. From a policy perspective, the National Integrated Small Enterprise Development (NISED) Masterplan has public-private sector collaboration as one of its four pillars. The others are effective monitoring and evaluation of the SMME sector; policies, laws and regulations that enable SMME growth; and effective support services for SMMEs.

There is practical work being done aimed at enhancing collaboration through the ESD Community of Practice which has been established by the DSBD with the following objectives:

- Develop the practice of ESD to support and grow the SMME sector in South Africa more effectively;
- Support the work and efforts of ESD practitioners through convening and facilitating relevant member activities such as workshops, masterclasses, seminars and training programmes; and
- Facilitate knowledge-generating and sharing activities, as well as professional skills and practitioner development, to support ESD efforts.

The ESD Community of Practice should over time include other roleplayers in the ecosystem such as academia and SMMEs.

Equal focus also needs to be placed on:

- Improving the competencies of the entrepreneur through education and skills development;
- Creating a more enabling environment by eliminating corruption (rent-seeking), reducing regulatory red tape and enabling flexible employment; and
- Availing basic services such as electricity, water, sanitation and public transport infrastructure, which will reduce the cost of doing business.

2. Periodic revision of B-BBEE Codes Technical Definitions

There is definitely a need to review the technical definitions of the ESD element to come to terms with the realities and opportunities of South Africa, and there might be a similar need in other elements of the B-BBEE Codes. One such area is the definition of a qualifying small enterprise (QSE) which is any business with an annual turnover greater than R10m and less than R50m. Since the codes were promulgated in 2013, the upper limit has remained the same. ESD practitioners encounter a lot of SMMEs with revenue above the QSE threshold but still need financial and non-financial support that ESD programmes provide. One business owner quipped that his business needs the support he is expected to give to other small enterprises.

3. An ecosystem approach based on shared outcomes

An ecosystem-based approach to small enterprise development makes sense in numerous ways. No organisation can provide holistic support to small enterprises on its own. The sheer numbers make this impossible, as well as the myriad and complex challenges a small enterprise faces. An organisation invariably ends up being a jack of all trades and master of none, with minimal impact. ESD programmes that work well are designed on the back of validated small enterprise needs and bring in partners with complementary capabilities.

Ecosystems work well when there is a shared view of what success means, or alignment in terms of which outcomes should be prioritised. Is it one that increases contribution to the country's gross domestic product, one that increases its contribution to employment figures, one that has a reducing failure rate of small enterprises, or one that generates intellectual property/innovation in an incremental manner?

In South Africa, it is all of them. We also need to ask ourselves what the problems are that impede us, and what the required innovations are to develop appropriate solutions. This requires a shift from copycat/intermediary equity acquisitions and business intermediaries to innovation and growth. I expect discussions within the ESD Community of Practice to lead towards alignment on what a successful SMME sector is.

The amount of investment the private and public sectors make each year towards small enterprises is substantial, even when measured against the upper estimate of the 2.4 million to 3.5 million SMMEs in South Africa, as stated in the 2023 State of the Nation Address. Alignment and willingness to collaborate will go a long way to ensuring the small enterprise sector lives up to its potential to develop a strong small business sector with the potential to drive wider economic growth.

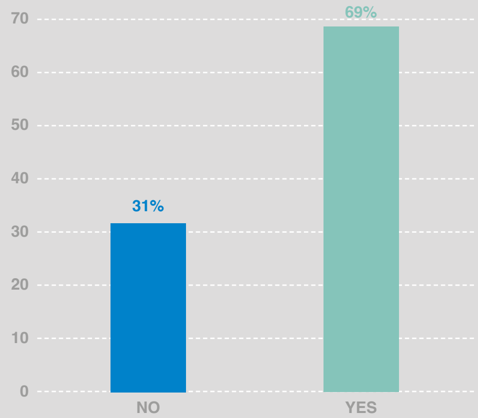
Lusapho Njenge, PhD, is Manager: Enterprise & Supplier Development at Exxaro Resources

RADICAL COLLABORATION CAN HELP ADDRESS SA'S CHALLENGES

Co-ordinating corporate initiatives will have a dramatic impact at a scale that is commensurate with the depth of SA's systemic socioeconomic issues that the SED element is meant to address, writes Nozizwe Vundla.

SOCIOECONOMIC DEVELOPMENT QUESTION 1:

Companies consistently score highest in socioeconomic development. Do the funds spent by South African companies in this element result in direct, impactful and measurable outcomes?



SOCIOECONOMIC DEVELOPMENT QUESTION 2:

Companies consistently score highest in socioeconomic development. Do the funds spent by South African companies in this element result in direct, impactful and measurable outcomes?

The SED environment appears to me to be the best controlled environment for allocation of funds. Therefore, the SED funds do provide measurable impact - to those NPCs / NGOs that actually receive SED assistance.

As stated by the BEE Commission, socioeconomic development contributions should result in the disadvantaged individuals becoming self sustainable. It is futile to provide grants to individuals who will constantly rely on these grants only without using these grants to make progress.

This element is working.

A larger % of the scorecard should be allocated to this element. If implemented correctly it will have a favourable effect on communities and individuals in need.

Happy with current progress of this element. meaningful impact has been measured over the years.

I have often lamented that although good work is done by corporations for the socioeconomic development (SED) element of the B-BBEE scorecard and in the education space in particular, this work is often undertaken in relative isolation by individual companies and associated entities – their implementing partners and other stakeholders including the education authorities.

While impact is often achieved through these efforts, various companies are measuring different things, and the impact is not achieved at the required scale, relative to the acute nature of the systemic socioeconomic challenges facing South Africa. I was therefore delighted when a participant at a recent event voiced my thoughts when he called for “radical collaboration” among players.

That was at a think tank in May on early childhood development (ECD), hosted by the Indaba Institute and the Stellenbosch Institute for Advanced Study (STIAS). The participants were a mix of players in the ECD space, including corporate foundation donors, ECD institutions, ECD practitioners, academics, researchers and a development finance institution.

In my view, SED stands out from the other B-BBEE scorecard elements because it is the one element where in the Gauge reports the targets are regularly exceeded while the other elements fall short of their targets. In 2022, SED over-indexed at 160% of the target and records 99.5% in this year’s report, a likely temporary reduction necessitated by the impact of Covid-19 and the tough economic environment.

Why “radical collaboration”? By their nature, companies are set up to be in competition with each other, vying not only for greater market share and profits but for brand visibility too. What I’m calling for here is for businesses to take the bold step of putting aside their corporate identities, logos and brand colours to form a single “team SA Inc” when it comes to SED.

What is called for is a co-ordinated nodal approach, where companies collaborate with one another by doing work that is complementary, in the same geographic areas. For example, while several companies in a particular school district could focus on augmenting learner instruction in science, technology, engineering and mathematics (STEAM) subjects and teacher training, others could focus on infrastructure development and maintenance in those same areas, so as to collectively achieve a synergised impact that benefits beneficiary communities in a more holistic and sustainable way.

For a long time, corporate foundations were compliance driven. This includes the Sanlam Foundation. Encouragingly, it appears that a shift has occurred over time to a point where these foundations, certainly the Sanlam Foundation, have opted to achieve developmental impact, while simultaneously achieving and maintaining the requisite B-BBEE level status for the companies that fund them.

While many corporate foundations have evolved to a stage where they have sophisticated monitoring and evaluation systems in place, what this SA Inc SED initiative requires is a single, unified theory of change (ToC) and results framework across all corporations, that will measure the inroads towards disrupting the systemic challenges facing our communities. The single ToC and results framework would ensure that the SED programmes of the participating corporations are tracked and measured collectively to get a more accurate and granular understanding of how successfully or unsuccessfully they are contributing towards the National Development Plan (NDP) and Sustainable Development Goals (SDGs), with a view to scaling up interventions that are achieving the desired impact, while redesigning those that are not. The National Education Collaboration Trust is an example of a body that could perform the task of co-ordinating these efforts in a coherent manner, as far as it pertains to the basic education element of SED.

None of this can take place without the requisite will from the leadership of listed companies in South Africa. Therefore, a collective decision needs to be made at the appropriate business formations such as the National Business Initiative, Business Unity South Africa or Business Leadership SA.

Because SED is the one element of the scorecard that is working effectively, arguments have been made to increase its weighting. I don’t believe this is necessary, as it is not the weighting of SED that is at issue, but rather ensuring that the spend that is already occurring in this element is optimised and achieves meaningful and measurable impact, at a scale that is commensurate with the depth of the systemic socioeconomic issues that the SED element is meant to address in South African communities.

We are at an inflection point as a country. Political philosopher Frantz Fanon captured it best when he said: “Each generation must, out of relative obscurity, discover its mission, fulfil it or betray it.” I propose that when it comes to the SED element, the mission of this generation of corporate citizens is to collaborate radically. The stakes have never been higher, and we dare not miss this opportunity.

Nozizwe Vundla is head of the Sanlam Foundation

TSHEDISO MATONA

NEW COMMISSIONER OUTLINES HIS BLUEPRINT TO BRING B-BBEE COMPLIANCE BACK ON TRACK

Faced with a 'deep-seated psyche of non-compliance' as well as some own goals, Matona spoke to Andile Khumalo about building mechanisms to optimise the impact of transformation initiatives.

There is a need to recalibrate the balance between incentives and penalties to improve compliance with the B-BBEE codes and targets amid mounting criticism over the slow pace of transformation, says newly-appointed Broad-Based Black Economic Empowerment (B-BBEE) Commissioner Tshediso Matona.

The B-BBEE Act vests the Commission with powers to receive and act on complaints from the public, or to initiate investigations on its own initiative, and make findings and recommendations.

Matona is no stranger to the policy environment – he was director-general of the Department of Trade and Industry when the BEE Codes were codified in 2003. One of the downsides that legislators of the policy did not anticipate, he says, was how some companies would use fronting to circumvent the system and evade the law and prescripts requiring them to avail some equity stakes to black investors.

"When we began this process, we were starry-eyed and naively believed that everyone would comply with the code and act in good faith. We didn't foresee that there will be those who want to game the system, so to speak, and we did not anticipate there would be fronting and misrepresentation of B-BBEE credentials at the alarming levels we have discovered."

Commenting about SA's inherited corporate establishment, Matona says there is a "deep-seated psyche of non-compliance", particularly when it comes to pro-transformation laws that seek to eradicate the scars of apartheid. "This is a threat to the South Africa that we aspire to and calls for the state to assert its authority, because non-compliance undermines the legitimacy of B-BBEE policy. I therefore believe the law requires stronger penalties, inasmuch as moral persuasion will continue together with incentives for doing good as required. This will be the central focus of my to-do list."

While Matona concedes that the Act makes provision for a maximum sentence of 10 years in prison for fronting, the cases referred by the B-BBEE Commission to law enforcement agencies are not accorded the attention and priority they deserve. "Unless and until potential offenders realise that transgressions of the Act have consequences, then it sends the wrong message that one can break the law and get away with it."

Against this background, Matona intimates that a review of the B-BBEE Act might be on the cards. "It is now more than 20 years of B-BBEE law, and I believe that the Act is due for a comprehensive review and amendment, taking into account successes, challenges and lessons of the journey." He say several areas need revisiting, and will include incentives and the need for penalties with teeth, to ensure a correct balance. "Clearly, the balance will reflect the prevailing political economy, that is, the relative influence on the outcome of the process by different, competing interests."

The 2023 Sanlam Transformation Gauge identifies management control and enterprise and supplier development (ESD) as some of the key B-BBEE elements that have relapsed over the past few years. The report found that management control "achieved only 67% of target in the Gauge report with ESD next worst at 75.6%".

Matona believes this has partly to do with "the political signals the market might be reading from not seeing strong, visible championship of B-BBEE by leaders in government and business that we had at the beginning". He says: "As questions are increasingly being raised in the public domain about whether BEE should still be part of the economic trajectory, we also see compliance with the act being increasingly deferred even by companies that had already taken positive steps towards compliance."

He admits some of these shortcomings are the results of our "own goals" resulting from mixed messages from government on key B-BBEE related matters, such as on public procurement.

In Matona's view, these policy ambiguities also manifest in increasing non-submission of compliance reports by measured entities in the private and public sectors, as required by the B-BBEE Act. However, he says, "We need to dig deeper and investigate the underlying reasons why there is a poor reporting culture, and separate blatant refusal to comply as a reason from possible reporting fatigue". He says he is open to the view that reporting may be cumbersome and become a burden to business. "When things don't work the answer does not always lies with legislation. The answer lies in conversations and engagements, to exchange feedback and best practices, and jointly explore ways to streamline and simplify things," Matona explains.

"The problem is that legislation does not always embed monitoring and measurement mechanisms to help us determine if intended outcomes and impact are being achieved or otherwise. As a result, it's easy for someone to claim 'BEE is not working' based on an anecdote, just as it is for another to claim the policy is successful."

Revitalising B-BBEE going forward requires addressing the gaps in law, but also harmonising and tightening the holistic ecosystem supporting the policy, including strong advocacy and championing at all levels," says Matona.

Responding to criticism about the lack of measurement metrics to gauge the success of the spend on indices such as skills development and ESD, Matona says these shortcomings are valid concerns that will be given priority. He notes that the unintended consequence of the legislation is that these matters became relegated to a tick box exercise, and no provision was given in the legislation to measure their impact.

"The problem is that legislation does not always embed monitoring and measurement mechanisms to help us determine if intended outcomes and impact are being achieved or otherwise. As a result, it's easy for someone to claim 'BEE is not working' based on an anecdote, just as it is for another to claim the policy is successful."

Regarding funds pledged for skills or ESD by measured entities as required by the B-BBEE Act, Matona says he is aware these companies might not have the appetite or the resources to ensure that these funds are deployed effectively and achieve the desired impact. "These funds are catalytic resources. Feasible mechanisms should be explored to maximise their reach and impact, such as aggregating, ringfencing or warehousing them," Matona says.

The information and communications technology (ICT) sector has pointed out that the B-BBEE sector codes have not kept up with the evolving nature of the industry as they were drawn up before the advent of the Fourth Industrial Revolution. Other sectors are similarly affected. Matona acknowledges this and points out that the codes were never meant to be cast in stone. "We must allow ourselves to learn and adjust in accordance with developments in the economy. Our ability to be agile is going to be key to our success."

Work is already under way to ensure "a good regulatory handle" on the digital economy to ensure it does not run as a self-driving parallel economy, disconnected from the country's socioeconomic and transformation imperatives.

SANLAM'S COMMITMENT TO EMPOWERMENT AND TRANSFORMATION

Africa's population is its greatest asset and as a responsible and caring corporate citizen, at Sanlam we are committed to investing in our communities and going beyond tick-box exercises. From early childhood development, and financial literacy to training and development, and supporting small businesses, our purpose is to empower generations of Africans to be financially confident and resilient. Our impact journey is guided by the six capitals of integrated reporting.

SUPPORT TOWARDS SDG GOALS

It is essential that Sanlam is intentional and prioritises SDG's that provide the biggest opportunity for shared value creation. The Sanlam Group focuses on all the following SDG's.

1. SOCIAL AND RELATIONSHIP CAPITAL

WAGEWISE

with ASISA Foundation

8 240 through 247 face-to-face workshops

BENEFICIARIES

- **94%** African
- **70%** Women
- **36%** Rural
- **3%** Persons living with disabilities

CONSUMER FINANCIAL EDUCATION

MONEY FO 'SHO

with Avocado Vision

8 018 through 297 face-to-face workshops

BENEFICIARIES

- **97%** African
- **65%** Women
- **25%** Rural

SPECIAL PROJECTS

Kay Motsepe Schools Cup awarded total prize money of R3.4m to schools participating in the high school soccer competition for boys. WoW Spelling Competition with the University of Stellenbosch reached 152 815 beneficiaries through 65 Spelling Festivals held nationally at primary and high schools.

SANLAM GROUP ENTERPRISE AND SUPPLIER DEVELOPMENT PROGRAMME

915 hours of business development support provided

35 Financial Planning beneficiaries

28 SMME beneficiaries selected, in partnership with ASISA ESD and Western Cape's Department of Economic Development and Tourism

STAFF DONATED R300K

to various NGO's during 2022

Through its Small Grants Fund, the Sanlam Foundation donated

R1.58M TO 16 NGOS

focusing on youth, culture and LGBTQIA+ causes.

1 039 LEARNERS

benefitted from the construction of safe learning environments in Kenya and Uganda

santam

PARTNERSHIPS FOR RISK AND RESILIENCE (P4RR)

Santam continues to collaborate to enhance disaster management and fire services capacity of municipalities. In 2022, we extended our reach with 19 new municipalities, bringing the total to 82, and we implemented a strategic partnership with the Council for Scientific and Industrial Research (CSIR) to support 10 district municipalities with development of climate change response or adoption plans. Following the water crisis experienced by the Nelson Mandela Bay Metro in 2022, Santam initiated several mitigative interventions in partnership with the city. These included installing a borehole at a provincial hospital, installing 18 5000 litre tanks and pumps at all nine metro fire stations, and providing firefighting foam concentrate and augmenting water supply for fire protection at 15 selected retirement homes and facilities for people with special needs. Provided much-needed fire services and disaster management equipment for 19 partner municipalities. Provided training to 100 personnel in disaster management, fire safety, incident management, event safety and related courses across all partner municipalities. Reached over 30 000 people across the country with disaster information, education and awareness in collaboration with strategic partners.

2. HUMAN CAPITAL

TRAINING AND DEVELOPMENT

R355M Spent on black employees

R3.2M Spent on persons with disabilities

R13.2M Spent on unemployed black people

PEOPLE, DIVERSITY AND INCLUSION

20 677 South African employees

78%	Black Employees
50%	Black Female Employees

Board Representation

50%	Black People
33%	Black Female

3. INTELLECTUAL CAPITAL

Sanlam awarded Top Empowered Company: Business of the Year and Top Empowered Company: Education and Skills Development.

TOP EMPOWERMENT AWARDS 2022 WINNER 2022

Sanlam Investments named 2023 Sustainable Asset Manager by 27four Investment Managers for commitment to ESG principles.

4. MANUFACTURED CAPITAL

R15.4BN invested in Empowerment Financing.

SUSTAINABLE INFRASTRUCTURE FUND:

Committed R1bn (over and above Sanlam's investment of R7bn across more than 25 assets over recent years) with a further R6bn commitment to new assets

INVESTORS' LEGACY SME DEBT FUND
Commitments of over R500m

SANLAM RESILIENT INVESTMENT FUND
Invested assets of over R300m

5. NATURAL CAPITAL

WWF

WWF: A LASTING PARTNERSHIP TO PROTECT WATER RESOURCES

In 2022, Sanlam embarked on the fourth phase of our journey with World Wide Fund for Nature South Africa (WWF-SA). This comes after three successful and value adding phases:

THE WWF-SA SANLAM PARTNERSHIP

2007 – 2011 PHASE 1 A total investment of R67 million was leveraged from Sanlam's core investment of R11.6 million, creating more than 330 employment opportunities and influencing declaration of 120 000 hectares of marine environment as Marine Protected Area.

2012 – 2014 PHASE 2 Sanlam funded critical research undertaken by WWF-SA and CSIR to map out South Africa's 21 water source areas that provide 50% of our surface water together with establishment of two new WWF-SA freshwater programmes to ensure water security

2015 – 2021 PHASE 3 Sanlam became a Water Balance Partner compensating for its water footprint by adopting 87 hectares creating enterprise development and employment in invasive alien plant clearing with an estimated 1 billion litres of water back into the rivers and aquifers of the area per year.

2022 – PRESENT PHASE 4 Currently ongoing

Participated in the pilot study facilitated by FSD Africa to understand the risks and opportunities of integrating nature-related aspects in our business decision.

6. FINANCIAL CAPITAL

760 000 policies designed for financial inclusion were provided to lower-income policyholders/market.

3.55% of South African Net Profit After Tax spent on CSI activities

PROCUREMENT

R4.4BN Spent on SME's

R4.7BN Spent on Black Owned suppliers

R2.6BN Spent on Black Women Owned suppliers

OWNERSHIP

Voting Rights

54%	Black People
26%	Black Female

Economic Interest

47%	Black People
22%	Black Female

Sanlam
Live with confidence

Reporting period: 1 January to 31 December 2022, unless otherwise stated.
Sanlam Limited is the Licensed Controlling Company of the Sanlam Limited Insurance Group, including Santam Limited.

SPECIAL FOCUS

BY RAY-ANN SEDRES,
CHIEF TRANSFORMATION OFFICER, SANLAM

TRUE TRANSFORMATION IS BY DELIBERATE DESIGN

A snapshot of Sanlam's impact in 2022

Transformation is not about chasing B-BBEE levels or qualifying for preferential procurement in the public and private sectors. In the South African context, transformation is a deliberate and honest process of achieving social, economic, and political shifts to address historical injustices and inequalities. At the root of this are people who dream of living in a transformed society that equitably and fairly recognises their ability to contribute. This outcome will not happen if we continue to debate the necessity of genuine social change or complacently expect the shifts to occur automatically. At Sanlam, we believe transformation is deliberate and exists beyond company policies and statements, in an organisation's value system and culture.

As a purpose-led group, Sanlam is committed to empowering all Africans to live with confidence. For over 100 years, Sanlam has been using its influence to change South Africa's story. Here is a snapshot of the Group's transformation journey (for the year 2022 – unless otherwise stated) across our six 'capitals', each of which supports the Sustainable Development Goals.

1. SOCIAL AND RELATIONSHIP CAPITAL

Resilience has a ripple effect. Capacitating communities to be more financially resilient and confident will foster economic growth and inclusivity, moving the nation forward. Nearly half the population in South Africa is deemed financially illiterate, and young people score just 36/100 for their financial literacy. It's imperative to address literacy from the grassroots level up to the foundational education stage. Sanlam is committed to empowering

Africans to be financially confident, secure and prosperous. So, we have a 360-degree approach to foster financial literacy at scale, from our WageWise programme with ASISA, with 8 240 beneficiaries, to our Money Fo 'Sho initiative with Avocado Vision, helping 8 018 participants to manage their money smartly.

SMMEs are the cornerstone of South Africa's economy, comprising 98% of the nation's businesses and contributing 39% to the country's GDP. We must do everything we can to cultivate future generations of entrepreneurs, and an enabling environment where they can thrive. The Sanlam Group Enterprise and Supplier Development Programme invested 915 hours of business development and support to 35 financial planning beneficiaries and 28 SMMEs.

The impact of climate change is evident and profound. It's critical to bolster community resilience through resources and training. The Santam's Partnership for Risk and Resilience (P4RR) Programme capacitates 82 municipalities in disaster and fire resilience, reaching over 30 000 people nationwide.

2. HUMAN CAPITAL

Sanlam is committed to deliberate transformation, not for a score but because it's the best way to build a sustainable future for South Africa. We've spent R355 million on our black employees and R3.2 million on persons with disabilities. Of our 20 677 South African employees, 78% are black and 50% are black females. Our board is 50% black professionals, 33% of whom are female.

3. INTELLECTUAL CAPITAL

Our commitment to transformation also earned us the accolade of being the Top Empowered Company: Business of the Year and Top Empowered Company: Education and Skills Development in 2022, and we were named the 2023 Sustainable Asset Manager by 27Four Investment Managers for our dedication to ESG principles. The 'S' is particularly crucial to us as a thriving society leads to a thriving economy.

4. MANUFACTURED CAPITAL

With ongoing power outages, water shortages and a recent cholera outbreak, South Africa's dilapidated infrastructure is a significant cause for concern, and a massive opportunity, with many projects in the pipeline. By the end of 2022 Sanlam contributed R15 billion to financing sustainable infrastructure solutions. We're building for the future, for generations to come.

5. NATURAL CAPITAL

South Africa is the 40th driest country in the world, receiving annual rainfall of 465 mm compared to a global average of 860 mm. Sanlam has a long-standing partnership with the WWF to foster water security; by clearing invasive alien vegetation, we're putting an estimated billion litres of water back into rivers and aquafers annually. We're also playing a pivotal role in educating people about where their water comes from – the journey from source to tap.

6. FINANCIAL CAPITAL

Purpose through profit. We have the privilege to use our influence to make a lasting impact. So, we're determined to make it count. As such, we extended 760 000 policies designed for financial inclusion to the lower-income market. We spent 3.55% of our net profit after tax on CSI activities. Our procurement decisions are made to radically amplify inclusivity; we spent R4.4 billion with SMEs, R4.7 billion with black-owned suppliers, and R2.6 billion with black women owned suppliers. Our ownership as a business in terms of value creation participants are 47% black and 22% black female.

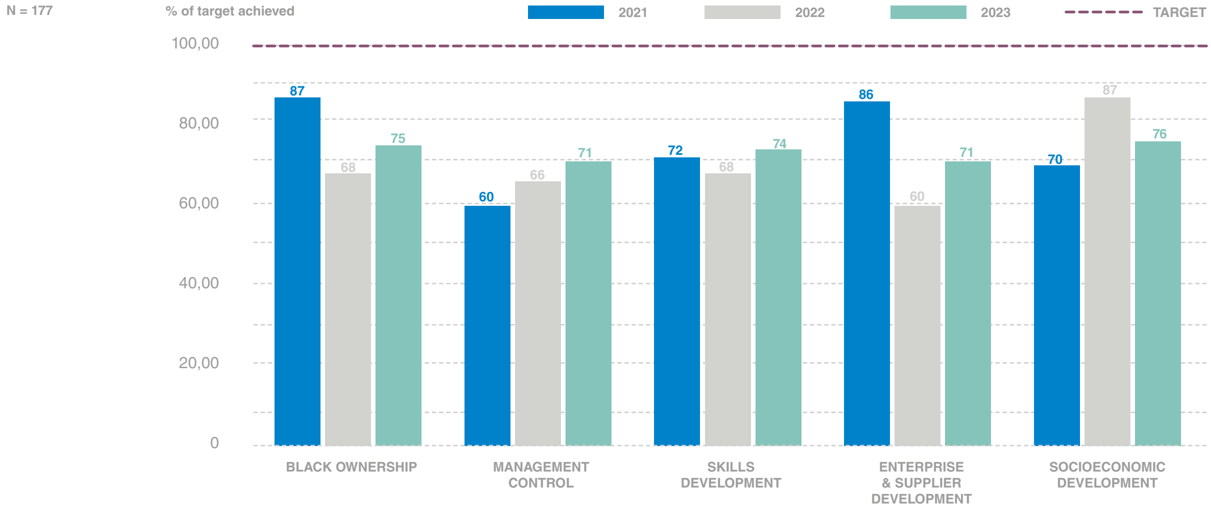
True transformation happens by design and is purposeful. It's ongoing and mindful. And it follows a big-picture path. That's been Sanlam's approach for over 100 years. South Africa has always been our home and we're dedicated to driving the change the nation needs to thrive, now and for decades to come.

THE SECTORS

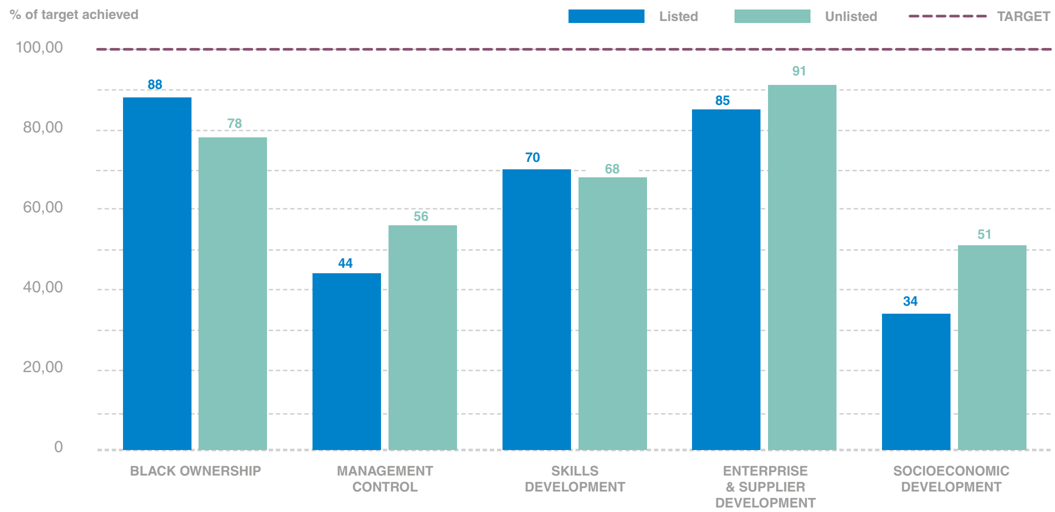
GUIDELINES DEVELOPED TO ENFORCE COMPLIANCE

A persistent challenge is that very few agri businesses report on their B-BBEE compliance, writes Zanele Sabela. There are, however, numerous processes under way to facilitate transformation.

AGRI-BEE
LEVEL 3



AGRI: LISTED VS UNLISTED B-BBEE RECOGNITION LEVELS
LISTED COMPANIES: LEVEL 4
UNLISTED: LEVEL 3



The persistent challenge for the sector's charter council is that very few businesses report on their B-BBEE compliance. This year, only 57 businesses voluntarily submitted their BEE certificates, according to Dr Madime Mokoena, director at B-BBEE Charters Compliance at the Department of Agriculture, Land Reform and Rural Development (DALRRD). Madime says they were able to gather an additional 21 certificates through desktop research and via verification agencies.

"I cannot tell you whether the sector is transformed or not because there is no data. It is inconclusive. There are more than 30,000 commercial farmers in South Africa according to Stats SA but only 57 submitted certificates," Mokoena says. Once again the Agri-BEE Charter Council will not be in a position to submit the annual state of transformation report to the Department of Trade, Industry and Competition (DTIC) as expected of all charter councils.

To enforce compliance, Mokoena says they have developed the Agri-BEE Enforcement Guidelines, which include working with the likes of the Perishable Products Export Control Board (PPECB), National Agricultural Marketing Council (NAMC) and so on The PPECB, for instance, provides certification for producers and exporters of perishable food products. The goal is to enforce compliance by stipulating any business that isn't BEE compliant will not receive certification to export its products.

Mokoena concedes, however, that enforcement will not be immediate as legislation governing these various organisations has to be amended to align with enforcement guidelines.

The Sanlam Transformation Gauge incorporates 177 scorecards from the Agri-BEE sector and puts it on level 3. It achieves 75% of target for ownership, up from 68% last year where there were 216 agricultural companies in the sample. For management control it achieves 71% of target, down to 66%, with skills development climbing to 74.5% (2022: 68%). ESD is at 71% (60%) and the sector's socioeconomic development score of 76% is up from 87% last year.

Anchor recently launched an empowered agriculture fund that aims to provide institutional investors with a single-entry point into the fragmented local sector at a time when farmers are struggling to get adequate funding. Business Day reports (Anchor launches 'superfood' agri fund with BEE credentials; 3 July) that part of the rationale for the fund is the demise of the debt-burdened, state-owned Land Bank, which has left a funding gap. Another reason for the fund is the "slowness of commercial banks to respond to the needs of farmers", according to Ferdi Schenck, executive director at Anchor Financial Services.

Business Day reports that the Anchor Ndalo Fund will be a private equity-like permanent capital structure. It aims to raise between R1.5bn and R3.5bn from institutional investors to buy stakes in high-yielding businesses across the value chain in six SA "superfood" sectors: avocados, macadamias, blueberries, citrus, pome fruit (apples and pears) and kiwi fruit.

Because Anchor is about 54% black-owned, any entities acquired by the fund will automatically acquire B-BBEE status. Schenk said that because many farming operations export their produce, there hasn't been large-scale adoption of B-BBEE compliance in the agri sector. "An empowered vehicle will have much more negotiating power and will be more sought after by local retailers."

Funding for transformation initiatives also flows from contributions from industry players through levies and the total this year jumped to R986m from R60m previously. Possibly, funding is being used effectively in ESD programmes. Skills development, too, could be benefiting from the increased funding.

According to NAMC's recently finalised 2022 survey, the marketing council collected R986m in levies of which R179m was spent on transformation. This is a substantial increase from the R63m expended on transformation the previous year.

Thapelo Machaba, agricultural economist and policy analyst at the Agricultural Business Chamber (Agbiz), argues that the nature of agriculture and the inherent flat structure of most primary agribusinesses deter farmers' participation in black economic empowerment. However, this is not to say industry players do not participate in transformation activities entirely as they contribute statutory levies to the NAMC. "Of the statutory levies they contribute, 20% goes towards transformation," Machaba explains.

Every year the NAMC reports on the status of the various agricultural industry trusts such as the Maize Trust, Meat Industry Trust Citrus Industry Trust and so on. NAMC's transformation guidelines are aligned to the Agri-BEE sector codes.

Machaba says small enterprises were hardest hit by the Covid-19 pandemic and big companies were doing the best they could in terms of transformation and their B-BBEE scoring. “For example, the citrus industry invests in small black growers and introduces them to the value chain; the whole value chain to be precise.”

National African Farmers Union (Nafu SA) represents a spectrum of members from smallholder to commercial farmers with up to 20,000 hectares. Nafu SA’s president Motsepe Matlala, a cattle farmer, provides the clearest insight into why businesses in the sector are not BEE compliant. “The South African agricultural sector is mainly what I would call family businesses,” he says. “Here I am — I have this farm and it’s a family business. You can’t come and tell me that I must come up with BEE in my family. It is not about the white farmers alone. Let’s be fair. It’s not easy to expect a family farmer to bring in a Motsepe Matlala to work in the family business,” Matlala says.

Christo van der Rheede, CEO of agricultural federation Agri SA, is resolute. “To drive transformation you need capital. A farmer who has gone through the challenges they face currently is not in a position to drive transformation on their farm because they just don’t have the capital.”

Despite this, Van der Rheede estimates that organisations including AgriSETA, which manages the skills levy fund and collects in the region of R550m; the Agri-BEE fund, NAMC, Industrial Development Corporation (IDC), Land Bank, Department of Trade, Industry and Competition and the National Empowerment Fund make a minimum of R20bn available annually for transformation and development of black farmers. But this needs to be considered against the backdrop of an onslaught of challenges facing farmers.

Load-shedding has caused problems for the sector and added to farmers’ financial strain, forcing them to install diesel generators, solar panels and batteries. The price of diesel has spiked by almost R10/litre in the past year. Prices of fertiliser, bio-chemicals and packaging have all gone up. Labour costs have increased following the hike in the sectoral minimum wage in March 2023. Add to that extra security costs given the threat of farm attacks and exploding criminality and farmers’ profits are under siege. By far the most significant rise has been the cost of capital.

“The repo rate has gone up by more than 450 basis points since 2021. Remember we produce food on the back of debt; farmers have to get loans and those loans are subject to interest rates that are going up,” Van der Rheede says. Consequently, farmers owe banks in the region of R220bn.

Matlala agrees that the cost of funding is prohibitive, going as far as recalling that during apartheid the Agricultural Credit Board funded white farmers and did not charge interest. “The government at that time truly wanted farmers to develop,” he says.

Van der Rheede’s reading of the problem is that “transformation efforts are disjointed and spread too thin”. He insists efforts should be consolidated, with more coordination between stakeholders, with realistic goals that will build and transform the sector sustainably.

Instead of government’s previously stated intention to establish 600,000 small-scale farmers, he suggests: “We must tell ourselves that within the next five to 10 years we want to establish 500 black commercial farmers and then channel our efforts towards that because there are farmers who have the capacity and a number of black farmers who are already operating commercially.”

The IDC’s Agri-Industrial Fund in partnership with DALRRD targets such farmers. Launched in 2021, to date the blended fund has committed R1.5bn towards funding 20 large-scale black-owned commercial and industrial projects. The tally is up from nine projects last year. Of the total funding committed, R400m is the grant portion from DARLLD while the rest is drawn from the IDC balance sheet, says head of corporate affairs Tshepo Ramodibe.

So far, funded projects have created about 850 jobs with more projects in the pipeline to be subjected to stringent criteria including whether they are 60% or more black-owned. Ramodibe says the ideal candidates are black farmers who are ready to scale up their commercial farming businesses to the next level.

Nafu SA maintains that the country’s internal agricultural market is dominated by white-owned, established enterprises and that government hasn’t assisted emerging farmers to access the market. “Here in Limpopo, we are not supplying the prisons, schools, the South African Defence Force and various government institutions with agricultural products. Those are supplied by established farming enterprises,” Matlala says.

Nafu SA has opted to create a market for its members rather than attempt to break into the traditionally white established South African market. It is exploring markets in Southern Africa, working with farmers in Mozambique, Swaziland, Botswana and Malawi to facilitate cross-supply of produce with its members.

Turning to land reform, Van der Rheede says people cannot just be given land as they require skill and expertise to produce food. A huge percentage of the 5,500 farms in state hands, the majority of which are occupied by communal property associations (CPAs), are unproductive, he maintains. Quoting the DALRRD's CPA report, he attributes the farms' non-productivity to disagreements among beneficiaries, saying only 20% out of 1,500 CPAs are functional.

But CPAs are not homogenous; they face unique challenges. The Coromandel Farmers Trust in Lydenburg, Mpumalanga, was established in 2002. A group of farm workers consisting of 248 households jointly bought the farm after the owner died. Assistance from the then Department of Rural Development and Land Reform came in the form of an R11.5m grant. The grant was not enough to cover both the land and movable assets, so the trust applied for an R11m Land Bank loan. "At the time the Land Bank promised to send us management who would assist us for three years but they never did," says Winnie Pooe, chairperson of the trust.

The loan was approved in November 2002 but the very next month the bank expected the first instalment. "We were forced to pay R1.2m from money we had set aside for planting," Pooe recalls.

Paying instalments has remained a problem, the amount owed has more than tripled over the years. Some members of the trust have had to seek employment elsewhere but have remained beneficiaries. The Department of Human Settlements intervened and separated the residential area from the farm bond to ensure beneficiaries would still have a place to live if the bank foreclosed on the bond. Human settlements paid R1.8m towards the bond and placed the residential area under the municipality.

In 2020, NGO Vumelana Advisory Fund started working with the trust to facilitate investor interest. Vumelana helps beneficiary communities put their land to productive use by structuring commercially viable community private partnerships between communities and investors to create jobs, income and skills for the beneficiary communities.

Now Coromandel's 5,800 hectares produces maize and soybeans and is used for grazing 120 dairy cattle and 150 beef cattle. The farm also attracts tourists to the Thaba Chweu local municipality and permanently employs 56 people from the community, plus some part-time seasonal workers.

Vumelana chief executive Peter Setou believes land reform should go further than land redistribution by supporting greater access to finance, infrastructure and markets. "More work needs to be done to strengthen tenure rights of people living on communal land, ensuring they can use restored land as collateral for credit. This will improve access to finance and reshape the land reform landscape."

Government initially set itself a target to redistribute 30% of white-owned agricultural land to black hands by 2014. The target was not achieved but was extended to 2030. According to Agbiz chief economist Wandile Sihlobo and Stellenbosch University's Bureau for Economic Research director Johann Kirsten, 24% of farmlands have been redistributed. By this assessment, the 2030 target is achievable.

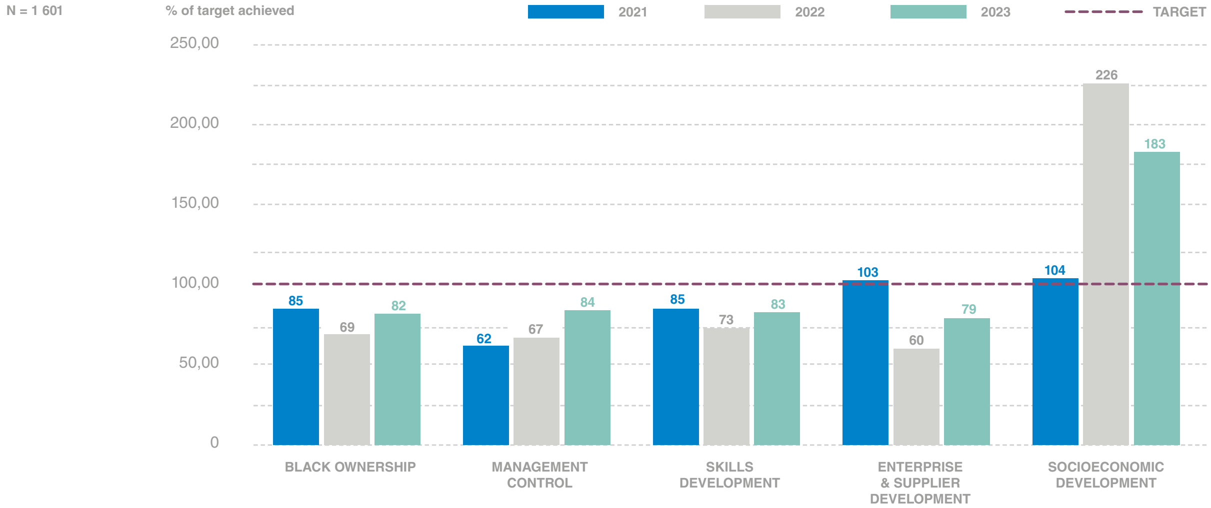
Matlala believes one national department plus nine provincial departments acting independently makes it difficult to deliver effective services to farmers. Simultaneously, the proliferation of farmers' unions and associations leads to unnecessary contestation. "Farming is a business. Farming is a science. It should not be politicised or racialised," he says, calling for consolidation.

Van der Rheede's summation is: "The problem is we've got all these very good plans such as the National Development Plan and the Agriculture and Agro-processing Master Plan but they are poorly executed, if at all."

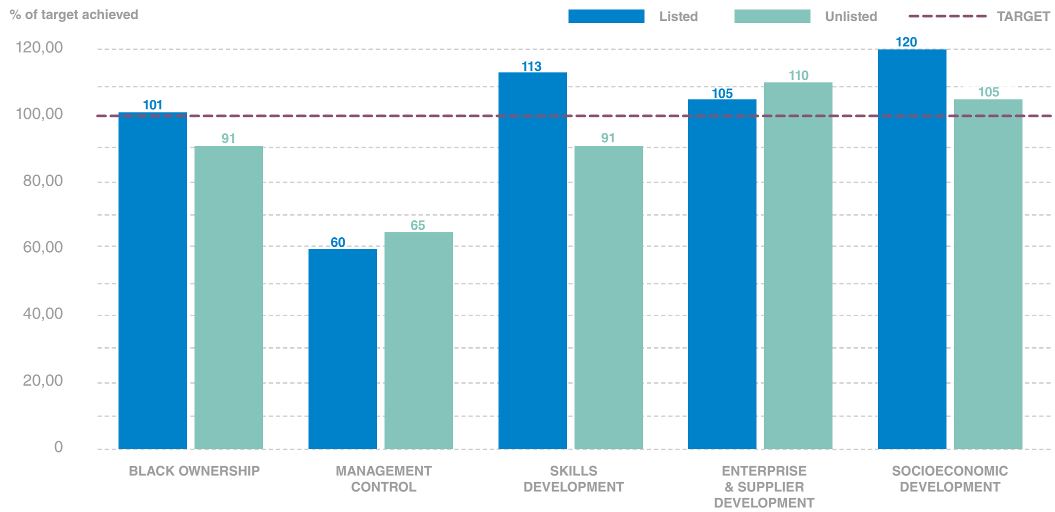
FUNDING FINALLY IN SIGHT SO COUNCIL CAN MOVE FROM VOLUNTARY STATUS

With SOEs and municipalities now devising specific criteria for preference points in tender adjudication, construction companies are obliged to align with numerous empowerment criteria, making it very difficult to standardise. The new sectoral targets in the amended Employment Equity Act add further complications, writes Lynette Dicey.

CONSTRUCTION
LEVEL 2



CONSTRUCTION: LISTED VS UNLISTED B-BBEE RECOGNITION LEVELS
LISTED COMPANIES: LEVEL 1
UNLISTED: LEVEL 2



After a challenging few years for the Construction Sector Charter Council as it waited for its funding model to be approved, there is finally light at the end of the tunnel. Funding is due to be released shortly after which the necessary approval process required for the council's self-funding model can begin.

Since the funding was halted in 2019, the charter council has been run by volunteers who already have full-time jobs in the industry, which means they have limited available capacity to attend to council matters.

Despite these constraints, the charter council has been busy. Its technical review committee (TRC) has held several workshops with the South African National Accreditation System (Sanas), the department of trade and industry and the B-BBEE Commissioner to highlight where incorrect applications of the codes have been discovered. The charter council's exco task team also met with the President's Advisory Committee on B-BBEE to highlight specific challenges the industry faces.

The Construction Sector Charter Code website has been launched, making it easier for companies to upload their scorecards and to submit queries. In addition, the charter council's 2021 State of the Industry Report will soon be released, to be closely followed by the 2022 and 2023 reports.

The lack of permanently employed staff at the council has, however, been felt, with industry players reporting that there is nobody available to discuss issues. The charter council says that as soon as the next tranche of funding has been received from government, suitable technical staff will be employed and offices found for the council, which will hopefully address this issue.

Despite a big increase in the overall number of companies measured in this year's Gauge report, the number of construction companies measured fell sharply to 1,601 from 3,929 last year. The construction sector achieves recognition level 2, improving from level 3.

Ownership climbs strongly to achieve 81.87% of target from only 69% last year while ESD is an even bigger climber to 79.17% from 60%. Skills development also improves to 82.54% (73%) while socioeconomic development is far ahead of target on 183%.

One of the most persistent challenges across sectors, including the construction sector, is the management control pillar of the scorecard. According to this year's Gauge, the construction sector has improved to 84% of target from 67% last year.

The charter council has introduced detailed and specific training requirements to accelerate the advancement of black employees into management positions. To address youth unemployment, bonus points have been introduced in three areas. The charter council says these initiatives are producing results, with the registration of black candidates and professionals seeing a major increase, reflecting in improved junior and middle management control figures.

Senior and top management, however, remain challenging areas with the industry losing experienced staff, either by movement to other industries or emigration. Member organisations within the charter council are looking at possible interventions to address this challenge as well as conducting research to better understand the issue.

Deon Fabel, chief operating officer at Bigen Group, an infrastructure development company, agrees that the management control pillar of the scorecard is a challenge. "The code requires that at least 50% of equity must be held by Building Environment Professional (BEP) registered individuals – mainly engineers, architects or quantity surveyors – and that they must also be executives of the company. As a group we employ a number of highly qualified specialists, in other related fields, many of whom are black. Our CEO, for example, has a master's degree in development finance. Although he is black the company receives no recognition as he has not qualified as an engineer, an architect or a quantity surveyor. However, he provides very necessary expertise to our business. These rules constrain our ability to transform at top management level and attract investment."

CONSTRUCTION SECTOR

The slowdown in government procurement has been one of the biggest constraints to transformation in the construction sector in recent years. Encouragingly, the charter council says the implementation of several large road projects in the past few months will have a positive effect on the employment of unskilled workers in local communities as well as allowing companies in the sector to improve their turnover and transformation initiatives.

The implementation of revised procurement regulations is, however, one of the biggest challenges. The charter council, which responded to Intellidex's questions via a spokesperson who preferred not to be named, says the focus on the B-BBEE scorecard has been diluted with the revised procurement regulations, with municipalities and state-owned enterprises now permitted to devise their own specific objective criteria for preference points in tender adjudication.

While all construction companies were using the transformation objectives in the construction codes to get the best level on their scorecard for tendering, they are now required to align their business with numerous empowerment criteria, making it very difficult to standardise across the myriad municipalities and state-owned entities. In some instances, the preference points on increased subcontracting percentages are in direct contradiction to Clause 2.8.7 of the Amended Construction Sector Codes, says the spokesperson, adding that the council has addressed these concerns with the B-BBEE Advisory Council.

Another area of concern is the increased focus in state tenders on "localisation" which has severely affected the ability of contractors to develop emerging companies on their enterprise development programmes as they are not able to use these companies on projects, reveals the charter council spokesperson.

In a submission to National Treasury, the charter council has expressed concern that with all the variations in tender requirements, coupled with stringent localisation requirements for main contractors and their enterprise development companies, it's almost impossible for companies to be competitive.

Companies operating in the sector are also concerned about the impact of the sectoral targets in the amended Employment Equity Act. The target for professionally qualified Africans in the construction sector is 65.2% in the next five years, up from 46.9%.

"These targets are not achievable over the short term because the supply of experienced staff is simply not there," says Fabel, adding that even with the best will in the world, it's impossible to buy experience. "These targets may be achievable over the long term, allowing our young black professionals to gain the necessary experience and expertise, but it will have to be supported by substantial economic growth."

He says a further challenge for companies in this sector is that they compete with government to employ black engineers. "The private sector struggles to compete with the state which is prepared to pay exorbitant salaries to engineering graduates to work at municipalities and other government entities. The problem for the state, however, is that they are unable to provide the necessary project experience required to become professionally registered."

Private sector companies such as Bigen Group have stepped up to assist government by providing a large number of state-employed engineering graduates with project experience under the mentorship of a seasoned engineer to assist them to become professionally registered.

But, as Fabel points out, it's a systemic problem and a massive flaw which could have unintended consequences. "We need to remember that locally trained engineers are sought after globally. What we can't afford to do as a country is exacerbate the brain drain."

Bigen Group provided funding resources to the charter council to assist it with responding to government on the proposed sectoral targets in the amended Employment Equity Act. "Like many businesses in this sector we are hugely exposed to government work," says Fabel. "If we are unable to comply with the regulatory requirements, we won't receive the certificate of compliance that companies are now required to have participate in state contracts. That could have dire consequences for our company."

Cautioning that the draft targets published by the Employment Equity Commission is still a "wide open issue", Consulting Engineers South Africa (Cesa) CEO Chris Campbell questions the basis on which the targets were set, arguing that they will be hard to defend as reasonable and rational.

"Consulting engineering companies, unlike in the B-BBEE sector targets, are not included in construction under the classification determined by the department of employment and labour. It has set the same targets for legal, accounting and engineering professions and has refused to accept the proposal for segmenting the targets, considering the dynamics of each," he says.

ENTREPRENEUR:
KHANYI MAKHAYA

CASE STUDY

CONSTRUCTION & PROPERTY SECTORS

‘I DON’T WANT TO BE DEVELOPED, I WANT TO WORK’

‘Khanyi Makhaya is adamant that her company has not benefited from B-BBEE either in terms of funding or preferential procurement’, writes Zanele Sabela.

Staying in business has been challenging for property developer Khanyi Makhaya; despite having received funding in the form of a loan, she feels she hasn’t benefited much from black economic empowerment.

“It’s extremely difficult, so much so when someone asks me if they should leave their job, I always say rather do the business thing as a side hustle and get someone to run it for you,” she says.

Makhaya started her business, Cicima Property Management Solutions, eight years ago after resigning from her role as head of stakeholder relations at Eskom. Armed with her pension payout, she pursued her passion for the property industry. “I could have taken the money and sent my children to the US to study but I decide to do something that has a bigger reach,” she says.

To fund her first major project three years ago, Makhaya used a combination of her pension fund and debt funding from the Gauteng Partnership Fund. However, endless delays saw more money than initially anticipated being funnelled into the 66-unit two bedroom residential development in Benoni. It is only now that the property is nearly ready to welcome tenants. “All that remains is for the Ekurhuleni fire chief engineer to assess and sign off on the property,” Makhaya says. This is after she was compelled to comply with various stipulations including redoing signage and installing a water tank, which set her back a further R2m.

Recently Makhaya was offered an opportunity to build a commercial property to lease out to Shoprite Usave and Usave Liquor in the newly-developed township of Palm Ridge, east of Johannesburg. As per the lease, Makhaya will have to put up a structure costing between R3m and R5m. But she is struggling to raise the required capital despite having the lease. In addition, the land on which the property will be built is bought and paid for.

“It’s not fancy, just a steel structure with a roof. I’ve been told no bank will look at it even though I’ve always been told that if you have a lease agreement, the bank can look to the lease. But that’s not my experience,” Makhaya says.

It appears the banks’ reluctance is due to the developer’s personal credit. “My personal credit has gone to the dogs because I took everything I had and put it into the business,” Makhaya explains.

If Makhaya were somehow able to raise the capital required and erect the building, Usave would be the only retailer to service the community in the area. Palm Ridge is a mixed development consisting of some 7,000 bonded houses and serviced pieces of land that government allocates to individuals who wish to build their own houses. To prevent squatters from illegally occupying the piece of land, an affordable crèche catering to grant recipients is operating on the land at no charge.

When it comes to her business, Makhaya feels she has not benefited much from B-BBEE. “I’ve been invited to a lot of supplier development programmes. I don’t want to be developed. I want work. Then you go to these seminars and they tell you how to market. The problem is not the marketing, the problem is access,” she says.

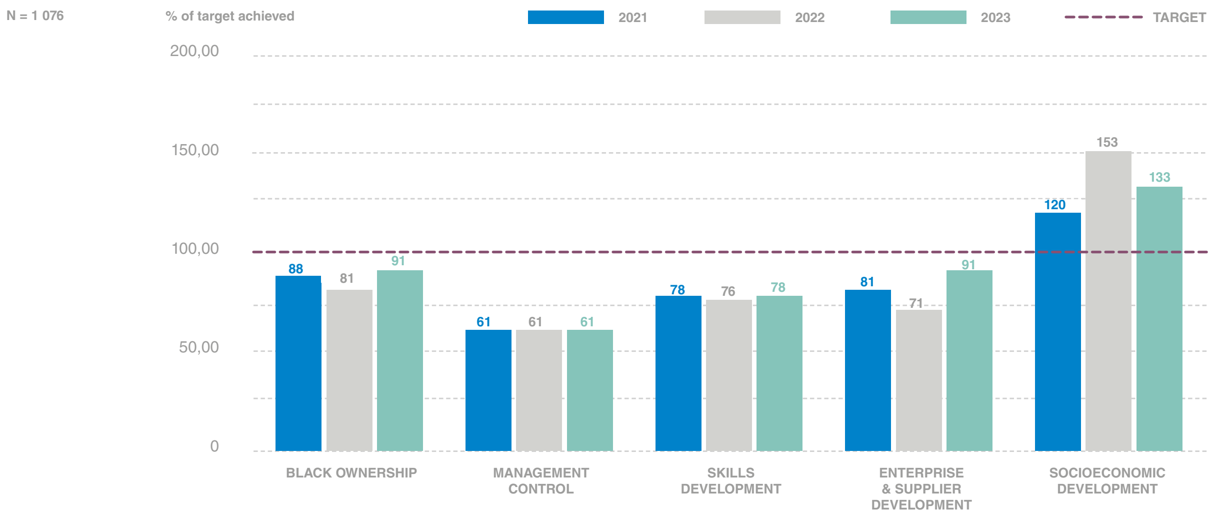
Makhaya is convinced that black economic empowerment has entered a new phase. “I think we are over the first wave of BEE which was about who you know, and because of that you were invited to be an equity partner in a group. For me the next level would be about being introduced to the right company that’s working on a big development; my company could come in and do the finishes or the bathrooms. It’s those opportunities that we are praying for, that would be helpful,” she says.

For her part Makhaya endeavours to give work to black contractors.

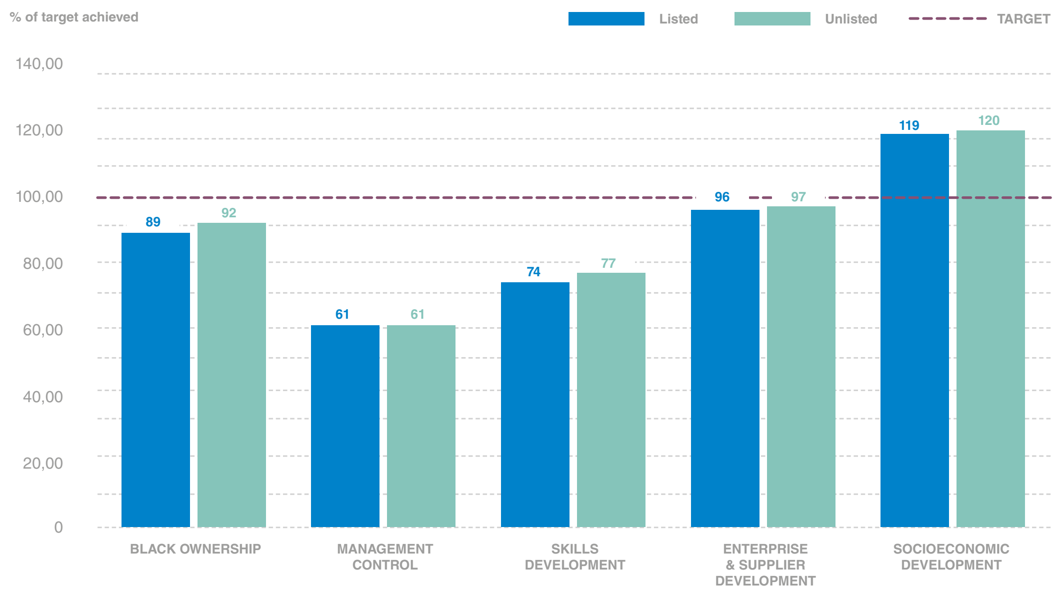
ALWAYS IN THE TRANSFORMATION CROSSHAIRS

Banks, insurance companies and asset managers face close scrutiny because they play a critical role in the economy and influence the lives of most people, writes Herb Payne.

FINANCIAL
LEVEL 2



FINANCIAL: LISTED VS UNLISTED B-BBEE RECOGNITION LEVELS
LISTED COMPANIES: LEVEL 3
UNLISTED: LEVEL 2



Although elements of the South African banking and financial sector are frequently lauded as among the best in the world, the sector still faces challenges at a domestic level with regard to progress – or perceived lack of progress – when it comes to transformation.

Some of the challenges may relate to the diversity of the sector which embraces more than 10,000 licensed entities – most of them small operations such as brokerages and one-person financial adviser shops (many of whom don't have to be measured because of the size of the turnover but should submit B-BBEE affidavits).

From that large pool of companies, the Sanlam Transformation Gauge incorporates 1,076 financial sector scorecards which achieve recognition level 2 – up from last year's level 4 with 759 companies included.

ESD is the big mover, up from 71% in last year's Gauge report to 90.56%, while ownership climbs from 81% to 91.29%. Management remains flat at 61% and skills development edges up from 76% to 78%. Socioeconomic development comfortably exceeds the target though its score has declined.

While getting the large number of small financial firms to report on B-BBEE remains a problem, most of the attention, however, is focused on the other end of the scale: the banks, insurance companies and other large financial institutions. The banks, although few, are particularly significant not only because of the number of people employed directly and capitalisation, but also because they have an impact on most businesses and individuals that use them. Most of the big financial companies achieve level 1 or 2 recognition scores individually. Transformation is happening within the sector but it is still regularly criticised, particularly on employment equity and management control targets.

Banking Association of South Africa (BASA) executive Thabo Tlaba-Mokoena believes that the banking and mining sectors are particularly prone to being the focus of scrutiny when it comes to transformation issues, first because of their contribution to the economy and second because of the number of people in their employ – more than 100,000 people in the case of the banks. "The banks are also important because they are fundamental to financing the real economy."

He says this focus has intensified recently because national elections take place in South Africa next year and some want, or need, to be heard making populist claims and demands of the banks.

Tlaba-Mokoena believes that transformation targets should certainly be challenging – if they were attainable and being obtained, then the pressure would be on to make them more challenging. "If you check from where we've come, there has been progress, but if you ask where we should be, then clearly we haven't moved fast enough. We have the laws so perhaps the whole financial sector needs to change its mentality and instead of just complying, recognise that our survival depends on us serving the whole nation and that includes ensuring that our workforce reflects the demographics."

And although the banks have been responsible for some of the most impressive empowerment deals – Absa in March announced a R10bn B-BBEE transaction that will, among other things, result in a 7% in increase black ownership of the group – they still seem to attract criticism for their failure, at times, to be more inclusive.

In May, for example, according to a Business Times report, the department of labour and employment was threatening to take three top banks – Standard Bank, FNB and Absa (all three certified level I or 2 contributors) – to court for failure to comply with employment equity laws, following a noncompliance finding stemming from a desktop study in the first quarter of 2023 to determine whether publicly listed companies were compliant with employment equity plans tabled in 2018. The Business Times report said the study found that almost 99% of private sector employers were noncompliant.

Although Tlaba-Mokoena declined to comment on these specific cases, he believes the action highlights a fundamental problem faced not only by the banks but the economy as a whole. "The Employment Equity Act trumps the B-BBBE Act when it comes to the issue of management control – and requires institutions to meet specified demographic targets according to African, Coloured and Indian classification. Failure to do so can be penalised," he says.

"The banking sector as a whole has struggled to meet management control targets set out in the Financial Sector Charter (FSC), but despite this, the sector has generally managed to achieve high levels of B-BBEE contribution certification. The problem is that issues such as transforming management control (and other transformation issues) cannot be addressed at the required pace in a slowing or stagnating economy, where the pool of relevant skills and expertise is limited and subject to poaching and even emigration. Even if you love South Africa, it becomes very tempting when someone offers you a good paying job elsewhere with the promise of less crime and better opportunities for the family – and as a consequence management control remains a challenge right across the economy," he says.

The sector has been in the transformation crosshairs for many years. In 2017 for example, parliamentary hearings into financial sector transformation were described as very polarised, with financially marginalised constituencies expressing frustration and anger at the failures of the financial sector and the slow pace of transformation. Highlighted issues included high levels of monopoly in the banking and insurance sectors, the need to lower entry barriers to the sectors for emerging black businesses and the need to address issues such as financial exclusion of large parts of the population. Tlaba-Mokoena maintains that South African banks have the highest levels of inclusivity (80% or more) in Africa and probably don't lag the world's developed countries by too much. "There will always be a gap and I don't really know what targets government wants us to achieve and by when."

At the same time the hearing recognised that the banks and other sections of the financial sector are crucial to the economic growth and development of the country and that the transformation of the financial sector needs to contribute to both its own and the country's interests.

One of the consequences of the hearing has been moves to strengthen the powers of the sector's Financial Services Conduct Authority (FSCA) to enforce B-BBEE legislation and to be empowered to, for example, fine noncompliant companies. The Conduct of Financial Institutions (COFI) Bill published last year (which includes a transformation strategy requiring companies to set transformation targets and timetables) is designed to give the FSCA those powers. But the bill has yet to be passed.

That is not to say there is no transformation happening. The level 2 recognition in this year's Gauge is reinforced by independent research commissioned by the Association for Savings and Investment South Africa (Asisa) whose membership manages about R8-trillion in assets – making it one of the biggest contributors to the financial sector.

Asisa tells the Gauge that transformation is one of its top strategic priorities. "It must be acknowledged that despite all that has been done to date, South Africa remains a very unequal society. It is, therefore, imperative that our industry continues to play its role in helping our country accelerate the rate of change," says the organisation.

Accordingly, Asisa commissioned an independently compiled report — The Journey towards Transformation of South Africa's Savings and Investment Industry (the first such report for the organisation) — that provides insights into the transformation progress made by its members between 2018 and 2020.

The report, based on the scorecards (provided to verification agents) of Asisa life offices and asset managers, indicates that its member organisations met and exceeded most of the targets for the elements measured by the amended (2017) FSC scorecard, although, like banking, they failed to meet management control, employment equity and skills development targets.

They point out that life offices and asset managers both require largely technical skills with appropriate qualifications – skills which are in short supply. "Over the long term, however, this cannot continue to be an excuse. Interventions must be put in place which will, hopefully, over time bear fruit" – a sentiment that should apply to the financial sector as a whole.

Overall, there is no question that the sector is improving its scorecard performance and it exceeds target on both ESD and SED. With 1,076 companies measured, that is encouraging.

CASE STUDY

FINANCIAL SECTOR

IF IMPLEMENTED CORRECTLY B-BBEE CAN BE A SILVER BULLET FOR THE ECONOMY

After a boost early in his career, since forming Kela Securities, Lesedi Kelatwang has found little more than lip service to transformation within his industry with a marked difference between what they say and what they do, writes Colin Anthony.

"I ran around for two years trying to get funding," says Lesedi Kelatwang in describing how he founded Kela Securities, SA's first equity derivatives market maker that is not affiliated to a bank.

"It was a difficult space we were trying to break into," he says. His strategy from the outset was to consult widely and build a team with strong experience in investment markets, drawing heavily on those he'd worked with before.

During that time he took a conscious decision "not to promote blackness" and invested heavily in establishing capabilities to rival the incumbents. Today the only indication that this is a 100% black-owned company is near the bottom of the company website's home page where it states: "Kela Securities Is A level 1 B-BBEE Contributor; 100% Black Owned".

Prior to founding Kela, Kelatwang was a career professional, starting off at Bank of America Merryll Lynch before joining Credit Suisse where he led a team that dominated market share within the listed futures market.

Despite B-BBEE policies making way for a couple of prominent clients to help him establish his business, the support he received earlier in his career is where he got a boost which would prove to be much deserved. "Merryll Lynch was unapologetic when it comes to transformation and was effective in utilising my position. The PIC was very deliberate and straightforward about it and remains so. When asked to give motivation for getting their business, you had to show that there was effective transformation in your business."

Kelatwang says there was a big push within Merryll Lynch to drive transformation including a strategy to "deliberately hire black investment professionals", particularly through the internship programme. "From that perspective, that push from the influential PIC did have an impact on transformation within the company. After joining, there were a few problematic individuals who clearly had a problem with skin colour. But, at the same time, there were individuals who risked their careers to guide and protect me."

ENTREPRENEUR: LESEDI KELATWANG

After five years with Merryll Lynch he joined Credit Suisse which at the time had less than 10% of market share in listed futures trading. Within two years he'd helped to capture more than 40% of market share. "At the time I was the only black person running a derivatives desk," he says. With his competitors not as advanced in transformation while he had the full backing of an international bank, Kelatwang went on to dominate the market and generate significant value for Credit Suisse.

Today, things are slightly different regarding transformation. While Kelatwang is a staunch supporter of BEE, he is poignantly aware of its failures and, more specifically, what could have been had the policy been implemented correctly. Within his own industry, Kelatwang hasn't found it to be as open to transformation as it could be.

"There are four main areas to stockbroking: bonds, currency, derivatives and equities. Kela Securities is a member of the derivatives and equity market. The business was founded primarily to exploit the glaring opportunities within the derivatives market." If the right ingredients are in place, Kelatwang sees significant prospects for his business. Outside of the banks, Kela Securities will be the only market maker in the game, making the value proposition that much more compelling.

However, there is a reason why banks dominate the space. The product demands high levels of working capital and Kelatwang emphasises the need for innovation and skill to manage risk. "Demographics and identity play a limited role as you can trade anonymously. But even if they knew who they were trading against, it does not matter as it is all about price," he says. "Cash equities, on the other hand, is a different beast."

Despite transformation being a key goal for the sector since the early 1990s, little progress has been made. "There are only 12 black-owned stockbrokers out of 41 in the country." While the commission pot for the entire industry is between R2bn and R3bn, he asks "why are most of the 12 BEE firms, many with lower cost structures, struggling?"

There are three main factors behind how a broker generates revenue: execution, BEE and research, and the latter is generally the largest component. It seems, says Kelatwang, "that the current narrative is around "best execution" stemming from a regulatory push in the EU and UK to separate research and execution costs whereas stockbrokers traditionally grouped the two". This has understandably led to a decline in stock liquidity, he says, making price discovery less efficient. "In an environment where returns are depressed, clients are placing a greater emphasis on execution."

Yet because all brokers have the same or similar trading systems/algos, execution has become a highly commoditised service. "This makes distinguishing the quality of certain services between a BEE broker and a larger, more established broker, highly impossible. And yet, market share of the commissions pot remains skewed."

He argues that, technically, if an asset manager is truly focused on "best execution" then all brokers should get paid the same. "Based on discussions with some of our peers it appears that there are some inconsistencies in the reasons given as to why the size in business attributed to execution differs. One is left to conclude that the industry is not as serious about transformation as it should be.

"If pension funds are truly about ensuring that their clients get the maximum value from their contributions, transformation should then be a key factor of the investment process for them. In fact, it is in the pension fund industry's best interest to ensure that transformation succeeds in the truest sense. Seeing how the lack of a growing middle class has adversely impacted shareholder returns for many JSE listed companies, failure to empower the majority in an effective, sustainable way poses a key structural risk for the pension fund industry, more so for local asset managers. The listed equities asset class will underperform while inflation further erodes value. Pension fund contributions will dwindle while management of the funds moves offshore."

The ultimate client, the worker contributing to a pension fund, has another reason to champion transformation, says Kelatwang: "As an individual who contributes to a pension fund, the implicit expectation is that the asset manager will invest my funds such that my quality of life as a pensioner is maintained when I retire. However, how can that be achieved if the quality of my environment deteriorates considerably? If the institution managing my pension had access to tools that can enhance the quality of both my returns and environment, I would want them to fully exploit that function."

Put simply, an asset manager cannot be said to be maximising investment returns if they are not utilising the tools available to them, like transformation, to ensure higher, quality returns in the future.

On the other hand, Kelatwang can see why there seems to be a lack of enthusiasm for transformation. He himself has strong feelings about the flaws in SA's transformation policies.

First off is that the ANC erred in calling it "black" economic empowerment. He believes this unnecessarily racialised the need to address economic inequalities. "This is particularly true when dealing with offshore potential investors. As soon as they hear 'black' they immediately view it as reverse racism. Even though B-BBEE is a sound economic policy the difference is that foreign countries call it 'diversity' or 'affirmative action' and their focus is, in addition to women, empowering minorities whereas ours faces the sizeable task of empowering the majority."

His main grievance, though, is the cost of failing to implement B-BBEE adequately. South Africa would have been a far better economy today had the majority been upskilled and become more productive. Instead, the government currently spends more than R200bn a year on grants, supporting 20-million or so South Africans. "The tax base to support this expenditure is shrinking, pushing the government to charge higher taxes."

Despite this, Kelatwang remains a believer in transformation policies. "I think BEE is your silver bullet to drive growth," he states. As activity in the robust and sizable informal sector suggests, South Africa is not short of entrepreneurs who could have used BEE to formalise their respective domains and accelerate the country's GDP growth.

"Our economic growth is poor because of poor execution of the policy. Ways have to be found to channel resources to the right people within underprivileged communities."

While the policy is sound, it is the implementation of B-BBEE that has been poor, Kelatwang says, which results in suboptimal economic performance. When South Africa's economy was benefiting from the prolonged boom in commodities from 2000 to 2014, as emerging markets grew, Kelatwang bemoans the opportunity the country squandered to tackle inequality. He likens it to a pilot using only one of four engines – "he crashes at the end of the runway and wonders why the plane didn't take off". Put differently, if 80% of our population is being underutilised, why are we surprised that the economy is achieving suboptimal economic growth? B-BBEE is the glaringly obvious remedy.

To "use all four engines", ways need to be found to empower previously underprivileged people in a strategic, perhaps bottom-up approach, he says, which establishes a strong foundation for upward mobility. In particular, entrepreneurs should be empowered to create jobs, upskill their employees and widen the middle class.

"Ultimately BEE seeks to reduce income inequality. Due to apartheid our economy is divided along racial lines. Hence it shouldn't come as a surprise that economic remedies to current woes are race based. "Skin colour aside, you can't have the entire population being dependent on 10% of its citizens. In what universe does that make sense?" For that, though, attitudes have to change.

While certain institutions have done well in supporting transformation, the private sector "needs to really come to the party". Within the investment sector, he points to pension funds. "They're powerful but I don't think they really appreciate the full potential of transformation when done right. New instruments can be developed to help them reach entrepreneurs from underprivileged communities, and they should be engaging policy makers and unions to discuss how this can be achieved. Trade unions should also do more for transformation. They have so much power and can influence more than just wages and working conditions."

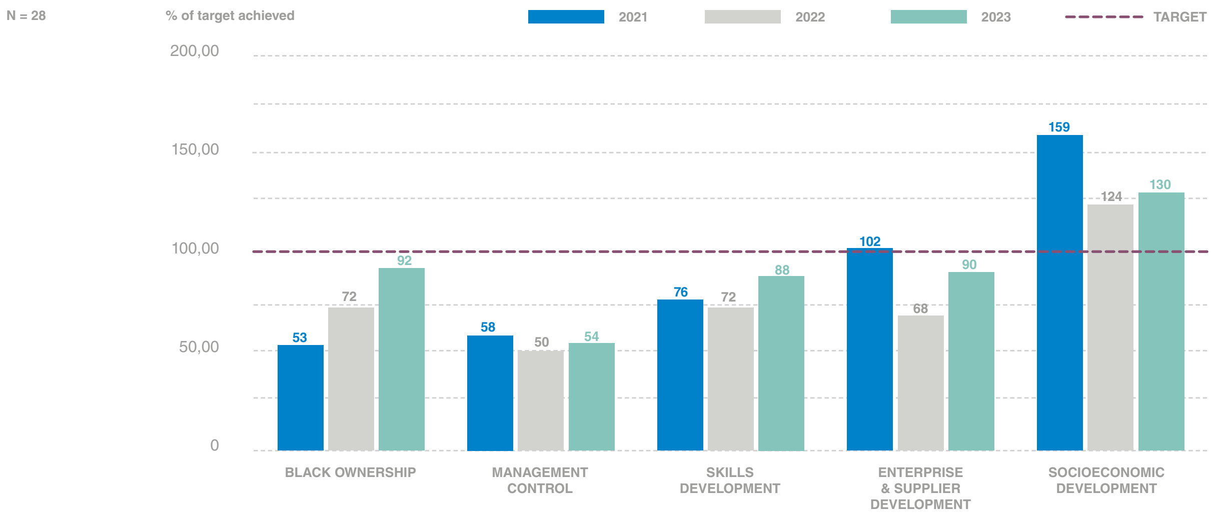
Kelatwang says while he fully supports the right to protest, he finds it disheartening when unions take to the streets "when through their pension funds they can resolve issues in a few meetings. I'm not saying don't protest but there are more efficient means. Unions could resolve most issues, including those related to transformation."

Thankfully, there is hope. "Prominent institutions have been deliberate in supporting deserving brokers such as ourselves. Some asset managers that have historically been perceived to be anti-transformation have given us airtime and opened up their doors. We are truly appreciative for that and will do our part to empower others."

TURNING TO COMMUNITIES TO MEASURE IMPACT OF TRANSFORMATION

Charter council is campaigning to promote women in the sector while improving reporting and compliance among smaller companies,
writes Aurelia Mbokazi-Kashe.

FORESTRY
LEVEL 3



Celebrating 20 years since broad-based black economic empowerment (B-BBEE) came into effect, the forestry sector is in deep reflection. While the numbers show some change, the charter council is exploring means to measure the impact of transformation, to validate the technical numbers presented in the scorecard. They are asking the questions such as what does real transformation look like to an ordinary person in the forest?

Executive director of the Forest Sector Charter Council, Makhosazana Mavimbela, says that board members support this holistic approach. She insists they are not apologetic about empowerment, but perhaps a different approach could yield better and improved results to launch an even better outlook.

“We want to be a sector that understands B-BBEE is not something you do voluntarily but must be implemented and, thankfully, some companies are comprehending this concept. However, transformation is emotive and brings up our dark history. While we must be unapologetic and address it, we have to be sensitive and cannot always make demands of companies outside the legal imperative.”

Mavimbela says it is easy to lose hope when looking at the numbers, but it is only when “people understand what B-BBEE means to those on the ground and the efforts made are acknowledged that a clear picture begins to emerge”.

Mavimbela admits that there are challenges in the sector owing to resistance to change. But there are also stories of companies and people who have embraced transformation and made it work harmoniously.

The sector was compiling its annual report due to be released in June and the preliminary results are encouraging. The number of reporting entities has improved and sits at 70%, while the sector is set to improve from B-BBEE level 4 to level 3.

The 2023 Gauge report confirms this move to level 3 from level 4 last year, noting improvements in ownership (92% of target achieved from 72% last year); management (54% from 50%); skills development (88% from 72%); and ESD (90% from 68%). Socioeconomic development remains above target at 130%.

Big companies have been consistent with reporting and compliance. However, Mavimbela says it is smaller companies – particularly those that do not do business with the government – that need to be persuaded to report.

"We go to companies that do not report so we can understand their reasons and hopefully convince them to start reporting. We are careful not to paint everyone with the same brush and instead we encourage those who report and use them as a benchmark. Some are receptive and we see improvements."

With just over 4,600 employees spread across five production facilities in SA, Sappi is 1 of the big players in the sector. It achieved level one B-BBEE status and continues to actively support local communities through community forums.

Sappi's head of investor relations and sustainability, Tracy Wessels, says that through Sappi Khulisa, the company's enterprise supplier development (ESD) initiative, they supported the participation of more than 4,000 individual growers and about 871 small, medium and micro enterprises in the forestry value chain. As part of this ESD programme, which covers a total area of 37,028 hectares of individual and community tree farming, timber worth R184m was delivered to Sappi's operations in 2022, a significant contribution and proof that these partnerships work.

"Sappi partners with community managed projects through Forestry Enterprise Development agreements to ensure continuous productivity of timber farms and the sustainable supply of timber from land reform beneficiaries. In 2022, new areas under timber production expanded by 2,874 hectares on both Forestry Enterprise Development and Khulisa agreements," says Wessels in the organisation's integrated annual report.

Tracking these new businesses and ensuring that the sector is growing is one of the initiatives the Forest Sector Charter Council plans to explore, explains Mavimbela. She says due to the nature of forestry being a long-term, high-risk industry with low chances of getting a loan with a reduced prime rate, it requires new entrants to be fully prepared so they can succeed and become sustainable in the long term.

"We have also the Forestry Master Plan that was approved in 2020 and provides a roadmap that ensures transformation, investments and growth for new entrants. We want to see if indicators of the scorecard translate to growth in the sector. Are they showing an improvement in livelihoods? How has BEE magnified and how has it changed?"

Another gap they have identified is within community development and, through ongoing consultations with host communities, they have gained a better understanding of the community's needs. Forest Sector Charter Council chairperson Nelly Ndlovu says the consultations have been invaluable. "We sometimes come up with solutions that are not suitable for communities. Now we know that communities want jobs and skills development and are looking for more than CSI.

"There are huge opportunities for the industry to make an impact, especially among small growers. We are looking at partnering with contractors through suppliers and driving impactful enterprise development."

As a sector that is predominantly based in rural areas and is responsible for providing around 700,000 jobs, skills development remains another challenge, despite the sector generating up to R1bn in the skills development levy.

Ndlovu says young people could not see past the blue-collar work offered in forestry and were not attracted by its rural locations. She adds that the industry is slowly changing mindsets and is deliberate about recruiting young professionals, particularly women. Their focus has been to showcase science-related careers within the sector. So far, they are making inroads and their campaigns to get young women on board are paying off.

"We are creating a database of women who are currently in training and also calculating how much the industry spends through bursary schemes and skills development spend and how we can best maximise those resources," says Ndlovu.

The sector's skills development score of 87.9% of target possibly reflects the progress of the measures Ndlovu mentions but could also reflect that skills training is being provided by companies but is possibly not effective or appropriate for the skills needed by the industry.

As with all sectors, forestry is struggling with management control, with its score of 54% of target behind the overall average of 67%.

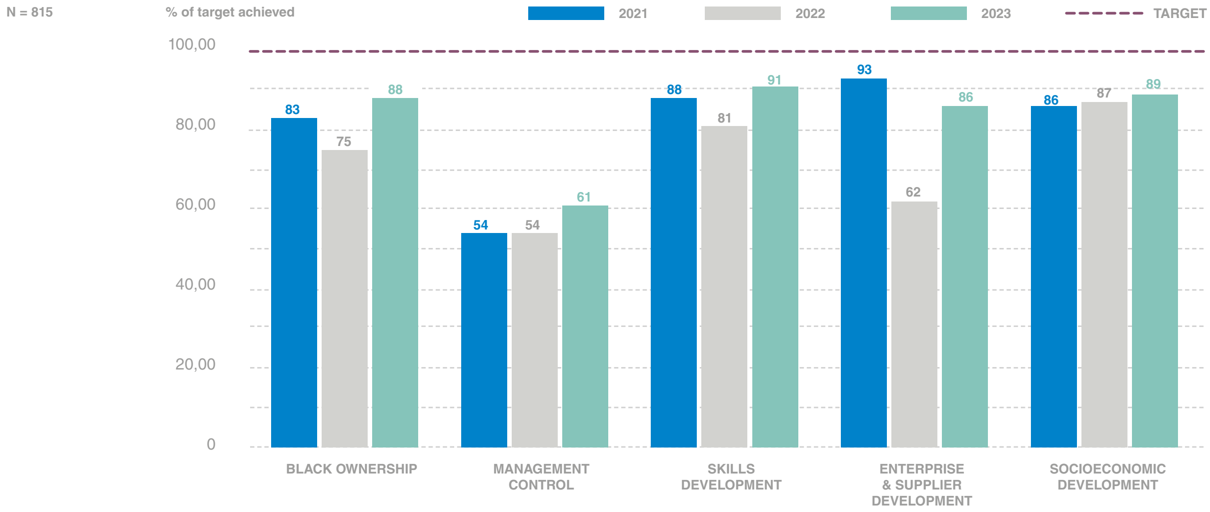
In most cases, says Mavimbela, companies are comfortable using the same faces on their boards because they are reliable. This often robs them of an opportunity to give women a chance to contribute to diversity at board level. She also acknowledges that while some companies are making progress, the sector continues to face migration and fewer numbers of women in science and technology. The council's response to this, in partnership with the entire sector, has been to celebrate and expose women in the sector through ongoing campaigns. One of them is the She Is Forestry SA campaign which identifies female movers and shakers, creates platforms for them to be visible, and hopefully leads to key appointments.

During women's month, as part of the campaign, companies within the sector go on a big drive to support and celebrate women. This has resulted in a slight improvement in the diversity of management control for the first time and, Ndlovu adds, one that will hopefully lead to even greater numbers as reporting continues on a consistent basis.

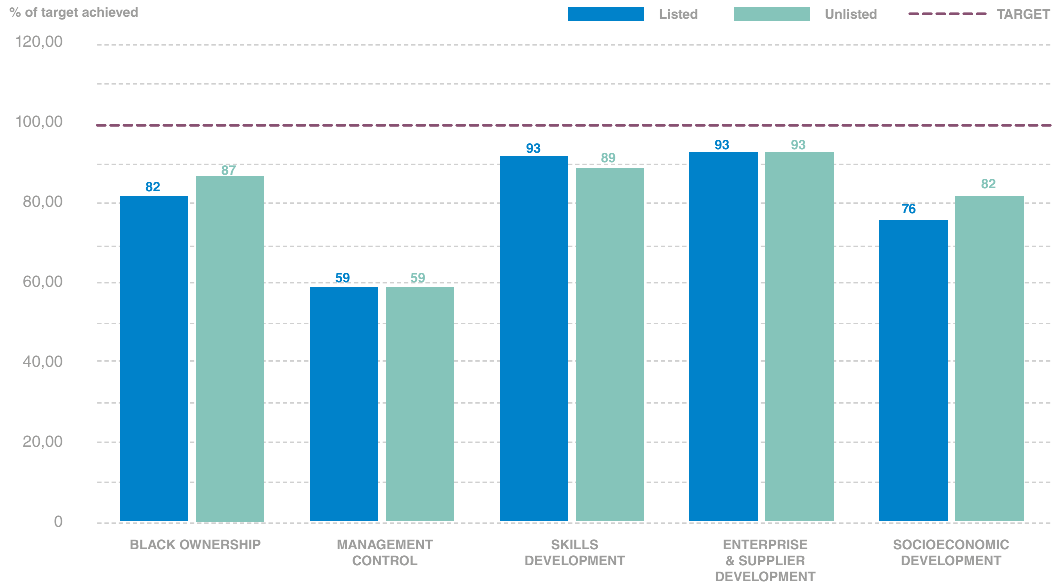
BATTLE TO ATTRACT AND RETAIN TALENTED CANDIDATES SET TO INTENSIFY

The employment equity sectoral targets for the ICT sector are considered extremely onerous in a sector where companies are already competing for black professionals, writes Lynette Dicey.

ICT
LEVEL 2



ICT: LISTED VS UNLISTED B-BBEE RECOGNITION LEVELS
LISTED COMPANIES: LEVEL 4
UNLISTED: LEVEL 2



The ICT Sector Code is one of the most challenging to comply with given its higher targets on ownership, enterprise development and socioeconomic development. The number of points required for compliance are also higher than the generic codes. For example, a company that scores 100 points on the generic codes would achieve a level 1 B-BBEE score whereas on the ICT sector code it would only achieve level 4.

For comparison purposes we have calculated the ICT sector's recognition level score to determine the generic equivalent, using the Financial Sector Charter's formula. Its recognition score of 90.9 was divided by 120 (total number of DTI points) and multiplied by 111 (total available industry points) to bring it to 84.08 points and a level 4 recognition score.

For ownership, ICT achieves 88% of target this year, up from 74.5% last year.

Andile Tlhoaele, chairperson of the B-BBEE ICT Sector Council, says the biggest obstacle to transformation in the sector is the absence of a sector transformation strategy based on the 2005 charter, to support the implementation of the ICT Sector Code.

Another significant obstacle, he says, is the delay in gazetting the Proposed Draft Amended ICT Sector Code 2020, despite the fact that it has been submitted to the Department of Trade, Industry and Competition. "There are a number of innovations in the proposed amended sector code that will further support transformation initiatives.

For transformation initiatives to be effective, they need to be relevant to the industry and legislative changes need to happen quickly, says Shernon Davis, a director at Transcend Corporate Advisors, a BEE consultancy firm. "If the final version of the draft codes were developed in 2020, it's likely that even this draft is now outdated and is no longer relevant to the current climate."

The Sanlam Gauge Transformation Report has previously noted a mismatch between the requirements of the ICT sector codes and the needs of the industry. These mismatches have yet to be addressed, says Tlhoaele. One of the biggest mismatches, he reveals, is the approach by the Department of Employment and Labour on setting targets for the sector under the Amended Employment Equity Amendment Act of 2022.

"The ICT Sector Code has already been gazetted with sector targets under the B-BBEE Act. The act provides for what the industry refers to as the 'trumping provision', to trump any provision that is in conflict with any issue that has already been addressed in the Act. In other words, if these targets were proposed prior to the implementation of the B-BBEE act, the targets in the ICT Sector Code would trump the proposed sectoral targets under the Amended Employment Equity Amendment Act of 2022," he explains.

Davis, however, argues that the trumping provision in the B-BBEE Act does not have a bearing on the Employment Equity Amendment Act as the provision only applies to legislation in force prior to the introduction of the 2013 act. In addition, she adds, the B-BBEE Act does not have a section which specifically addresses employment equity and workforce representation.

"The challenge for the ICT sector is that the employment equity sectoral targets for the ICT sector are extremely onerous," she says. "ICT companies are competing for talent, not just locally in SA but globally. In a sector where it is already challenging to retain talent and appoint staff with the required skill, the sectoral targets reduce the available talent pool even further."

A key factor in determining whether these targets are achievable in five years, she explains, is the availability of skilled resources in each demographic and occupational level. "Given the current state of the industry, it is highly unlikely that these targets can be achieved. For example, the 2022 workforce of the ICT sector in the professionally qualified category is 28.2% African. This is required to increase to 60.9% in five years which is more than double the current representation in a sector where skills programmes do not emerge at the speed at which the country changes," she says.

The founder of a local software company who asked not to be named agrees that acquiring and retaining talent is a challenge. "There is quality black talent available in the market," he says. "The challenge, however, is that there is stiff competition for this talent with the result that they tend to be very mobile and are typically paid more than their white equivalents. As a relatively small business we struggle to compete with the salaries being offered by larger companies."

An even bigger challenge, however, is finding affordably priced leadership level talent, he says.

The management control pillar of the ICT scorecard has traditionally been the weakest pillar. This year it improved to 61.48% of target from 53.9%. The Employment Equity Amendment Bill has introduced Employer Equity Certificates of Compliance. Without this certificate, companies will not be able to receive any points under the management control pillar of the B-BBEE scorecard.

Using the 2022 ICT management score of 53.9% as an example, Davis says this equates roughly to 12 points. Without the certificate of compliance, explains Davis, companies will not be able to claim those 12 points which means they could lose up to three BEE levels. "This could drastically affect the ability of the ICT companies remaining competitive in the sector," she says.

In the enterprise and supplier development (ESD) pillar, the sector made a massive jump from 61.8% of target in 2022 to 86.29%. While the reason for this jump is not clear, it could be due to the fact that industry experienced losses in the last quarter of 2022, which makes ESD cheaper to implement, says Davis. The allocations to secure full ESD points are based on net profit after tax.

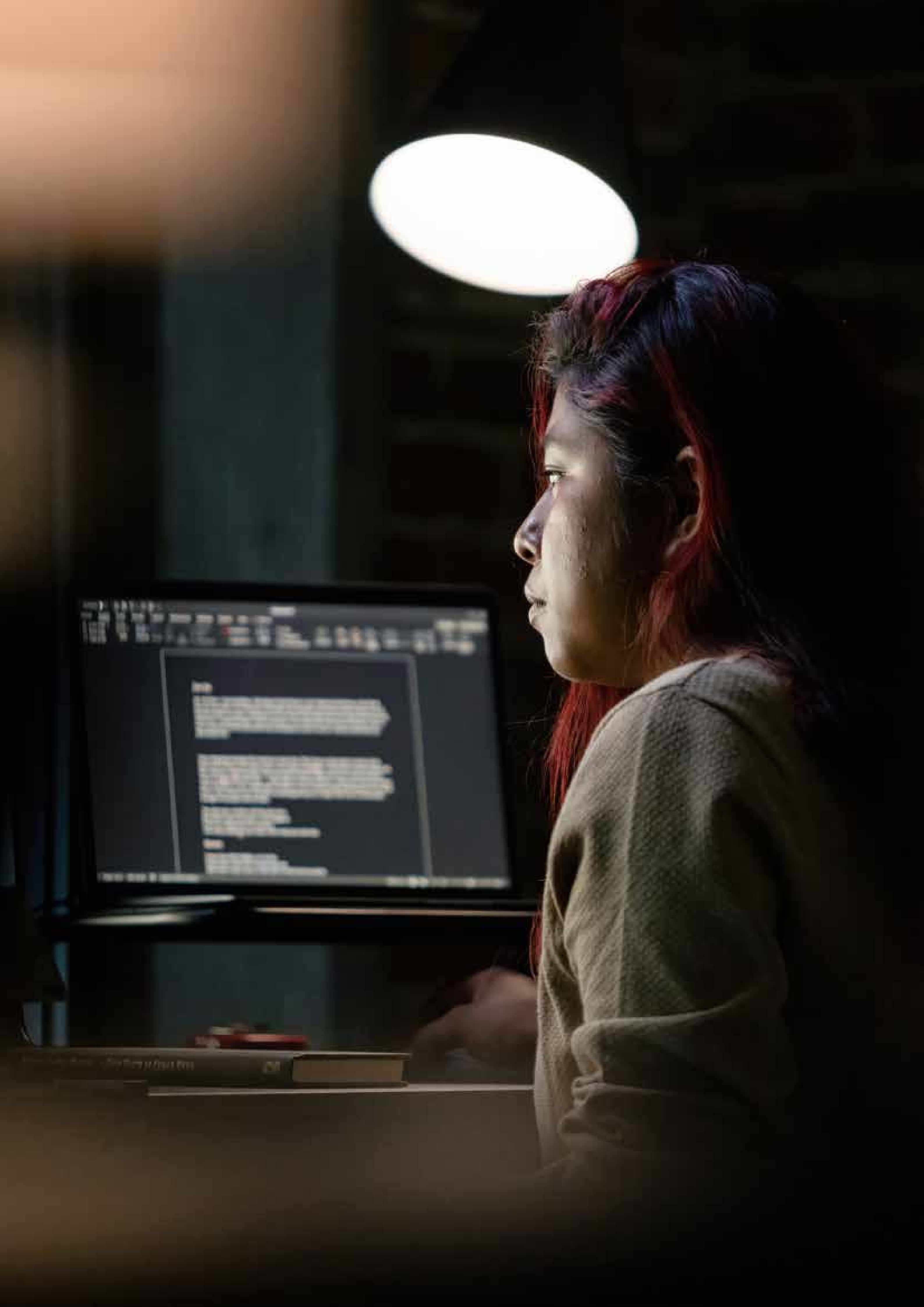
She agrees with Tlhoaele that there is a mismatch between the ICT Sector Code and the requirements of the industry. "The legislation governing ICT – as well as the requirements around skills programmes – does not change quickly enough to match the rapid pace at which the ICT industry changes. Still, ICT's skills development score shot up to 91.48% of target this year from 80.5% last year".

As an example, Davis points to the scarce availability of skills in the ICT sector where companies are often competing for the same talent. "For employees in this sector to remain relevant they need to be continually investing in skills programmes. However, the most suitable skills programmes to address the digital divide are unaccredited, short courses. The ICT Codes, however, give low recognition on the skills scorecard for these types of programmes and the highest recognition for long-term, accredited programmes. Skills development in this sector is therefore expensive as companies need to invest in both fit for purpose – but unaccredited – programmes as well as skills programmes that meet BEE scorecard requirements to maintain their BEE levels." This year skills development achieved 87% of target.

This report has previously noted the challenges around delivering on the local procurement requirement of the ICT Code as most of the technology supplied by the ICT sector is imported. Tlhoaele says local skills need to be developed to lessen the industry's reliance on imported technology.

The software company founder, however, does not believe that's a realistic solution, pointing out that that companies in the sector are permitted to subcontract a portion of their procurement to small, black-owned local businesses in an effort to increase the value of local procurement. That's the route many businesses have gone. "We have established a majority black, female-owned subsidiary to handle our procurement. However, given that the company is procuring from a level 8 company it remains challenging, particularly as we rely on one specific product," says the software company founder.

Tlhoaele says the council has adopted a partnership approach to support the implementation of the ICT Sector Code and to promote compliance beyond the code to ensure that transformation initiatives are sustainable and have impact. The charter council has partnered with the South African National Accreditation System to ensure companies submit annual reports in an effort to improve reporting. It also recently signed a memorandum of understanding with telecoms regulator Icasa to ensure that companies applying for licences are consistently adjudicated.



CASE STUDY

ICT SECTOR

MATCHMAKING HER WAY TO TRANSFORMATION

Four years ago, Samantha Samuels founded Future Smart Solutions, an incubation company that works as a "matchmaker" between corporations and their future suppliers, writes Aurelia Mbokazi-Kashe.

After more than two decades in executive roles in the information and communication technology sector, including stints with Vodacom and Jasco, Samantha Samuels switched roles to entrepreneurship. Her move was calculated and meant to facilitate meaningful transformation.

"Transformation has always been close to my heart and I'm passionate about seeing meaningful change. I wanted B-BBEE to be at the heart of our organisation and bring black business to our supply chain." For that to succeed, she knew it had to be a concerted effort and part of the organisational culture. "All departments need to be involved and take a keen interest in driving it."

Her journey bore fruits during her tenure as group executive responsible for transformation through procurement at Jasco. Working alongside her mentor, leading businesswoman Dr Anna Makgokong, Samuels threw herself into the role and found black-owned companies that were ready to be scaled and become part of the value chain.

"We were looking for a travel agent as a supplier and I found a 100% black, female-owned business. They had 17 years of combined travel experience but had just started out as entrepreneurs in a garage. They were using an IATA licence owned by an established travel agent and that was eating into their meagre profit margins. We gave them free office space and incubated them. As they grew, they bagged a blue chip company and started paying us rent. Over time, they flourished and we became their smallest client. We had helped the sector by supporting this company and creating a sustainable supply chain," she explains.

Samuels went searching for various black-owned, small companies to scale them to become suppliers and partner with their company, taking advantage of BEE policies, particularly the enterprise supplier development (ESD) component.

ENTREPRENEUR:

SAMANTHA SAMUELS

"I make a strong case for the local suppliers and explore ways in which they can be incubated for the long term. These are small black women and youth-owned companies, exactly what the industry needs but are not looking hard enough for."

Realising how the ICT industry struggled to meet its sector's codes, she signed up to do an MBA and set off to explore contributing as an entrepreneur.

Four years ago, she founded Future Smart Solutions, an incubation company that works as a "matchmaker" between corporations and their future suppliers. "I audit small companies and community foundations and pair them to companies as suppliers based on their skills."

Samuels says big business needs to look beyond corporate social investments (CSI) and ensure there is proper skills development and meaningful partnerships. "There are different scorecard elements; they cannot only be championing CSI while being dismal at others. I make a strong case for the local suppliers and explore ways in which they can be incubated for the long term. These are small black women and youth-owned companies, exactly what the industry needs but are not looking hard enough for."

A year later, she and a data scientist co-founded Future Capitals, an IT solutions company offering a range of digital innovations using data.

Being an entrepreneur has been a huge challenge, she says. "Coming from the corporate world, I understood compliance and what needed to be done. But I was not ready for the challenges I faced. In one telecommunication company it took me two years to be onboarded as a supplier. The process was frustrating and laborious. Can you imagine what the person who supplies pens and pencils must be going through? The delays and red tape kill small businesses before they even start."

Accessing finance was another hindrance. She needed upfront capital for operations and to pay salaries while waiting months, sometimes up to a year, for approvals from procurement departments. "I used my social capital and relationships to build my business. I can pick up the phone and speak to a CEO and ask for advice. Sadly, small businesses don't have those networks and have to go through stringent processes to get their foot in the door. They rely on corporate executives to have a good heart to see their potential and be prepared to walk the walk with them."

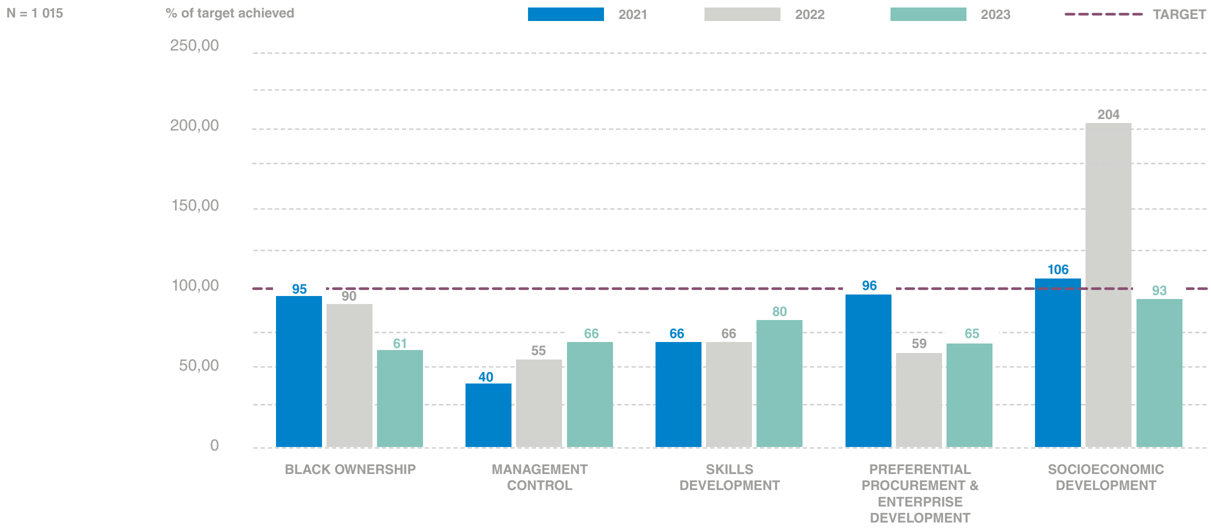
While companies like hers play a small role in ensuring transformation, she concedes that without proper checks and balances in place, success is limited. She calls on the government to play a more meaningful role in ensuring compliance and not leave it to BEE agencies to audit and report.

"When B-BBEE is part of company culture and has the buy-in of the CEO and executive as drivers of change, it stands a chance to translate to real change."

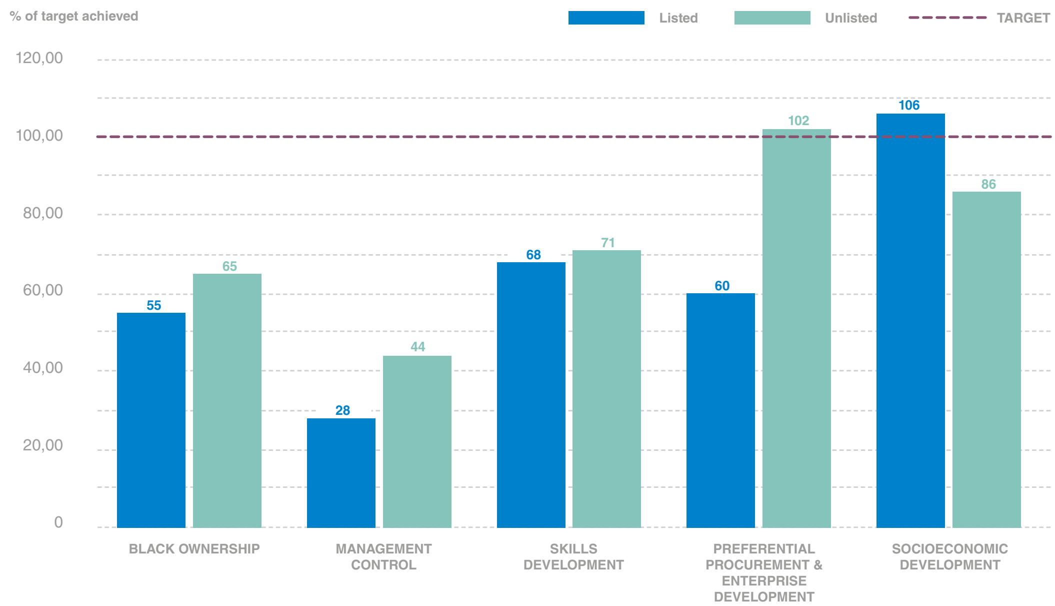
NEW IMPETUS TO DEVELOP SECTOR CODE

New minister has wasted no time in taking steps to establish the long-awaited new charter council but industry scepticism after years of delay is rife, writes Herb Payne.

INTEGRATED TRANSPORT
LEVEL 4



INTEGRATED TRANSPORT: LISTED VS UNLISTED B-BBEE RECOGNITION LEVELS
LISTED COMPANIES: LEVEL 4
UNLISTED: LEVEL 3



New Transport Minister Lydia Chikunga is bringing new impetus to steer the integrated transport sector back on to the road of B-BBEE compliance after a decade-long hiatus.

Still operating on old codes with seven instead of five scorecard elements, the sector achieves level 4 recognition in this year's Sanlam Transformation Gauge, the same as last year.

The sector's ownership score drops to 61.08% of target, well down from 90% last year. Management & employment equity (separately scored for transport companies but grouped here for comparison purposes) climbs to 66.32% (55%). Skills development climbs to 80.07% (66%) and preferential procurement & enterprise development to 65.41% (59%). SED drops from well above target last year to 92.8%.

Work to consolidate the scorecard into the required five elements is under way but industry players are cautious because of past failures to produce a new set of codes for the sector.

Just months after her appointment in March, Chikunga announced the formation of a new Integrated Transport Sector Broad-Based Black Economic Empowerment (ITSB-BBEE) Charter Council. To set the ball rolling, a two-day charter council launch and indaba at Gallagher Estate conference centre in Midrand was held in May, aimed at introducing the new council to the transport industry stakeholders and to engage them in discussions of B-BBEE issues with a view to initiating a development plan of action on transformation and empowerment. The indaba was also intended to kickstart the process of aligning the ITSB-BBEE Codes to the Codes of Good Practice.

While the establishment of the council has been welcomed – the South African Road Freight Association even going as far as saying it was "thrilled" at the development – there seems to be some conjecture and concern about just how long the process of establishing the new codes will take and reservations about whether they will adopt a conducive or punitive approach to promoting B-BBEE.

These reservations are understandable given the delays and disappointments of the past 10 years.

Gavin Kelly, CEO of the Road Freight Association, explains: "The last time any definitive work was done on the codes relating to the B-BBEE Charter within the broad transport sector of the economy was in 2009. There were some attempts to restart the process, but these came to naught."

The sector's charter council – supposed to be at the core of policing B-BBEE progress – was labelled ineffective and phased out in 2017 by ministerial decree after two extensions. Although the process of establishing a new council began immediately, progress was, according to an insider, repeatedly stalled because of changing perceptions and priorities. However, a new draft framework and council shortlist was submitted for approval to then transport minister Fikile Mbalula last year.

The integrated transport sector includes four subsectors based on the international Standard Industrial Classification (SIC) Codes which represent more than 30 categories as diverse as road freight, aviation, maritime shipping, motor manufacturing and even travel agents.

It is unclear to what extent the developments in May are a fresh initiative triggered by the new minister rather than an extension of the old framework. Despite several requests, representatives of the new sector council declined to comment to the .

The primary impact of these delays over the years is that they have deprived the sector of an effective monitoring authority. They have also resulted in an anomaly in the way the sector is measured in that the older codes measured transformation progress in terms of seven factors (ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socioeconomic development) whereas the new codes embrace the five standard elements – ownership, management control, skills development, enterprise & supplier development and socioeconomic development. This makes it difficult to compare the performance of the integrated transport sector against other sectors.

While some quarters were quite happy with this, the consequence, according to Kelly, was that it left much misunderstanding, frustration and confusion in the sector. Many who would otherwise have willingly complied were faced with varying criteria foisted on them by clients and suppliers whose different sector codes had vastly differing requirements for them to meet. "Many of our members followed the generic B-BBEE Codes and, while this brought about some transitioning and relief, it never really brought the security nor stability that a defined [sector] code and scorecard would bring."

He says companies in the road freight sector have focused on the ownership equity element. Progress has been made in this regard, as this adds more value to customers' own scorecard points.

But the establishment of the new charter council is a waypoint, rather than the end of the journey to the security sought by those such as Kelly. Agreeing to acceptable codes is likely to involve some hard bargaining and there are concerns that the process could drag out for some considerable time.

Japie Britz, commercial director of BDO verification services, welcomes the recent developments but says: "If you look at the time that it has taken them to get this far, I hope it's not an indication of how long it's going to take to get something done in terms of a new set of codes."

This is reinforced by Tony D'Almeida, a participant at the May indaba as a member of the road freight sector: "After many years the transport sector will finally move towards alignment with other components and contributors to the South African economy with regard to B-BBEE. We were told at the symposium that the council expected new codes to be gazetted for public comment in about a year (June 2024). They expect the codes to be thrashed out during two statutory meetings in the interim.

"I think, however, that those targets are very optimistic. For starters, I think it will take at least about 10 rather than two meetings to agree on transformation targets in the five different categories."

While Kelly expects there will be a lot of debate in the committees of the new council, he urges that the new transport code must include incentives and rewards for companies to achieve targets – instead of the process of discounting points the way they are in the generic codes. He fears "the stark reality that the cost of achieving targets" linked with the return on investment for businesses "will be the main impediment to the progress of implementing B-BBEE".

And given the sluggish economy, the cost of doing business will be uppermost in many minds as they enter negotiations with the sector council. As Britz points out: "BEE has been around for quite a while and companies are very used to doing what they need to do to get the level that they want to achieve to stay in business – for example, organs of state, government or other clients that require certain levels from them. It's generally no longer regarded as an added extra or grudge requirement, but simply part and cost of the process of doing business. However, the current state of the economy means that we are seeing an increasing number of companies going into business rescue or being liquidated. Obviously when a company closes its B-BBEE status is lost – only if the troubled organisation is sold on as a going entity is that status considered one of the assets," says Britz.

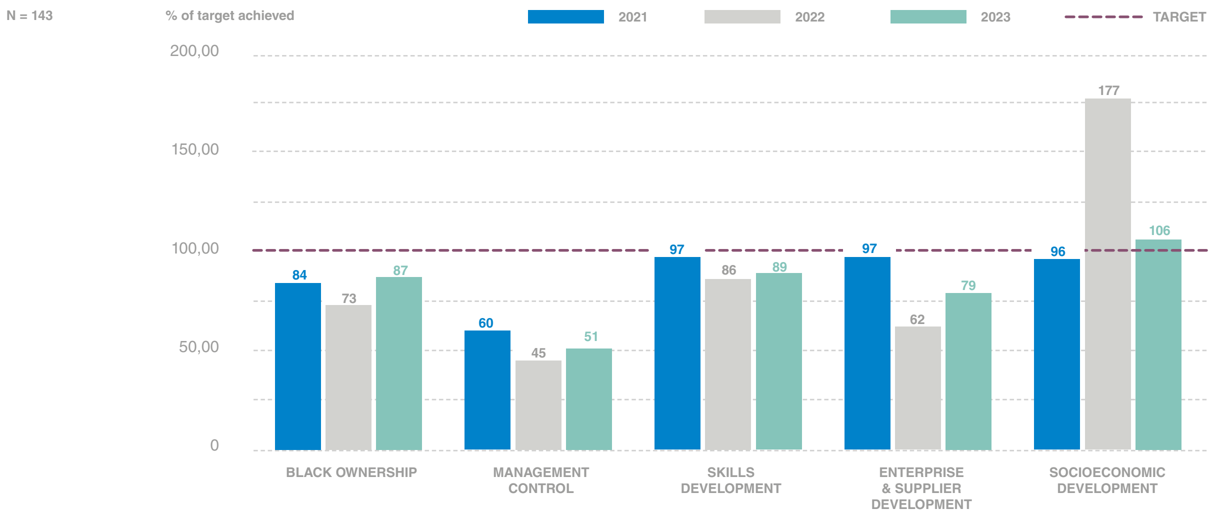
D'Almeida, who doesn't endorse Britz's contention that the cost of B-BBEE is written into the cost of business, argues that the tightening economy puts pressure on the bottom line for transport and logistics companies because clients are using fewer transport services. "Not only do they begrudge contributions such as the 3% of net profit after tax that needs to be invested in ESD development and the money that goes into socioeconomic development, but the pie from which that money comes is also shrinking. The slowing economy then also has an impact on the rate of transformation."

Nevertheless, D'Almeida says there is a real eagerness to move forward with transformation and, on the road freight side, "there has been remarkable progress in terms of transformation through equity ownership. The most challenging area, I believe, relates to management where transformation often has to wait for the vacancies to become available."

NEW MAC CODE 'TO ANSWER FOR PAST 22 YEARS'

Public consultations were well attended with a multiplicity of views expressed and captured in the new code which presents a holistic framework with emphasis on developing opportunities for black-owned agencies, writes Zanele Sabela.

MARKETING ADVERTISING AND COMMUNICATION
LEVEL 4



When former Minister in the Presidency, Mondli Gungubele, appointed the MAC Charter Council in March last year, its mission was clear: it had to review the sector code urgently.

The situation was made even more urgent by the Human Rights Commission's (HRC) hearings into racism that took place during the same month. But last year's hearings were not a first for the industry. The first hearings in 2001 were necessitated by a number of research studies, including one by the HRC, that spoke to racism in advertising and the print media industry, says Sandile Nene, chief director of media policy at the Government Communications and Information System (GCIS). Nene is also the MAC Charter Council secretariat.

The marketing, advertising, communications (MAC) sector remains on level 4, according to the 2023 Sanlam Transformation Gauge. Its management control score stands at 51% of target, an improvement on last year's 45%. It achieved 87.5% of target for ownership, also an improvement on last year's 73%, while ESD and skills development stand at 79% and 89% respectively.

In the 2001 hearings, the parliamentary committee tasked the Department of Communications and then Department of Trade and Industry to look into transforming the sector. A decade later the Portfolio Committee on Communications held its own indaba and instructed the GCIS to transform the sector.

Now approval of the revised code is imminent following hybrid and virtual public consultations across all nine provinces, followed by a feedback session with industry associations on 22 March to explain and justify their written submissions. The council then compiled a report and revised the sector code.

A session with the line function Minister in the Presidency Khumbudzo Ntshavheni was held, where she verified that the process was inclusive and no one had been left out. Ntshavheni also appraised herself of the public interest issues.

The revised code is being "fine-tuned" by the secretariat, after which the charter council will sit to approve it. Nene had expected the revised sector code to be announced in June.

MAC Charter Council chairperson Angelo Tandy says this is the culmination of a journey. “It is meant to answer for the last 22 years. It’s long overdue and much needed. There wouldn’t be advocacy organisations such as BANA (Black Agencies Network Association) fighting for change if there was no skill and the sector wasn’t ready to transform,” Tandy says.

The public consultations were well attended with a multiplicity of views expressed and captured. Looking at the faces in the room, Tandy knew the council would be held accountable for this and that the next three years in office would not be easy. But he was also heartened. “It was nice to see the resilience of South Africans. Business owners, who had gone through challenges, stood the test of time and looked for solutions. That was the candle of hope for me. I don’t want to fail them and I don’t want to fail me,” Tandy says.

An impassioned plea by an owner of a business that builds sets for television productions and conferences made it clear that lack of funding and access to market were two of the primary challenges inherent in the sector. Despite having been in business for 30 years, the business owner said he could only afford to pay his employees R150 per day. And with R50 going towards transport costs, their circumstances were dire. “It’s clear that market access must be met with finance,” Tandy says.

The revised MAC sector code aligns itself to some of government’s priorities including youth unemployment, the energy crisis, gender-based violence and femicide. To this end, the revised sector code is aligned to the Youth Employment Service (YES) programme. “Youth unemployment is one of the key issues facing government and lends itself especially well to our sector because the creative industry is full of young people,” Nene says.

Intervention related to the energy crisis takes an approach that says if you put up a billboard in the township, make sure an SMME, school or some other meaningful facility within a certain radius is empowered by providing an alternate source of energy, Nene adds.

An element added in the revised code that wasn’t in the previous code is that of multinationals operating in the country. Nene explains that because these conglomerates cannot sell a BEE stake in their business, they have to look at equity equivalents. Driven by the DTIC, an equity equivalent is where an international company assesses in real terms how much a stake in its business would cost and could place that amount into a DTIC-controlled fund that benefits SMMEs and other players, or institute alternative measures deemed to be equivalent in transformation value.

In addition to this funding pot, Tandy says the council is in talks with Media-fin Africa to forge a partnership that will develop a fund to support businesses in the sector.

Tebogo Ditshego represents the Public Relations Institute of Southern Africa (Prisa) within the MAC Charter Council. He says that South African businesses, black-owned and white-owned combined, command less than 50% of the MAC sector market share. That means international companies own more than half of the share of the market, he says.

He questions this state of affairs: “We know how to tell our own stories. Our content is world class. We are ready to benefit. We don’t want to see any business collapse; we want distribution that is just. We want all companies to succeed. We want to grow the sector in its entirety and not only increase our slice but increase the size of the pie for women, young people and people with disabilities.”

Financial institutions are part of the challenge, Ditshego says. They are overly conservative and are geared towards funding capital expenditure, not intellectual property. What they fail to recognise is by its very nature the MAC sector enhances customer experience and increases demand and, by doing so, stimulates business growth which in turn grows the economy, creates jobs and reduces poverty.

“The MAC sector is critical. It’s the hidden gem of the South African economy,” Ditshego says.

BANA is pleased with the sector code review process as its members were able to voice their concerns and contribute towards the solution. For its part the organisation wanted to see increased black ownership in the sector.

“We believe that more opportunities for black-owned agencies will bring about meaningful transformation in the industry that will also be reflected in insightful, creative work that is not based on stereotypes,” says BANA’s Boitumelo Mohube, adding that talent expansion in addition to women empowerment is a key factor for BANA.

Tandy says they plan to workshop the revised code when it is finalised so that it is well circulated and palatable. “Twenty-two years later, we can’t spring it on people.”

Nene says it will take almost a year before businesses are measured purely on the revised code as the DTIC still has to gazette it. “The dream for government has always been to get to a point where white South Africans are in Orlando, watching Pirates versus AmaZulu, and to have black South Africans fill Loftus Versfeld to capacity watching the Bulls play another team. But we are not there yet,” says Nene.

CALL TO INTEGRATE ATONEMENT INTO THE TRANSFORMATION AGENDA

BY ZANELE SABELA

Since coming into effect, the marketing, advertising and communications (MAC) charter has undoubtedly had a positive impact on the sector.

"It has created a state of awareness especially on the demand side of marketing and advertising services for senior marketers to be mindful of selecting and working with agencies that are [B-BBEE] compliant," says Musa Kalenga, CEO of integrated advertising services company Brave Group.

Kalenga has also seen individuals, whose careers have progressed into positions of influence, bring on board suppliers who are trying to do the right thing in terms of transformation. But more needs to be done, he insists.

The 2016 MAC charter code recently underwent a long overdue review and is set to be released soon. Kalenga welcomes the review, in particular the distinction it makes in how it measures large entities with a turnover greater than R50m – significantly differently from marketing agencies with a turnover of more than R10m.

He acknowledges that the revised code has increased the points required from an ownership perspective but is sceptical it will make a difference; if anything, he thinks the improvement will be marginal, hence he is calling for targets to be heightened. Even though targets in the 2016 code were raised incrementally, he says: "I don't think we are necessarily seeing the rate of adoption commensurate to the incremental pace of the target."

As far as Kalenga is concerned the targets in the 2016 code did not deliver. "Logic tells you the target should be moved by a greater degree to try to get some level of movement on the overall objective," he argues.

The revised code has doubled the number of black youths to be absorbed into learnerships from five to 10 but despite this Kalenga is underwhelmed. "Is that move significant considering the challenge we have in terms of youth unemployment? Any youth target relating to the absorption of black people in the world of work should be far more aggressive than that," he says.

The Sanlam Transformation Gauge report records a decline in the MAC score for skills development in the past three years from 97% in 2021 to 86% the following year and 85% this year. Kalenga says marketing and advertising businesses incorrectly see bringing learners into internship programmes as an irritation rather than something the organisation wants to do.

He explains that the practicality of bringing learners into the business means finding something to keep them gainfully occupied; plus someone in the business needs to mentor them and provide guidance and oversight on how they interact. "I think most businesses in the advertising context will probably argue, incorrectly so, that there's no time to do that."

The best way to change this is by looking to senior executives, he argues. Considering there is zero accountability on ensuring the learners have a mentor, executives themselves are not even measured on whether they mentor anyone, let alone a minimum of three to five individuals per year. So there is no incentive to make sure mentoring occurs, Kalenga says.

To remedy this he speaks of integrating atonement into the transformation agenda to ensure the ills of the past do not recur. Atonement can be as a result of someone coming to a moment of realisation or it could be structural – which Kalenga contends is easier to measure. So far legislation hasn't provided a scorecard to measure and track executives' and senior managers' participation in activities that drive atonement. That scorecard should also be how executives are rewarded, incentivised and, ultimately, punished within the context of their organisations, Kalenga says.

Kalenga also recommends legal enforceability of the B-BBEE legislation. This is a bold idea given compliance has to date been voluntary with those seeking to do business with government and large companies mainly the ones taking it seriously. The way Kalenga sees it, enforcement would take on a collaborative form with the Department of Trade, Industry and Competition (DTIC) joining hands with other government entities to set up a formalised platform that empowers procurement value chains to scrutinise companies beyond submitted legislated documentation. Individuals in the procurement space accept submitted documents at face value and hardly ever test the veracity of the information they contain. However, if there was a body specifically mandated to do this, such queries could be resolved speedily and, consequently, prevent businesses from hacking their way through transformation, Kalenga says.

Given that we live in the age of artificial intelligence and machine learning, Kalenga suggests a task force in collaboration with institutions such as Wits University to create an AI indicator that verifies whether a company is truly transforming or merely ticking the boxes. This could be done via an automated process that assesses behaviour as well as a business' statutory information to determine whether a company is likely to be transformative or anti-transformative. But he concedes the success of such an AI indicator would depend on whether there's a critical mass of people that agrees there's a problem that needs to be solved.

"If you don't have the people who are willing to see that as valuable and agreeing it's something to be done, it would be very difficult to implement without it becoming a white elephant," he says.

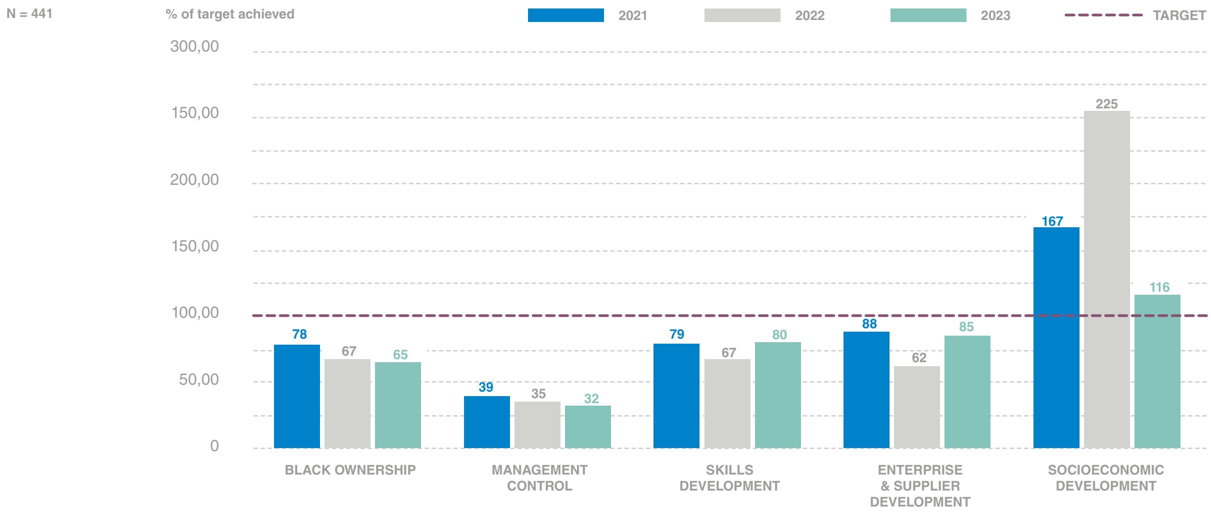
Kalenga also calls for a robust monitoring and evaluation mechanism. He maintains that while the state of transformation report complied and submitted to the DTIC annually is an acceptable structural mechanism, he questions what happens beyond that. "The problem is so what? What then happens as a result? What do we do with the information? I am not aware of any process that links back into creating a state of urgency or driving specific change from a compliance legislative perspective."

Kalenga is shocked at the lack of a burning, urgent conversation within the sector given that only 2.5% to 3% of marketing and advertising revenue is spent at small black businesses. "That's 2% of a billion-rand sector, so it's amazing for me that it hasn't triggered any level of urgency," he says.

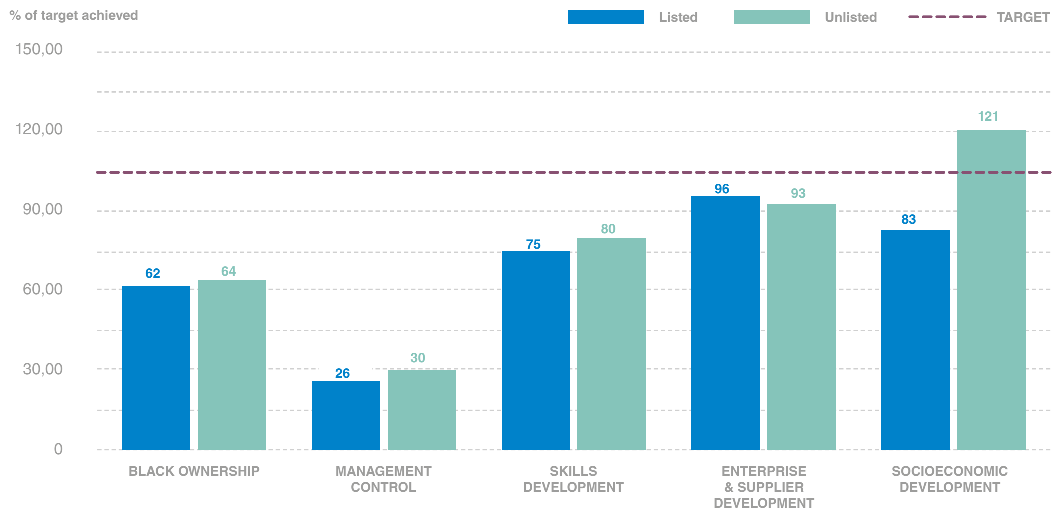
FUNDING REMAINS KEY BARRIER TO PROPERTY TRANSFORMATION

While transformation progress since the dawn of democracy has been sporadic across key sectors, property is of particular concern, say the experts. In an industry where ownership demands a significant capital outlay, access to funding remains a key barrier, writes Gillian Klawansky.

PROPERTY
LEVEL 4



PROPERTY: LISTED VS UNLISTED B-BBEE RECOGNITION LEVELS
LISTED COMPANIES: LEVEL 6
UNLISTED: LEVEL 4



The property sector is one of the least transformed sectors almost 30 years into democracy, says Dr Muriel Mushariwa, MD of EconoBEE, a management consultancy specialising in B-BBEE, skills development and employment equity. The Sanlam Transformation Gauge scores confirm this, with the sector achieving level 4 recognition in 2023, up from level 5 in the two preceding years.

ESD is the biggest mover for property in this year's Sanlam Transformation Gauge, climbing from 62% of target to 85% and skills development jumps from 67% to 80%. Ownership (65%) and management control (32%) are both slightly down from last year while socioeconomic development falls sharply but remains well above target at 116%.

Nigel Adriaanse, CEO and founder of the Enterprise Development Property Fund (EDPF) which empowers black property entrepreneurs through training and incubation, says he does not have sufficient information on the data to determine whether these figures are truly representative of the broader property sector.

The management control scores, he says, are particularly unsatisfactory, especially 30 years after democracy. "This means the sector only reached 32% of its target, it does not refer to actual management control figures," he says. "Surely there are an incredible amount of talented and qualified 'people of colour' who can step into management roles? Yes, we are making some progress, but a great deal more needs to be done in this area."

The jump in ESD, he says, is not unexpected. "This is understandable as the sector has chosen to focus on ESD as it offers the easiest points to score while ownership is very much still lagging. My argument is that increasing your transformed supply base does not, in truth, transform the industry. If you wish to transform the industry you have to lower the barriers to entry so people of colour can own property and not just be suppliers to the sector."

As an example of the lack of transformation within the industry, Mushariwa points to the real estate space where fewer than 10% of registered real estate agents are black. "When one looks at the BEE scorecard of most of the property companies, elements such as ownership and management control – where real empowerment lies – show that transformation is yet to take place." While there has been improvement in these areas, access to funding for black entrepreneurs is still a considerable obstacle, she says, and key contracts are regularly given to untransformed companies.

What's more, says Adriaanse, Covid-19 wreaked havoc on the market, particularly in the commercial office and retail space. "BEE wasn't a priority for most property companies before and now it's taking even more of a backseat because things are so bad economically post-Covid and with the current Eskom crisis and economic downturn." Yet, he argues, property is a sector critical to reviving economic transformation in the country.

Sthandiwe Msomi, research coordinator at the South African Institute of Black Property Practitioners (SAIBPP), echoes Mushariwa's transformation concerns, saying there's a long way to go in attaining true equitable representation in the sector. The SAIBPP focuses on addressing blockages that impede the property transformation agenda.

The most notable impediment here is access to finance. Traditional and often discriminatory lending practices have long resulted in the marginalisation of black people, doing little to encourage black participation, Msomi argues. "Asset-based secured lending is unsuitable for the majority of black South Africans and particularly black property investors and developers due to the prohibitively high security requirements," she adds.

Adriaanse agrees. Of the four barriers to entry into the market that the EDPF addresses – education, access to market, support services and access to finance – the latter remains the only unbroken barrier. "We need a new model of funding property," he argues. "We cannot rely on the traditional funding model where 70% comes from debt and 30% comes out of your pocket or through leveraging your balance sheet to borrow the other 30%. New entrants don't have these resources, so how can we expect them to come into the sector?"

Adriaanse has therefore proposed a new funding model through an equity scheme for black entrepreneurs but, to date, he's been unable to acquire the requisite funding without a significant capital outlay, something his model seeks to address. "We need a revolution in the funding industry to create an equity fund that will allow black entrepreneurs who have good ideas to access funds by bringing in that equity to facilitate funding," he suggests.

The SAIBPP stresses the need for urgent reform in the commercial banking sector in terms of lending practices and credit risk assessment methodologies. “Lending rates – credit pricing – for first-time buyers and new entrants into the property market must be capped,” says Msomi. “Administrative costs must also be scrapped and legal costs waived partially or in full to enable access.” The SAIBPP itself is set to launch its first Funding Directory this month, which will include financial institutions in South Africa with financial products for practitioners and businesses in the industry.

“Township property development is generally perceived as higher risk,” says Msomi, pointing to another key challenge in the sector. “Therefore developments in these areas attract higher capital requirements, equity and experience.” Yet, argues Adriaanse, the townships as well as rural areas are exactly where property development should be focused as this will have a massive knock-on effect on the economy.

“We could change the property sector significantly just by changing our thinking around where money is spent,” he says. For example, he says, if all the people who lived in Soweto actually worked there, its economy would be revolutionised. Those who live in the cities should focus on their economy, but instead of the demand for land constantly being concentrated in urban areas, we should also create opportunities within our townships and rural areas – in the places we live.”

This creates questions around land reform, a key concern in the property sector and the broader South African economy. “Apartheid was effectively a land grab,” says Adriaanse. “To reverse apartheid, we need to find a way to transform the property sector because property is the basis of all economic activity. To do this we need political and economic will to get financial and support resources.”

He argues that government should institute a mechanism where they can give residents and property developers not just the right of use of the land they live on, but an actual title deed. This will not only instil pride in the people but yield economic benefits, significantly transforming the country in terms of land ownership.

Msomi elaborates, saying that as the largest single property owner in the country, government has an essential role to play in ensuring and enforcing property transformation. “Government departments’ inaction towards prioritising the release of unused state-owned land that has no prospect for delivering public infrastructure nor provides support for a public purpose is a hurdle,” she says, stressing the need for the implementation of a successful land reform programme. The SAIBPP also argues that 50% of the beneficiaries of this programme must be women and youth.

Indeed, while there has been limited progress here, black women remain the most marginalised group in the sector especially when it comes to ownership and management. “The amendments of the Employment Equity Act will be pivotal in addressing some of these challenges,” says Mushariwa, “specifically for companies doing business with the public sector.” Training and access to finance are also key.

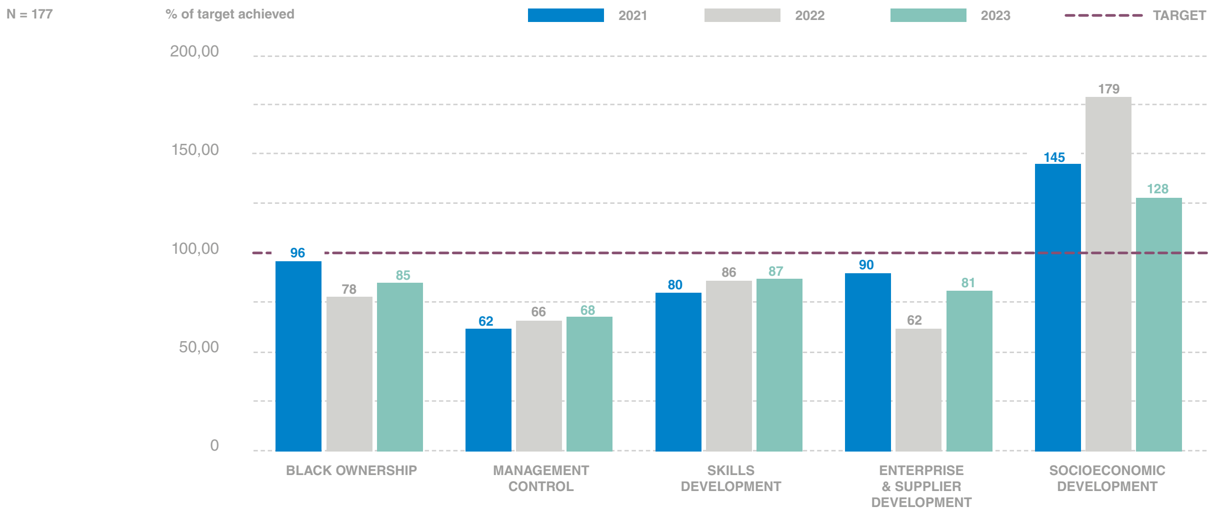
Yet, B-BBEE reporting remains a challenge. “Not enough effort has been put towards improving the BEE reporting in the property sector and sectors at large,” she argues. “Punitive measures should be implemented for companies that are not compliant on the minimum 10% black women ownership and management control. The nature of the market is such that unless we link licensing to transformation goals, it’s unlikely to see any real transformation as those with money will dictate who does and doesn’t get business.”

However, the new Property Practitioners Act which came into effect in February 2022 could yield long-term progress. This aims to better promote procurement of services from property practitioners who can show their compliance with transformation and equity legislation, explains Mushariwa. The act also creates a Property Practitioners Regulatory Authority which has the power to promote a more inclusive and transformed property sector through establishing a Property Sector Transformation Fund. Through facilitating the receipt of grants, this fund aims to fulfil the transformation and empowerment goals within the sector. Notably, affected property practitioners will be required to have a valid B-BBEE certificate to be able to renew their Fidelity Fund certificates, which they require to practice. The introduction of this legislation, she says, has the potential to make the biggest impact on transformation in the sector.

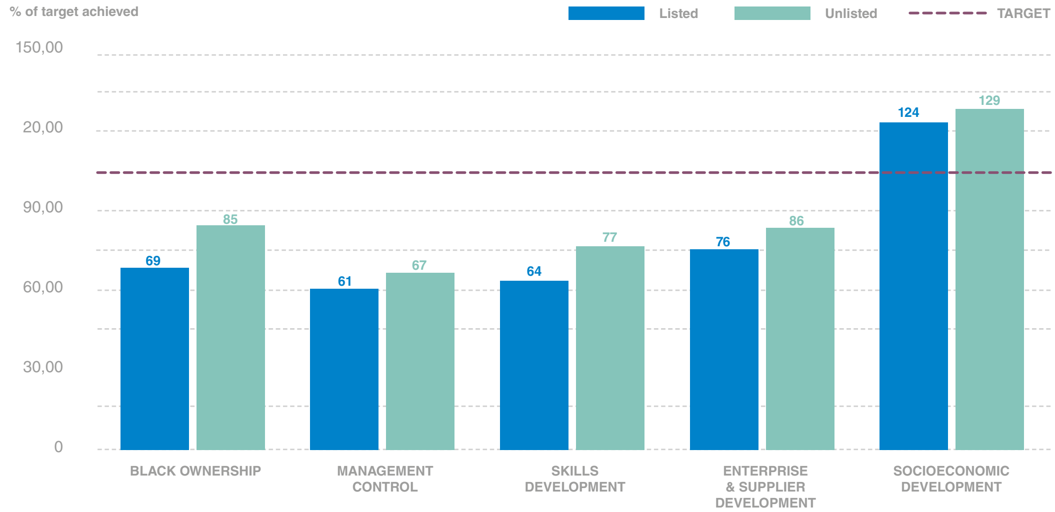
POST-COVID TOURISM RECOVERY CHANGING THE TIDE OF TRANSFORMATION

While the focus remains on post-Covid recovery, the transformation agenda is again coming to the fore, writes Gillian Klawansky. Coupled with government addressing the challenges around the full implementation of the Tourism Equity Fund, this has ignited cautious optimism around transformation in the sector.

TOURISM
LEVEL 4



TOURISM: LISTED VS UNLISTED B-BBEE RECOGNITION LEVELS
LISTED COMPANIES: LEVEL 4
UNLISTED: LEVEL 4



Aligned to South Africa's overall economic recovery, the tourism sector generates billions of rand in revenue and creates mass employment. While it's been a long road, this year has already seen an acceleration in post-Covid recovery: international arrivals increased 152% in 2022 and 102.5% in the first quarter of 2023, Tourism Minister Patricia de Lille said in presenting her budget to parliament on 24 May.

Yet, cautions Jerry Mabena, CEO of Motsamayi Tourism Group, recovery and transformation should not be seen as mutually exclusive.

Tourism is one of the poorer performers in the Sanlam Transformation Gauge, achieving level 4 recognition in the 2022 and 2023 reports. Interestingly, in the 2021 report which measured performance in the year of the Covid lockdown in 2020 – which hit the sector harder than most – tourism achieved a level 1 recognition score although with only 99 companies measured against 176 in 2022 and 177 this year.

ESD is the standout performer for tourism in this year's Gauge report, climbing to 81.12% of target from 62% last year. Ownership jumps to 85% from 78%, management increases 68% from 66% and skills development edges up to 86.5% from 86%. Socioeconomic development remains above target albeit with a lower score.

Industry players are naturally focused on the sector's recovery and the state support that has been announced and are concerned about the effectiveness of spending the funding while also highlighting that black SMMEs in particular need more support.

The sector's economic recovery is, however, gaining momentum.

Motsamayi Tourism Group (formerly the Thebe Tourism Group) is the oldest black-empowered South African tourism company. "Recent reports from the Presidency and Stats SA show that the sector is in full recovery but not yet at 2019 levels – particularly for the mid-market," Mabena says. "The high-end players have reached those levels in most cases, but they are mainly patronised by international tourists."

Stimulating international demand is, however, a focus in tourism recovery, says Tshifhiwa Tshivhengwa, CEO at the Tourism Business Council of South Africa (TBCSA), a nonprofit umbrella organisation representing businesses in the travel and tourism sector. "We're reigniting international demand by looking at growing new Asian markets while remaining focused on existing growth markets," he says. "Tourism recovery, which is happening faster this year, will allow us to see where the industry is standing and where we're going with transformation, whether recovery is taking the transformation agenda into account and how far we can go with it."

In seeking to reach and improve on 2019 levels, tourism businesses will also look to expand their staff contingent, Tshivengwa says. This bodes well for employment. Transformation will remain an employment priority, especially with the recently passed Employment Equity Act, which says that every company with more than 50 employees must have an equity plan. "With this act, we're going to see more and more people graduating from junior staff to middle management and some to senior management," Tshivhengwa says.

In her budget speech, De Lille also announced a new Tourism Transformation Fund (TTF) to offer a combination of grant funding, debt finance and equity contributions to facilitate capital investment in new and expansion projects in the tourism sector, as well as a new Township Tourism initiative to ensure communities enjoy the full economic benefits of tourism. The minister also asserted her commitment to ensuring that the TEF, which provides financial assistance to emerging tourism businesses but has been beset by challenges, is fully implemented.

Tshivhengwa says that increased attention to the TEF bodes well for the long-held issues around ownership. "The fact that the minister of tourism is resolving the issue of the TEF means there will be money, consisting of loans as well as a grant for those who want to buy equity stakes, put into the market," he says. "This then addresses the issue of transformation in terms of the tourism BEE codes and will be highly beneficial in the long term."

Mabena says there needs to be a greater focus on realising the potential of the TEF. "I believe that issues of ownership are of concern and that can be addressed through better funding structures," he says. "The TEF would be a good starting place and should be better explored."

Yet, adds Percy Koji, CEO and founder of travel management company Travel with Confidence (TWC) and former CEO of the Small Tourism Enterprise Association (STEA), the TEF is yet to drive sufficient growth and development within black SMMEs. "The solution," he says, "is for neutral, independent bodies to be appointed and monitor such funds." Progress cannot be made when government appoints individuals without a tourism background to monitor such funds, he says. "Tourism entities must be run by tourism professionals who understand the sector and can deliver based on experience and expertise."

Koji also argues that more government support is needed to realise the potential of BEE. "Effective transformation works if government itself supports most black businesses, which is not the case at the moment." Koji says that despite it being 100% black-owned, his business was started and continues to operate without any government support. "This can be a good thing in a sense that it shows that my business is non-government dependent, but some support would help the company to grow and create more jobs."

Through his work at Motsamayi Tourism, says Mabena, notable transformation issues that have arisen are around skills development and market access, particularly in the case of the support required by young black entrepreneurs seeking to become role players in the industry.

"We have found that there is a challenge of patience when it comes to young people because 'they don't know what they don't know' and therefore tend to believe that development in organisations is slow," he says. "One focus for us is the development and training of crafters to not only expand their reach, but to refine their products to be relevant to market trends while remaining true to their identity. We also look at similar challenges faced by small businesses as service providers in the hospitality sector."

Mabena gives the example of two bakers who started a small business in the Bushbuckridge area. "Seeing potential in what their offering could become in the hub of the Kruger National Park, we undertook to help develop them through an incubation project to further develop their skills to become artisanal bakers, build their business know-how and offer marketing skills development. However, these processes are time consuming and require deliberate effort which can cost the company time and money."

When it comes to ownership, Mabena also discusses the ongoing challenge of family businesses being prevalent in the tourism industry. "It therefore becomes difficult to sell 'family jewels'," he says. "The whole approach here needs to be rethought so that there is benefit for the selling family."

Female black ownership also remains a significant stumbling block to transformation in the sector, he adds. "The historically male-led tourism industry is often seen as a 'closed club', the perception of which needs to change. We need to raise the bar, encourage fair pay, development of business skills and incentivise and support women who are in leadership positions to further encourage ownership."

As tourism remains dominated by SMMEs, stimulating growth should also be a focus, says Tshivhengwa. "We want to see small businesses that are growing into medium and big businesses. We want to see them transform and continue to be transformed and really redefine the next wave of tourism in South Africa."

CASE STUDY

TOURISM SECTOR

TOURISM BUSINESS BORN OUT OF COVID

Back in Ezakheni township where he grew up, Musa Tshabalala noticed a lack of accommodation establishments in the area and that gave him the opportunity to go into tourism, writes Zanele Sabela.

Musa Tshabalala owns two businesses, one of which started during the Covid-19 pandemic, but he insists he hasn't benefited from black economic empowerment.

On the eve of the lockdown, Tshabalala shut the doors of his mining services business in Limpopo and drove to his hometown of Ladysmith, KwaZulu-Natal with his family in tow. "I could see it would take long," Tshabalala says of the lockdown. He was right because it would be six months before he could return.

As the idle days blended into each other, Tshabalala grew restless. "As a businessperson you wake up and do something but during Covid you woke up and did nothing."

Back in Ezakheni township where he grew up, Tshabalala noticed a lack of accommodation establishments in the area. "There are no accommodation spaces in the township and there's no space to extend your house. Only a few people can afford to build double storey houses. If there's a function, people need accommodation. That opened the opportunity for me to go into tourism," Tshabalala says.

Zithei Lodge and Conference Centre opened its doors in November 2020, after Tshabalala opted to build it from scratch. At full capacity the facility sleeps 24. Four full-time employees take care of the day-to-day running under the supervision of a manager who has extensive industry experience.

Business is good, says Tshabalala, and the place is almost always fully booked with visitors attending weddings, funerals and other functions in Ezakheni. "I am not complaining. I can see growth." Last year he upgraded the lodge and built a swimming pool. Now he plans to have the establishment graded after he attended the 2022 Travel Indaba and gathered information on the process. He is aiming for a three-star rating.

For the past two years on 16 December, Tshabalala has organised a race in support of the fight against gender-based violence (GBV) in the township as a way of giving back to the community. GBV is rife in the community and by organising the race Tshabalala aims to highlight the scourge and galvanise the community against it. Young people in particular look forward to the race as it gives them something to do during what would ordinarily be an uneventful day. The goal is to make this year's race bigger and better by bringing more sponsors on board.

"Tourism is about ownership. You can grow the business. You can grow it from a one star to a five star. In future, you can transfer the business to your children but in mining it is not possible for your children to carry on the business. In tourism you have control of the entity," Tshabalala says.

The comparison to mining is not random. Tshabalala founded his first business, Nedtex 217, a specialised drilling and mining services company, in 2011. Before the pandemic Nedtex had contracts with three different mines and employed 53 people. "Now I am left with only one contract and 20 employees," Tshabalala says.

Mining companies were among the first to go back to work but the contractors were not called back until much later. "As SMMEs we were double-shot — first by Covid and then by government. Government still has no idea of the immeasurable damage it did to SMMEs during Covid. We were sidelined and forced to take up Covid loans to take care of our employees. The Department of Labour only paid our employees once," Tshabalala says, referring to the Temporary Employee Relief Scheme.

ENTREPRENEUR: MUSA TSHABALALA

He took out a loan for R500,000. "I am still stuck with that loan," he says.

A mining engineer by profession, Tshabalala used money he and his wife had saved to start Nedtex 217. He also applied for a loan from Anglo American's enterprise development fund, Zimele. But other than that, Tshabalala insists he has not benefited from B-BBEE.

"I've never felt its impact. I never felt I benefited because I am black. Every deal I received was on merit," he says.

According to Tshabalala, black economic empowerment has had more impact in the public sector but has made little difference in the private sector. In mining, where he has spent the bulk of his career, Tshabalala says whites occupy middle management positions and above, while all the unskilled labour is black. Any black managers who are there have requisite qualifications, he says.

"In all my 20 years working in mining I have never seen a white operator — and this industry employs 500,000 people." Operators include rock drillers who work at the coal face.

In his own business Tshabalala employs black people from the mining communities where Nedtex is contracted and trains them. The cost of training weighs heavily, particularly as older workers move out of the business and younger ones come in. New recruits have to be trained twice. Nedtex trains them in theory at its premises, followed by an induction on the mine's standards and procedures conducted by mine personnel. Any worker who has not undergone training by the mine is not allowed access.

Therein lies the rub: training by the mine costs R19,000 per person, a cost charged to the contractor. Nedtex is responsible for the on-site training of employees.

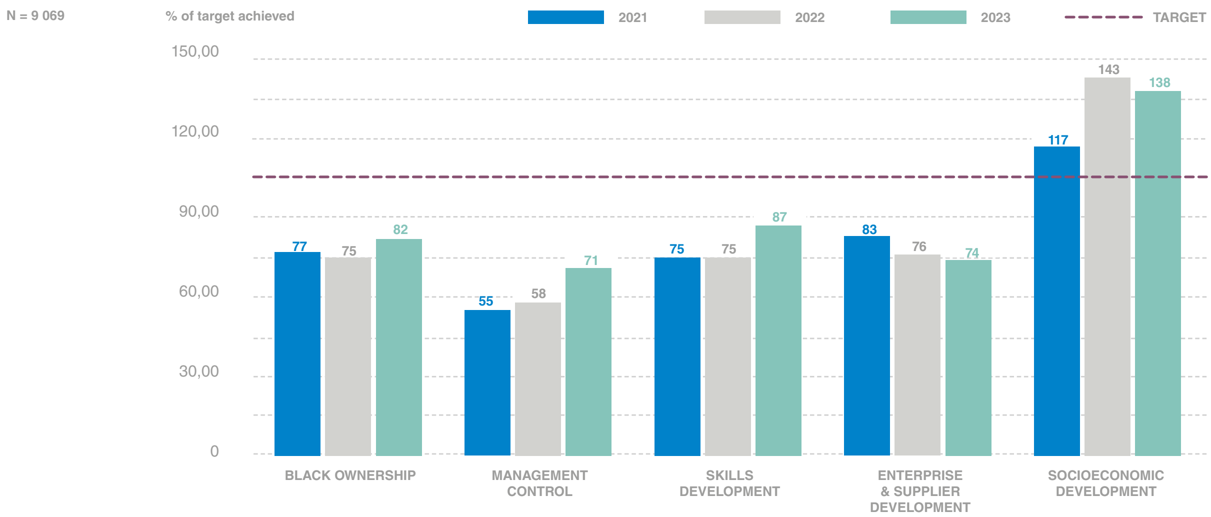
Tshabalala attributes government's failure to adequately police the private sector's effective implementation of B-BBEE to a lack of business knowledge. "They have no hands-on experience and as a result they do not know what goes on in business," he says.

If it were up to him, he would stipulate that 30% of every deal be given to black companies. "As it stands B-BBEE is good on paper."

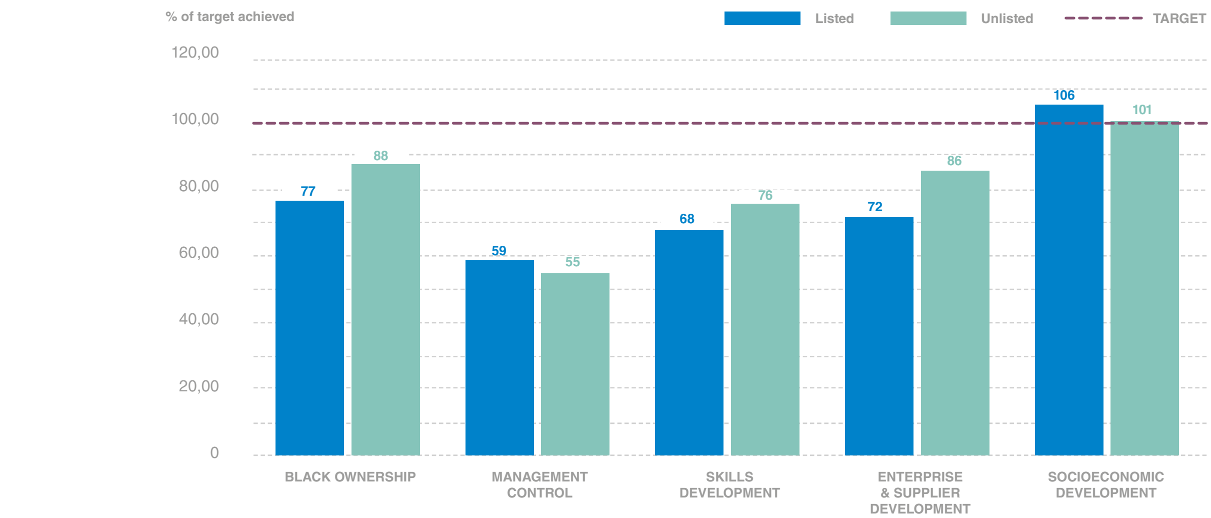
TRANSFORMATION HAMSTRUNG BY LACK OF ECONOMIC OPPORTUNITY

Three of the major sectors that fall under the generic scorecard – manufacturing, mining and retail – are the most severely hit by load-shedding, deflecting management focus from transformation, writes Johann Barnard.

GENERIC
LEVEL 4



GENERIC: LISTED VS UNLISTED B-BBEE RECOGNITION LEVELS
LISTED COMPANIES: LEVEL 5
UNLISTED: LEVEL 4



Between fighting inflation, load-shedding and weak economic growth, South African companies are also grappling with meeting transformation targets. This challenge appears especially acute for companies that are measured according to the generic Broad-based Black Economic Empowerment (BBBEE) scorecard.

The generic scorecard is applied to sectors that have not adopted a sector charter, which is an adaptation of the generic codes to an agreed set of sector-specific transformation targets. This includes some of the country's major sectors such as manufacturing and wholesale & retail. Mining companies too must score their transformation initiatives according to the generic scorecard to gain "official" B-BBEE points while the Department of Trade, Industry and Competition continues to refuse to recognise the Mining Charter.

With a massive number of 9,069 companies measured, the generic scorecard achieves only level 4 recognition in the Gauge report. There were, however, gains across the scorecard with ownership climbing to 81.52% of target from 75.2% last year; management control to 71% (58%) and skills development to 86.75% (74.5%). ESD, however, dips to 73.65% (76.1%) and socioeconomic development remains well above target.

Manufacturing has been especially hard hit over the past year by the rolling blackouts. StatsSA's figures show that the ailing sector made no contribution to GDP growth last year after contracting by 0.1% from 2021.

The Manufacturing Circle, the industry representative organisation, is painfully aware of the impact that the economy and power insecurity are having on members. Executive director, Philippa Rodseth, describes the situation as dire. "We're dealing with a shrinking sector that's operating under a lot of duress. When one looks at the amount of management time that needs to be spent on working operation schedules around not only load-shedding but unplanned load-shedding, it really gives an indication of where priorities lie.

"It's not to say that those transformation aspects are not important. It's really a case of focus and priorities, particularly in the short term when we're looking at a very difficult situation."

Consequently, she adds, a manufacturing sector charter is not an immediate priority.

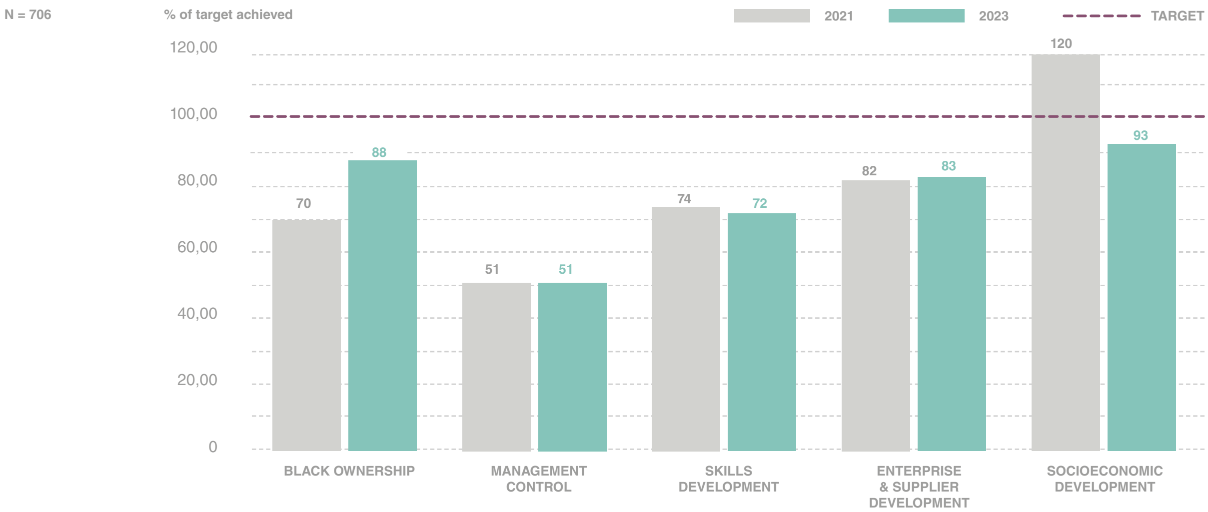
The franchise sector also falls under the generic card. Asked whether the absence of a sector charter hampers transformation efforts, Franchise Association of SA (FASA) CEO Fred Makgato says a charter would certainly help to provide clear guidance to association members. "My thinking is that it will be great if we get a charter because a charter is a consultative programme, so members will understand what is expected of them. I think that process of coming up with a charter will also help franchisors to appreciate some of the important aspects of our economy and society and the role that business can play," he says.

"When you run a small business and you understand your impact, it's easier to participate in programmes that are beneficial to society at large. It will be good if businesses can appreciate that the transformation agenda is not about bringing down business, but about building business. Because once you're transformed you have a larger audience than you wouldn't ordinarily access if you don't open up."

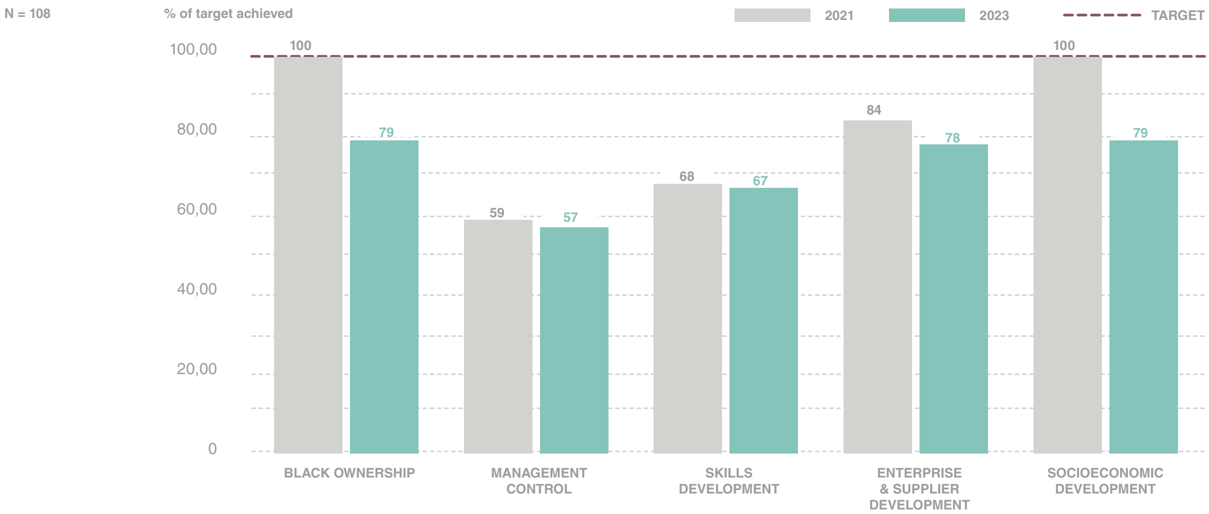
The chances that the franchise sector will get its own charter are slim. Makgato says only a handful of franchise operations employ more than 50 staff members, placing them below the threshold to apply for their own sector charter.

FASA is not blind to the need for transformation and is undertaking a survey this year to assess how empowered the sector is. The last survey, conducted in 2019, showed slow change from 2017. Average ownership by previously disadvantaged individuals, for instance, ticked up from 17% to 20% in that period. In fact, ownership was still heavily skewed (80%) to white franchisees, with 11% owned by blacks, 7% by Indians and 2% by coloureds. The average percentage of women ownership fell from 39% to 30%.

GENERIC SUBSECTOR: MANUFACTURING
LEVEL 4



GENERIC SUBSECTOR: MINING & QUARRYING
LEVEL 5



Another sector severely affected by the country's energy deficit is mining. In addition to considerable investment in social, community and infrastructure projects, the industry has had to invest heavily in self-generation power plants to keep operations running. The mining industry accounts for 7.5GW of the private sector's plans to install 9GW of energy projects worth more than R160bn.

The biggest challenge for miners, says Tebello Chabana, senior executive: public affairs and transformation at the Minerals Council South Africa, is to have their transformation and development efforts recognised. The reason this situation has arisen is because the mining sector is ultimately regulated by the Mineral and Petroleum Resources Development Act (MPRDA), which governs mineral rights. Any company wishing to mine in the country must meet stringent criteria around ownership, community involvement and development.

Chabana explains that because of this legal hierarchy, the Mining Charter has been recognised as a policy instrument to guide member transformation goals. "We've had quite a few iterations of the charter. Mining Charter 2018 was published and became effective in 2019. The industry has been in full implementation mode of this charter essentially since 2019 and we are fully committed to transformation. What happened is that certain elements of the Mining Charter 2018 contradicted the framework legislation, which is the MPRDA," he says.

The Minerals Council therefore sought clarification in the High Court. In 2021, it was ruled that the Mining Charter is a policy instrument, not binding legislation, and therefore could not contradict the MPRDA.

On average, the industry had exceeded the 26% historically disadvantaged South African ownership set out in the first two charters, achieving more than 35% ownership.

One bugbear, though, is that investments made by miners in accordance with their obligations under the act are often overlooked. The MPRDA requires miners to develop and invest in a social and labour plan (SLP) that commits them to investing in employee and local community upliftment and infrastructure development projects.

These plans and the actual outcomes are reported annually to the Department of Mineral Resources and Energy (DMRE), which is where the information flow apparently comes to an end, with the Minerals Council bemoaning a lack of feedback and transparency on compliance with the Mining Charter.

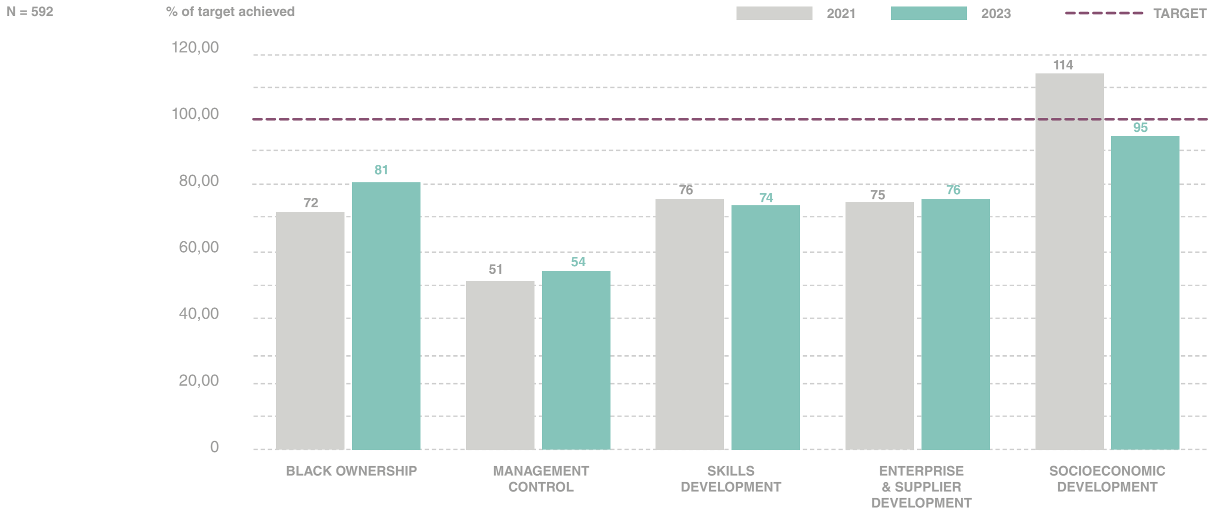
Chabana says the department was supposed to provide a standardised reporting template so that companies could understand how they – and the mining industry – are performing on the reported metrics.

"What the DMRE provided was an implementation guideline for the 2018 charter, which had templates that would show you how you would collect the data. But it didn't show you how – or provide a framework for you – to score yourself and show the progress," he says. "What the industry members did is come together to develop something which was a template to use to score themselves. That was shared with mining companies."

As a result of this disjointed reporting and feedback, mining companies are not issued a scorecard by the DMRE which they can use to show and gauge their performance, unlike other sectors which use the DTIC's scorecard. "For mining companies, it's different because you submit this industry-developed mining charter report and you at best get an acknowledgement of receipt that someone has received this document. You don't have a real sense of where you are," Chabana says.

From this retelling of efforts at transformation, it appears that inefficiencies are as much to blame as an economy unable to support the ambitions of government, and industry, to build a better, stronger-together South Africa.

GENERIC SUBSECTOR: WHOLESALE AND RETAIL TRADE
LEVEL 4



CASE STUDY

MINING SECTOR

LEVELLING THE FIELD IN THE EXPLORATION DRILLING INDUSTRY

A pattern of locking her company in as an ESD partner and then changing the terms is just one of the major hurdles Lindiwe Nakedi has experienced as a black woman entrepreneur in the mining sector, writes Aurelia Mbokazi-Kashe.

For 15 years, Lindiwe Nakedi's exploration and drilling company, Gubhani, has been a small but significant player in the mining sector. Founded in 2008, she is a proud B-BBEE entrepreneur – but has experienced numerous challenges because of it.

"Empowerment is deliberate and long term. It requires time and financial investment in the spirit of Ubuntu. Companies that invest in meaningful transformation reap the rewards over time," she says.

Plans are now afoot to scale her business as an asset developer in exploration drilling for geology projects and she is exploring partnering in mining projects from the ground up, a move away from relying on contracts. She takes comfort in transformation policies that have afforded her, and many entrepreneurs from previously disadvantaged backgrounds, a foot in the door. However, Nakedi is convinced that, to reach the next level, the mining industry leadership will need to champion meaningful transformation and its implementation.

Back in 2008, she realised that being a young, black woman-owned drilling company was desirable but came with frustrations from the sector's tick-box approach. She founded Gubhani following the liquidation of her husband's exploration company. A mining geologist, his company had been incubated by a large mining house's enterprise supplier development programme to incubate a pipeline of new suppliers. While the closure left him with a mountain of debts he didn't lose hope.

With Nakedi's HR background she understood the applications of B-BBEE policies and had people skills, and her husband would back her with technical knowledge.

"Our first contract was from an Australian mining company that was exploring in Limpopo. The drilling company they had initially contracted was unable to import equipment. We risked everything and flew in drilling equipment without signing a contract," she explains. As work continued, they applied for a loan to acquire a new rig.

"The client was happy with our output and we worked well until 2010 when the Department of Mineral Resources and Energy stopped them over a water use licence. The stoppage almost ruined us," she recalls. With no income, the bank repossessed their equipment, scuppering their chances to bid for new work.

In 2012 Gubhani won a R24m contract from a big mining company and she happily signed and applied for finance from the National Empowerment Fund (NEF) to acquire equipment. But before work could start, the firm had an about-turn and slashed the value of the contract by half and gave her an ultimatum to "take it or leave it".

"I flatly refused the new terms," Nakedi says. "We had been burned before. We were not going to afford the NEF's financing on the new contract. I explored the legal route, but their legal team came for us with all they had and we were forced to walk away from the deal with nothing."

Soon a pattern emerged where large mining companies would lock Gubhani into contracts and then spring up new terms and conditions during onboarding. Sometimes they would just delay the project. With her rigs standing idle and not invoicing, there were many gaps with no income. This set off a chain of events that had Nakedi questioning if she was ever cut out for the mining industry.

She realised that there was internal resistance to the implementation of B-BBEE and procurement departments were not speaking to

ENTREPRENEUR:
LINDIWE NAKEDI

operations departments. Compliance was used to close smaller players out. However, she also recognises that at times she was at fault for blindly signing contracts without scrutinising them.

“As a black woman-owned company the perception was that I’m a burden and require babysitting. The project leads would continue using their existing suppliers and those had no interest in mentoring us. Instead, they would frustrate us out of a contract.

“At some point, I got tired of fighting and I was burned out. I took a break and taught ballet dance classes. Despite the upheavals I would remind myself that I cannot give up and when I fail I prove them right and close the door for the next black female-owned businesses.”

Her steely determination saw her through the tough times and she became an advocate for women in the sector, leading to her serving a term as president of Women in Mining South Africa.

With mining being a cyclical industry, Gubhani has had to adapt and its staff complement fluctuates according to demand. They recently had a team of 13 stationed at different sites. Recovery from Covid-19 has been slow and companies have slashed contracts to six months and a year while they refine their strategies. While this affects Nakedi’s decision making, she is also reshaping Gubhani’s offering to ensure it aligns with the industry as it moves forward.

SHOPRITE CLINCHES DEAL OF THE YEAR AND ABSA INCREASES BLACK OWNERSHIP ABOVE 25%

Several empowerment deals have recently been inked, writes Janice Roberts, including Shoprite's establishment of an R8.9bn B-BBEE employee trust, Anglo Platinum's introduction of a new employee share ownership plan and Seriti Resources' acquisition of Windlab Africa. Arguably the most important B-BBEE deal of 2023 is Absa Group's transaction worth around R10bn.

Absa Group has finalised the details of a new B-BBEE transaction which, following its approval by shareholders, will be implemented on 1 September. The deal will increase black ownership through a transaction that will see 7% of the total group shareholding allocated to structures that will benefit ordinary black South Africans through a corporate social investment (CSI) trust and employees through a staff trust.

The transaction is one of the largest B-BBEE deals in recent times as 7% of the Absa Group equates to about R10bn based on recently calculated market value. After the transaction, black ownership of Absa is expected to exceed the 25% threshold set out in the Financial Sector Charter.

The CSI trust will indirectly own a 4% shareholding and a staff trust will indirectly hold 3% of Absa Group, collectively constituting the 7% Absa Group shareholding in the transaction. Black staff members in South Africa will receive just over 82% of the value of the staff trust.

A further equivalent of about 1% of Absa Group shareholding will be made available to staff employed by subsidiaries in other markets.

“Although primarily designed to achieve our black economic empowerment and transformation objectives, it was also important for us to ensure that a portion of the benefit will be used to empower communities through education and youth employability initiatives,” said Arrie Rautenbach, CEO of Absa Group, when the deal was announced.

A transaction circular was published in May and shareholders voted in favour of the transaction at a general meeting on 2 June.

The 4% perpetual CSI trust will be focused on education and youth employability support for black South African beneficiaries. The trust will receive an annual dividend equal to 25% of the dividend per share paid by Absa Group. The beneficiaries will be reviewed on an annual basis, with the aim being to achieve alignment with Absa's shared value objectives.

Staff employed in South Africa will participate in the 3% component of the transaction, subject to shareholder approval. All eligible employees will receive the same share allocation, irrespective of race or seniority. Black staff will receive an additional 20% allocation, in keeping with B-BBEE objectives. Black staff members will receive just over 82% of the value of the staff trust. All staff in the 3% component will receive an annual dividend equal to 25% of the dividend per share paid by Absa Group. The shares will vest after a five-year period, meaning that eligible employees will take ownership of the shares, net of applicable taxes and any outstanding funding costs.

Staff employed by Absa subsidiaries in other countries will be able to participate in a similar award programme, provided those subsidiaries elect to participate based on local considerations. This initiative will be based on cash rather than Absa Group shares, given regulatory and taxation complexities related to cross-border shareholdings.

Absa's B-BBEE deal takes place in the year in which the Conduct of Financial Institutions (COFI) Bill will be tabled in Parliament by National Treasury. The bill contains key proposals to strengthen the powers of the FSCA in relation to financial sector transformation. These proposals include making the promotion of financial sector transformation an explicit function of the FSCA, requiring all licensed

financial institutions to have a transformation plan, and empowering the FSCA to take "reasonable regulatory action" against financial institutions that do not uphold transformation commitments as detailed in their plans.

In April last year Old Mutual announced a R2.8bn B-BBEE deal known as Bula Tsela, Sesotho for "pave the way". "The rationale for the transaction is that we firmly believe it makes business sense to drive real empowerment. The more equal and inclusive our society becomes, the more opportunity there is to achieve sustained growth and unlock value," Old Mutual CEO Iain Williamson said at the time of the deal.

Employee share ownership trusts hold around 1.6% of Old Mutual's issued share capital for the benefit of employees. Black members of the public subscribed for ordinary shares in a special purpose vehicle which holds about 1.29% of Old Mutual's issued share capital and a community trust holds about 1.29%, for the benefit of various qualifying black community beneficiaries.

"This deal underpins our firm belief that real transformation is necessary to sustain business growth and serve the best interests of all South Africans," Williamson said. The transaction is a follow-up to the R7.9bn of value created when Old Mutual's 2005 B-BBEE deal matured in 2015.

In May 2022 SA's largest food retailer, Shoprite Checkers, announced a B-BBEE transaction through the formation of the Shoprite Employee Trust which increases the group's effective black ownership to 19.2% from 13.5%.

The transaction is intended "to retain, motivate and incentivise the employees of the Shoprite Group to continue to contribute towards its success going forward", the company said. "The improvement of employees' lives is an imperative, especially in the economic context of the countries in which the Shoprite group operates."

Shoprite Checkers is issuing 40-million shares, with an estimated value of R8.9bn, for the benefit of its employees. The Shoprite Employee Trust has been set up on a non-vesting, evergreen basis that will be primarily facilitated by Shoprite Checkers on a notional basis. About 126,000 South African employees will benefit directly through the Shoprite Employee Trust as unitholders in the trust, while 16,000 non-South African employees will receive equivalent benefits through their respective payrolls.

Dividend entitlements are linked to a Shoprite Holdings dividend per share to ensure the benefits to employees are transparent. Shoprite Checkers is contributing R888m which will allow for the subscription of 10% of the shares to be held by the Shoprite Employee Trust, with the balance of shares funded on a notional basis by Shoprite Checkers.

The transaction won the DealMakers BEE Deal of the Year for 2022. "While the deal boosts Shoprite's B-BBEE ownership, it also recognises the role of employees in the success of the group, by providing them with additional compensation over and above their salary," says Marylou Greig, editor of the merger & acquisitions publication.

Greig explains that the criteria used by DealMakers in assessing the nominations and selecting the BEE Deal of the Year revolve around four key areas:

- Does the deal or transaction transform the business or even the industry in which it operates and what is the extent of potential transformation as a result?
- The execution complexity of the overall deal. Does the deal involve multiple steps, involve complex regulatory approval, debt/equity raising processes and how difficult are these to implement? Did the deal exhibit innovative re/structuring?
- While not an overriding determinant, a significant factor is the deal size.
- To what extent could shareholders and other stakeholders benefit from the transaction over time?

In August 2022, coal producer Seriti Resources through its subsidiary Seriti Green entered into an agreement to acquire a majority stake in Windlab Australia's South African and East African wind and solar-powered businesses, thereby marking the transfer of strategically significant renewable assets from foreign ownership to a black energy company.

The deal, with a total purchase price of R892m, sees Seriti acquiring a 51% controlling interest in Windlab Africa – with RMB (14.5%), Standard Bank (14.5%) and two individual partners, Peter Venn (15%) and Ntiso Investment Holdings (5%), collectively taking up the remaining stake. Windlab (as acquired by Seriti) oversees 3.5GW of renewable energy projects at different stages of development in South Africa and east Africa and continues to be managed by MD Peter Venn and the Windlab Africa team. This transaction gives Seriti access to a portfolio of existing world-class renewable assets with a high return rate and a promising project pipeline.

"This acquisition is a significant landmark on Seriti's journey to becoming a diversified energy business and supports our ESG objectives and commitment to a just energy transition," Mike Teke, CEO of Seriti, said. "Seriti is conscious of the impact that fossil fuels have on the environment and is committed to playing an active role in helping manage the just transition to a low-carbon economy." The introduction of renewable energy into Seriti's existing portfolio of coal assets is seen as providing long-term financial stability and diversification while embracing alternative energy sources.

In September 2022, Anglo American Platinum announced the launch of a new employee share ownership plan (ESOP) which sees it issuing R1.8bn listed shares as well as unlocking dividend flow from its underlying subsidiary, Rustenburg Platinum Mines (RPM). The ESOP means that Amplats allocates shares either from the treasury or the open market at a cost of R8,000 apiece at an annual cash outflow of R170m per year. Each tranche vests three years after allocation, meaning that employees can either retain their shares or sell them.

This is the third ESOP for the organisation and it includes an evergreen component in which qualifying employees will also receive shares in RPM. These shares cannot be redeemed by the holder but allow for dividend flow when cash is returned. The estimated day one value of the 2% evergreen shares based on the 30-day volume weighted average price as of 27 September 2022 was R6bn.

"Guided by our purpose, to reimagine mining to improve people's lives, we are committed to driving shared value creation for all our stakeholders," Anglo American Platinum's executive head of human resources Virginia Tyobeka said. "As an organisation, we are deeply committed to ensuring that our colleagues can benefit from sustainable livelihoods and are rewarded for the hard work that they do."

In November 2022, thermal coal exporter Thungela Resources announced that it had reached an agreement with its B-BBEE partner, Inyosi Coal, to acquire the 27% shareholding of ordinary shares of Anglo American Inyosi Coal Proprietary Limited (AAIC), currently owned by Inyosi, in exchange for shares in Thungela.

Pursuant to the transaction, Thungela would own 100% of AAIC, whose assets include the Zibulo operation and the recently approved Elders production replacement project. The transaction allows Inyosi to obtain an interest in Thungela while simultaneously transforming its interest into a more liquid position in a publicly traded entity.

"The transaction marks a new chapter in our relationship with Inyosi as we unlock value and liquidity for Inyosi as they transition from asset partners to investors in Thungela," Thungela CEO July Ndlovu said at the time.

Late last year, a deal was announced to make information technology services and equipment supplier Alviva a majority black-owned, privately held information and communications technology champion. The company owns Pinnacle, Axiz and Tarsus. In December 2022, Alviva notified shareholders that an offer had been made to buy out the company's shares by a consortium of investors consisting of Tham Investments, Day One Asset Management, certain members of Alviva management and an individual, Mr P Ramasamy. A company called Fonzosys represented the consortium's interests.

The two empowerment partners, Tham Investments and Ramasamy, owned around 18.7% of the company's issued share capital. Day One Asset Management is wholly owned by four funds managed by Peregrine Capital. Fonzosys made a cash offer of up to R2.562bn for all Alviva shares it did not own, for a purchase consideration of R28.00 per share.

DealMaker's Greig says that over the past few years certain trends around empowerment deals have emerged, driven in part by market conditions and an increasing role of the B-BBEE Commission in assessing such transactions.

"Since the clarification by Trade, Industry and Competition Minister Ebrahim Patel in May 2021 that ownership schemes or trusts satisfied the ownership provisions of the codes, employee share ownership plans have gathered momentum. In fact, three of the four shortlisted deals for the DealMakers BEE Deal of the Year 2022 – Shoprite, Anglo American Platinum and Old Mutual – were structured in this way."

Greig says that key features of these transactions are that they are vendor funded, have longer tenures than in the past (in Shoprite's case perpetual) and reflect a move towards inclusivity – in other words, the employee share ownership plans have tended to include all employees, both black and white, and those employed outside South Africa. "Absa's BEE deal announced earlier this year is the most recent example of this."

According to Greig, new structures tend to be bespoke but key and common issues include:

- An evergreen component – evergreen shares are non-transferrable and held by a trust which delivers a full cash dividend to the beneficiaries.
- A vesting component where a trust is funded annually by the company to purchase shares and then vested in the hands of the beneficiaries over an intended cycle – these shares will deliver cash dividends and deliver capital appreciation to beneficiaries on their vesting. Upon vesting, shares may be disposed of or retained. This ensures full transparency and enables recognition of the tangible benefits of strong group results and has no impact on the shares in issue.

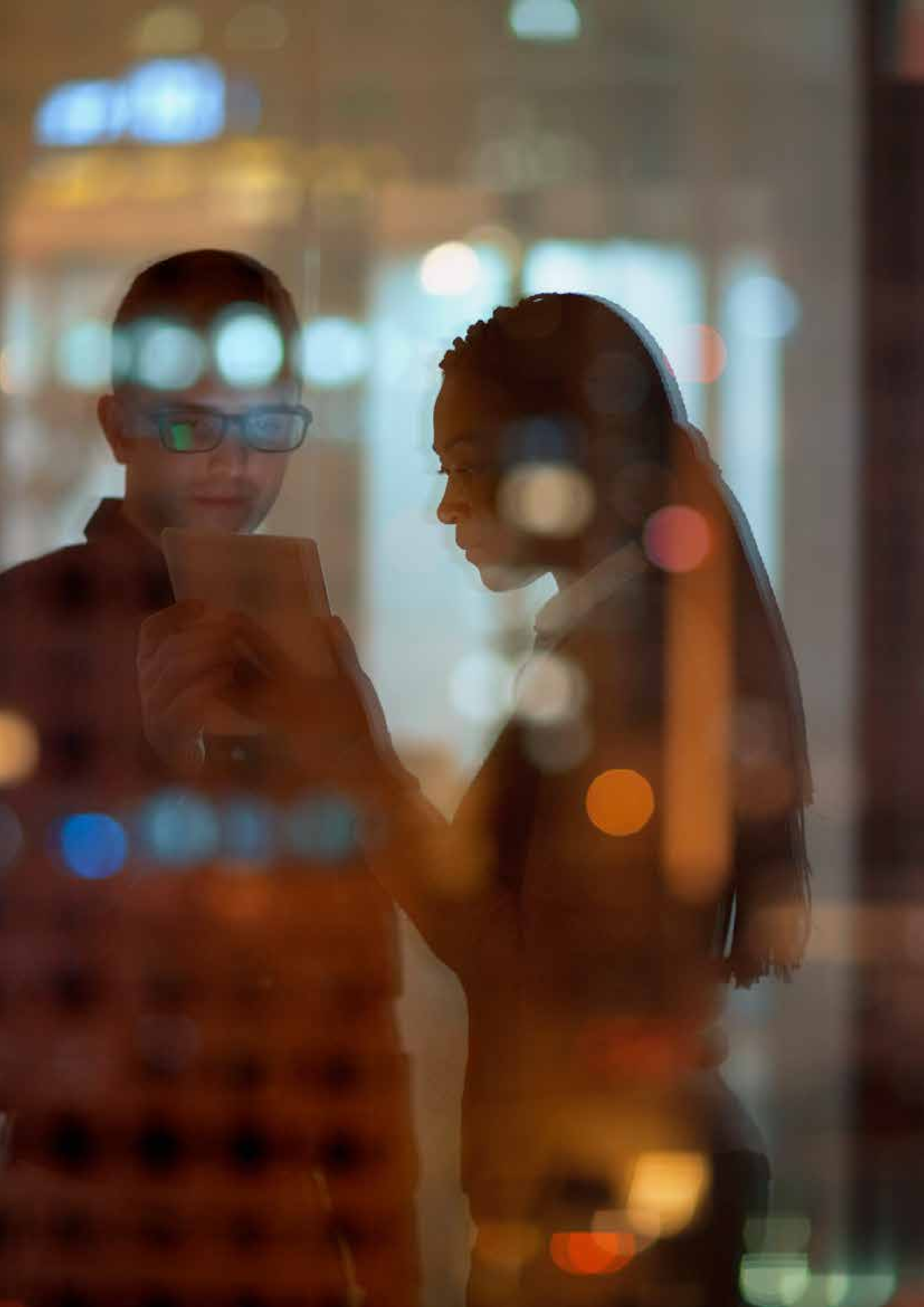
B-BBEE TRANSACTIONS

INFORMATION SUPPLIED BY DEALMAKERS

YEAR	QUARTER	NATURE OF DEAL	PARTIES	ASSET	ESTIMATED DEAL VALUE	ANNOUNCEMENT DATE
M&A - LISTED 2022						
2022	1	Acquisition by	RMB Corvest (RMB Holdings), Umoya Capital Partners, Calibre Capital and management	Investment in Brunel Laboratoria	Undisclosed	2/7/2022
2022	1	Acquisition by	Tharisa from BEE parties (Thari Resources [20%] and The Tharisa Community Trust [6%])	26% stake in Tharisa Minerals settle via the issue of Tharisa shares (c. 5% stake)	R390m	2/16/2022
2022	1	Disposal by	Zaad (Zeder Investments) to Sakhumnotho Group	51% stake in African Seeds Group	Undisclosed	3/2/2022
2022	1	Disposal by	Old Mutual to African Women Chartered Accountants Investment	21,2% stake in Futuregrowth	Not publicly disclosed	3/10/2022
2022	2	Disposal by	Old Mutual to B-BBEE participants	4,36% stake (205 326 842 shares) in Old Mutual (Bula Tsela transaction - ESOP 1,6%, black members of the public, community trust 1,29%)	R2,8bn	4/20/2022
2022	2	Disposal by	Shoprite to the Shoprite Employee Trust	40 million Shoprite Checkers shares (5,7% stake)	R8,9bn	5/18/2022
2022	2	Disposal by	Mahube Infrastructure to Encha Infrastructure Investments, Matloleng Properties and P Lewis (BEE parties)	Stake in Mahube Asset Management	R1,12m	6/9/2022
2022	2	Disposal by	Premier FMCG (Brait) to BEE party	Stake in Premier FMCG	Not publicly disclosed	not announced
2022	3	Disposal by	Equites Property Fund to Mabel Black Knight Investments	Six logistic properties in Cape Town	R190m	7/21/2022
2022	3	Disposal by	Kumba Iron Ore to B-BBEE employees	Replacement of Sishen Iron Ore ESOP (with evergreen and vesting components) representing 1,2% stake in Kumba Iron Ore	Not publicly disclosed	7/26/2022
2022	3	Disposal by	Orion Minerals to Industrial Development Corporation and a consortium of BEE shareholders	43,75% stake in Okiep Mining (21,53% and 22,2% respectively)	R34,85m	9/7/2022
2022	3	Disposal by	Anglo American Platinum to B-BBEE employees	Replacement of ESOP (with evergreen and vesting components) representing 2% stake in Amplats	R8,3bn	9/28/2022
2022	3	Disposal by	Logocialis SA (Datatec) to BEE party	Stake in Logicalis SA	Undisclosed	not announced
2022	4	Acquisition by	Thungela Resources from Inyosi Coal (RF)	Remaining 27% stake in Anglo American Inyosi Coal (payment via the issue of Thungela shares equal to 3,02% stake)	R1,15bn	11/24/2022
2022	4	Acquisition by	Fonzosys representing consortium of Tham Investments, P Ramasamy, Day One Asset Management and certain members of Alviva management from Alviva minority shareholders	Remaining 81,4% stake in Alviva	R2,56bn	12/14/2022

GENERTAL CORPORATE FINANCE						
2022	1	Specific Issue	Capitec Bank	480 561 shares at R2 080,90 per share	R1bn	1/19/2022
M&A - UNLISTED 2022						
2022	1	Investment by	Agile Capital	In Séché South Africa, which includes Interwaste, Spill Tech and Envirosure	Undisclosed	2/8/2022
2022	1	Acquisition by	Tacenda Consulting and Thembani Shipping	A 51% stake in Subtech South Africa	Undisclosed	3/30/2022
2022	2	Acquisition by	Wasaa from British Petroleum Southern Africa	Its bulk fuels import terminal at the port of East London	Undisclosed	5/27/2022
2022	2	Acquisition by	LACP Fund I (Legacy Africa Capital)	A 30% stake in Continuous Power Africa	Undisclosed	6/27/2022
2022	2	Investment by	Raise Africa Investments	In Africa Weather Group	Undisclosed	6/30/2022
2022	2	Disposal by	Alcon Marepha Telecoms to Aberdare Cables	A 40% stake in AM Hengtong Africa	Not publicly disclosed	not announced
2022	3	Acquisition by	Lebashe Investment and management	Of Mara Phones South Africa (in business rescue)	Undisclosed	7/8/2022
2022	3	Investment by	Volkswagen South Africa's Broad Based Black Economic Empowerment Initiatives Trust	In GardenRouteMan (GRM) Auto	R13,5m	9/1/2022
2022	4	Acquisition by	Sekhumnotho Group	A stake in the Boschkrans Boerdery Business	Undisclosed	10/7/2022
2022	4	Acquisition by	Hlayisani Capital	A minority stake in Tractor Media	Undisclosed	10/24/2022
2022	4	Acquisition by	Sakhumnotho Group	An 85% stake in Pakworks	Undisclosed	2022/11/07
2022	4	Acquisition by	CIH Projects No.41	Conlog, Parmtro Investments No 11, Conlog Metering Solutions Nigeria and CIG Metering Assets Nigeria	R340m	2022/11/30
M&A - LISTED 2023						
2023	1	Disposal by	Absa to the CSI Trust and Staff Trust	7% stake in Absa (4% and 3% respectively)	R10bn	3/31/2023
2023	2	Disposal by	Wilson Bayly Holmes-Ovcon to the BBESI Trust, the Akani Share Incentive Trust and the Akani Defined Beneficiary Trust	4 500 000 WBHO shares held in a SPV (90%/8%/2% respectively) representing a 24,9% stake	R45 000	4/6/2023
M&A - UNLISTED 2023						
2023	1	Acquisition by	Mainstreet 1910	a stake in E4 Investment	Undisclosed	2023/02/03
2023	2	Disposal by	Blue Bantry Investments 255 to Mineral Commodites, employees and a local community entity	a 29% stake in Mineral Sands Resources [19% to Mineral Commodities; 5% to employees and 5% to the local community]	Undisclosed	2023/04/12

THE METHODOLOGY



THE METHODOLOGY

DATABASE SOURCING

The results of the 2023 Sanlam Transformation Gauge Report are derived from three primary sources: BEE123; McGregor's Who Owns Whom empowerment database and Mpowered Business Solutions' Beagle database. These were supplemented with additional companies researched by Intellidex to ensure the major companies in each sector are included.

The Who Owns Whom data were already in a spreadsheet but due to the nature of their businesses, the company scores from BEE123 and Beagle were in the form of PDFs of each company's B-BBEE certificate. To convert the PDFs into usable data, Intellidex deployed its international data analytics suppliers. We accumulated approximately 45,000 certificates and affidavits from the two sources, including both current and expired certificates. Our analytics programmers developed algorithms to systematically convert the PDFs to usable data. The PDFs were parsed and the program converted each score into the appropriate spreadsheet column. The Who Owns Whom database provided over 250,000 companies. These three databases were combined and cleaned to provide 14,542 clean scores for the 2022-2023 period of assessment.

The cleaning process entailed exclusion of incorrect entries and stripping out of EMEs or companies that did not have at least three of the five scorecard elements, as well as scorecards that were outdated or were invalid for other reasons.

These processes resulted in usable scores for a total of 14,542 companies that now underpin the research, extracted from the pool of nearly 300,000 entries. This figure has grown from 3,154 companies in the 2021 report and 10,336 in 2022.

SUBSIDIARIES

In cases where a parent/holding company has numerous subsidiaries, we have included scores for all entities. According to the DTIC's Guidelines on Complex Structures & Transactions, it is effectively up to the company to decide which sector code the subsidiary should report under, but where a subsidiary operates in another sector to the holding that has its own code, it has to be scored by that sector's code. To incorporate those subsidiaries with different scores to the parent, we had to include each subsidiary's scores.

SCORING METHODOLOGY

B-BBEE scorecards have various levels of detail in their data. The only consistent data is the procurement recognition (0%-135%) and contribution level (one to eight). The challenge is that neither of these can be easily averaged. As the table shows, procurement recognition is a non-linear transformation of the scorecard points. A firm with under 40 points gets 0 recognition but one with 100 points gets 135%. Averaging the recognition level can be misleading.

CONTRIBUTION LEVEL	QUALIFICATION	PROCUREMENT RECOGNITION LEVEL
LEVEL ONE CONTRIBUTOR	≥ 100 points on the Scorecard	135%
LEVEL TWO CONTRIBUTOR	≥ 95 but < 100 points on the Scorecard	125%
LEVEL THREE CONTRIBUTOR	≥ 90 but < 95 points on the Scorecard	110%
LEVEL FOUR CONTRIBUTOR	≥ 80 but < 90 points on the Scorecard	100%
LEVEL FIVE CONTRIBUTOR	≥ 75 but < 80 points on the Scorecard	80%
LEVEL SIX CONTRIBUTOR	≥ 70 but < 75 points on the Scorecard	60%
LEVEL SEVEN CONTRIBUTOR	≥ 55 but < 70 points on the Scorecard	50%
LEVEL EIGHT CONTRIBUTOR	≥ 40 but < 55 points on the Scorecard	10%
NON-COMPLIANT CONTRIBUTOR	< 40 points on the Scorecard	0%

To address this challenge, we averaged the sectors by first backing out scorecard points from the recognition level. We did this at the midpoint of the scorecard range as per the table. For example a 125% level was backed out to 97.5 points. We did this for all companies, and then determined an aggregate scorecard score for each sector. We then worked forward and determined the contribution level and procurement recognition for each sector. We believe this gives the most reasonable representation of sector averages possible with the data.

The scorecard elements were unaffected as they are summed and averaged per sector.

The methodology used in the 2021 report differed, based on the procurement recognition percentage. Because of the vastly different sample sizes of the three Gauge reports produced so far (2021: 3,157 companies; 2022: 10,336 and 2023: 14,542), the results of the reports are not comparable. However, we have recalculated 2021 scores according to the new formula, presented in the table below.

B-BEE SECTOR	2021 RECOGNITION LEVEL POINTS	2022 RECOGNITION LEVEL POINTS	2023 RECOGNITION LEVEL POINTS	PROCUREMENT RECOGNITION LEVEL
AGRI-BEE	68.3	91.44	91.12	3
CONSTRUCTION	80.2	90.82	97.93	2
FINANCIAL	78.2	87.86	95.35	2
FORESTRY	91.9	87.46	93.07	3
ICT*	66.3	87.41	90.9	4
INTEGRATED TRANSPORT	84.0	85.48	81.41	4
MARKETING, ADVERTISING, COMMUNICATIONS	67.4	85	82.98	4
PROPERTY	68.7	84.79	83.33	4
TOURISM	80.0	84.57	86.55	4
GENERIC	70.4	87.75	88.50	4

- Each sector is allocated a B-BBEE procurement recognition level according to criteria specific to that B-BBEE sector code;
- All sectors align with the generic points allocations to levels except for transport and ICT;
- For comparison purposes we have calculated the ICT sector's recognition level score to determine the generic equivalent, using the Financial Sector Charter's formula. Its recognition score of 90.9 was divided by 120 (total number of DTI points) and multiplied by 111 (total available industry points) to bring it to 84.08 points.

ADVERTORIAL FEATURE: BEE123

LEADING PROVIDER OF SOLUTIONS TO MANAGE B-BBEE & EE COMPLIANCE AND TRANSFORMATION

BEE123 passionately leads the way as South Africa's premier provider of solutions for managing B-BBEE and EE compliance and driving transformation. They combine the best of both worlds – the latest in cutting-edge technology and the invaluable guidance of their subject matter experts – to simplify the transformation journey for HR, finance, transformation and executive managers.

B-BBEE compliance is a long-term investment but most businesses will agree that managing their scorecard can be challenging while trying to keep costs in check. Hiring consultants often drains their budget, and relying solely on excel spreadsheets puts them at risk of catastrophic slip-ups. That's why it's crucial to invest in a comprehensive, user-friendly B-BBEE software system – one that can automate all those time-consuming tasks associated with B-BBEE compliance, like data collection, analysis, and reporting. With BEE123's software, transformation managers and consultants will be able to focus on more strategic responsibilities such as developing and implementing transformation strategies.

At the core of BEE123's philosophy is a deep understanding that behind every B-BBEE compliance requirement and every transformation initiative, there exist real people with dreams, aspirations and an urgent need for upliftment. That's why they go far beyond the confines of simply ticking boxes and meeting regulations; BEE123 is fervently dedicated to empowering businesses and individuals to thrive, creating a lasting and profound impact.

STREAMLINING B-BBEE PREFERENTIAL PROCUREMENT

The preferential procurement element of B-BBEE is a way for businesses to improve their scorecard while also supporting and helping smaller black-owned businesses grow, but it's also one of the most time-consuming parts of meeting B-BBEE compliance. To alleviate this burden for businesses, BEE123 has designed their Advanced Supplier Management Module which combines curated technology and expert human intervention. By leveraging a comprehensive database containing over 50,000 B-BBEE certificates and affidavits, BEE123's module automates the collection and storage of suppliers' certificates, which means businesses no longer have to manually handle the paperwork – this solution takes care of it all.

The Advanced Supplier Management Module also offers interactive dashboards and analytics, providing detailed information about suppliers and procurement. To ensure all necessary certificates are obtained and recorded, BEE123 assigns a dedicated data administrator. This way, businesses don't need to worry about any missing certificates, and they are provided with regular reports and feedback.

BEE123'S SUITE OF SOLUTIONS

BEE123 offers a comprehensive range of solutions that empowers businesses to achieve B-BBEE compliance while making a meaningful impact on society, and these include:

BEE123 Software & Advisory: The BEE123 B-BBEE Management Solution is designed to make B-BBEE compliance as straightforward as possible, so businesses can understand, plan, assess, and implement B-BBEE effortlessly. While technology forms its foundation, its true value comes from being combined with BEE123's exceptional advisory service, creating a truly holistic solution.

Skills123: Skills development is a priority element in terms of national progress and the B-BBEE scorecard. Skills123 aligns with the scorecard by strategically and cost-effectively structuring skills programmes, which helps businesses optimise costs through tax incentives and rebates.

ESD123: Enterprise and supplier development is supported by ESD123, a flexible and customised end-to-end solution that benefits both sponsoring and beneficiary businesses. With experience gained from working with over 100 businesses, this solution provides a deep understanding of the on-the-ground situation.

SED123: Businesses can contribute to socio-economic development by participating in the SED123 Schools Capacitation Initiative, which focuses on delivering high-quality learning materials to schools and students in need.

YES123: By implementing a YES programme, businesses can boost their B-BBEE scorecard by up to two levels. YES123 provides a complete package that includes facilitation, administration and management of the YES programme.

EE123 is the latest addition to BEE123's solutions, specifically created to help businesses meet their employment equity obligations through a combination of software and consulting services.

THE SANLAM TRANSFORMATION GAUGE REPORT

As a catalyst for positive change and a leader in transformation and empowerment, BEE123 is proud to have contributed vital data to the 2023 Sanlam Transformation Gauge Report, fuelling discussions on accelerating transformation in SA.

NOTES

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