Major B-BBEE Analysis Report 2017 - 2018

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## Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tbody>
<tr>
<td>ATLAS.ti.</td>
<td>A computer program used mostly, but not exclusively, in qualitative research or qualitative data analysis</td>
</tr>
<tr>
<td>B-BBEE</td>
<td>Broad-Based Black Economic Empowerment</td>
</tr>
<tr>
<td>BBOS</td>
<td>Broad Based Ownership Scheme</td>
</tr>
<tr>
<td>BIK</td>
<td>BIK Research</td>
</tr>
<tr>
<td>BO</td>
<td>Black Owned</td>
</tr>
<tr>
<td>BWO</td>
<td>Black Women Owned</td>
</tr>
<tr>
<td>CIPC</td>
<td>Companies and Intellectual Property Commission</td>
</tr>
<tr>
<td>DAFF</td>
<td>Department of Agriculture, Forestry and Fisheries</td>
</tr>
<tr>
<td>EE</td>
<td>Employment Equity</td>
</tr>
<tr>
<td>EME</td>
<td>Exempt Micro Enterprise</td>
</tr>
<tr>
<td>ESD</td>
<td>Enterprise and Supplier Development as defined in the B-BBEE Codes of Good Practice</td>
</tr>
<tr>
<td>ESOP</td>
<td>Employee Share Ownership Programme</td>
</tr>
<tr>
<td>FSC</td>
<td>Financial Services Sector</td>
</tr>
<tr>
<td>ICT</td>
<td>Information, Communication and Technology</td>
</tr>
<tr>
<td>IDC</td>
<td>Industrial Development Corporation</td>
</tr>
<tr>
<td>Koena RRC</td>
<td>Koena Reliable Research Clinic Pty Ltd</td>
</tr>
<tr>
<td>MAC</td>
<td>Marketing, Advertising and Communication</td>
</tr>
<tr>
<td>PFMA</td>
<td>Public Finance Management Act No 1 of 1999</td>
</tr>
<tr>
<td>PIC</td>
<td>Public Investment Corporation</td>
</tr>
<tr>
<td>PP</td>
<td>Preferential Procurement as defined in the B-BBEE Codes of Good Practice</td>
</tr>
<tr>
<td>REIT</td>
<td>Real Estate Investment Trust</td>
</tr>
<tr>
<td>SAICA</td>
<td>South African Institute of Chartered Accountants</td>
</tr>
<tr>
<td>SANAS</td>
<td>South African National Accreditation System</td>
</tr>
<tr>
<td>SARS</td>
<td>South African Revenue Service</td>
</tr>
<tr>
<td>SETA</td>
<td>Skills Education Training Authority</td>
</tr>
<tr>
<td>SOE</td>
<td>State Owned Entity</td>
</tr>
<tr>
<td>SPSS</td>
<td>IBM platform offers advanced statistical analysis</td>
</tr>
<tr>
<td>The “JV”</td>
<td>Koena Reliable Research Clinic Pty Ltd and</td>
</tr>
<tr>
<td>BIK</td>
<td>Research Pty Ltd</td>
</tr>
</tbody>
</table>
1. Executive Summary

1.1 Background

The Broad-Based Black Economic Empowerment Commission ("B-BBEE Commission") is mandated amongst others to receive and analyse major B-BBEE transactions, to promote good governance and accountability by creating an effective and efficient environment for the promotion and implementation of the objectives of broad-based black economic empowerment ("B-BBEE"). This would help to realise whether the deal entered into by parties meet B-BBEE requirements and that there are no fronting aspects; and to assist the B-BBEE Commission to deliver on its functions and achieve its mandate.

The Minister of Trade and Industry announced, in the Government Gazette of 9 June 2017, that all major B-BBEE transactions must be registered with the B-BBEE Commission. B-BBEE Regulations require that major B-BBEE transactions that relate to ownership exceeding a threshold of R25 million transaction value, be registered with the B-BBEE Commission, as guided by Statement 100 of the Codes of Good Practice ("the Codes"). The B-BBEE Commission is tasked to oversee, supervise and promote adherence with the B-BBEE Act in the interest of the public.

The B-BBEE Commission may in terms of regulation 18 (7) of the B-BBEE Regulations, subject to confidentiality claims, use the information provided for registration of major B-BBEE transactions to produce a report on trends, which can be published as appropriate, including on the website.

The B-BBEE Commission presents its first report on the analysis of major B-BBEE transactions registered from June 2017 to 31 March 2018. During this period, there were 272 major B-BBEE transactions registered with the B-BBEE Commission and, therefore, the data analysed is limited to these.
1.2 B-BBEE Ownership element and the related recommendations to drive accelerated transformation

The outcome of the analysis of the data (obtained from the files and the qualitative survey) shows that the overall black economic empowerment; and in particular, black women ownership, and the percentage of the Black Designated Groups and new entrants who hold rights of ownership in an entity are still low. Interventions are therefore, required to increase the black ownership levels to ensure that the economy is transformed to enable meaningful participation by the majority of the citizens of South Africa and to change the patterns of ownership in South Africa.

1.3 The report highlights the following key findings from data obtained from the files and the qualitative survey:

a. The grand total value of the 272 registered major B-BBEE transactions under the period of June 2017 to 31 March 2018 is R188,745 billion.

b. According to the data provided by the registered entities to the B-BBEE Commission, black ownership ranges from 10.0% to 99.9% and 48.2% of equity has been transferred to black people. Black women ownership is still very low at 20.3%.

c. The majority of funded B-BBEE deals show that vendor financing dominates the method of funding at 35.3% on 96 B-BBEE deals amounting to R89,498 billion. These kinds of investments are normally recovered over a period of not more than 10 years based on the Time-Based Graduation Factor, pledging shares as surety.

d. Ownership participation of Black Designated Groups including black people who are youth as defined in the National Youth Commission Act of 9196 is averaged at 23.1%; and ownership participation of Black new entrants is averaged at 21.5%.
e. The average exercisable voting rights for black people in these B-BBEE deals is 46.1% with a minimum of 10.0% and a maximum of 99.4% and that of black women is 19.6% with a minimum of 0.0% and a maximum of 100.0%

1.4 Recommendations are as follows:

a. Government should increase funding for B-BBEE transactions and implement flexible and suitable funding structures; e.g by partnering with an existing bank to fund B-BBEE deals, and financial services companies should make financial aid more accessible, whilst reducing the strict requirements applicable to attain loans.

b. Commercial banks should partner with public funding agencies such as National Empowerment Fund (NEF), National Youth Development Agency (NYDA) and Industrial Development Corporation (IDC) to bridge the gap and offer a customised funding structure that will assist small and black enterprises to access funding.

c. There is also a need for government funding schemes to also focus on non-manufacturing industries as it is difficult for most B-BBEE enterprises in these industries to attain loans.

d. It is noted that currently, the B-BBEE Commission is in the process of developing Case Management System, and already, a One Stop Shop Portal system has been developed to upload transactions. This will assist in capturing data accurately with complete information. It will also minimise the number of B-BBEE transactions that are rejected and help the B-BBEE Commission to effectively monitor compliance with Code series 100.
2. Introduction

In terms of the B-BBEE Act 53 of 2003 as amended by Act 46 of 2013 (“the B-BBEE Act”), the B-BBEE Commission is mandated amongst others to receive and analyse major B-BBEE transactions, to promote good governance and accountability by creating an effective and efficient environment for the promotion and implementation of the objectives of broad-based black economic empowerment. The B-BBEE Commission is tasked to oversee, supervise and promote adherence with the B-BBEE Act in the interest of the public.

The Minister of Trade and Industry announced, in the Government Gazette of 9 June 2017 that all Major B-BBEE Transactions must be registered with the B-BBEE Commission. B-BBEE Regulations require that major transactions with an ownership element exceeding a certain threshold, would be required to be reported to the B-BBEE Commission. According to the dti gazette, all transactions with a value that equals or exceeds R25 million as per Code Series 100, Statement 100 of the Codes, must be registered with the B-BBEE Commission.

This requires a comprehensive analysis of major B-BBEE transactions in order to realise whether the deals entered into by parties meet B-BBEE requirements or there are no fronting aspects which the B-BBEE Commission does and provide feedback directly to the entities. This study would examine trends in the types of deals entered into, which would assist the B-BBEE Commission to deliver on its functions and achieve its mandate.

To fulfil the above-mentioned mandate, the B-BBEE Commission appointed the JV (BIK Research & Koena RRC) to do a comprehensive analysis of the 272 major B-BBEE transactions that were registered in the period of June 2017 to 31 March 2018. The purpose of the study is to analyse the deals entered into by parties and to highlight the trends. The data that was analysed was obtained from the files of those 272 major B-BBEE transactions and a qualitative survey, which was undertaken in October 2018.
2.1.4 To measure the extent of B-BBEE transactions that have been allocated to black people and designated groups.

2.1.5 To indicate the impact and effectiveness of funding structures undertaken in B-BBEE transactions.

2.1.6 To find out whether funding has been accessible and if it has been adequate to create sustained and meaningful participation for black people, including highlighting whether transactions were vendor financed, state funded, private funding and other.

2.1.7 To analyse the transformation and decision-making capacity by black people and Black Designated Groups in entities where they have a B-BBEE shareholding.

This report is divided into two parts. The first part presents the sectoral distribution of the 272 major B-BBEE transactions that were registered with the B-BBEE Commission between June 2017 and 31 March 2018. The second part presents the findings based on the scope as indicated above.
The analysis was based on code series 100, Statement 100, regarding measurement of the ownership element in terms of B-BBEE.

2.1 The study was conducted with the following objectives:

2.1.1 Calculating the total value of registered transactions under this period for each sector;
2.1.2 Identifying value creation by sector;
2.1.3 Ownership in line with the wants of Code Series 100:

   a. Meaningful participation - when beneficiaries have direct influence or control of their equity.
   b. Sustained value - function of three variables:

      i. Release of black Participants from all third-party rights arising from financing of a B-BBEE transaction (ownership fulfilment);
      ii. Ability of B-BBEE participants to generate further economic benefits and sustainable value measured by wealth creation and job creation; and
      iii. Benefit or profit gained from a B-BBEE transaction.
   c. Impact of B-BBEE transactions - sustained B-BBEE and economic growth and poverty eradication;
   d. Calculating the net amount value created after all debt and other financial obligations have been deducted;
   e. identify beneficiaries and strategic partners.
3. Sectoral Distribution of The 272 Major B-BBEE Transactions

A total of 272 major B-BBEE transactions registered by the B-BBEE Commission between June 2017 and 31 March 2018 were analysed. The sectoral distribution of these major B-BBEE transactions are shown in table 1 below according to both the Codes and Statistics SA industrial classification for comparison purposes.

The results for Statistics SA industrial classification and Codes are different. According to the Codes, the Generic sector (132.49%) has the majority of registered major B-BBEE transactions, followed by the Financial sector (63.23%) and the Integrated Transport sector (20.7%). The Forestry sector does not have any major B-BBEE transaction registered. In the case of Statistics SA industrial classification, “Other” sectors (80.29%) have the majority of registered major B-BBEE transactions, followed by the Finance and Business services sector (63.23%) and the Manufacturing sector (30.11%).

Table 1: Sectoral Distribution of the 272 major B-BBEE transactions for Codes and Statistics SA industrial classification
4. Methodology

A total of 275 major B-BBEE transactions were registered with the B-BBEE Commission between June 2017 and 31 March 2018. Of the 275 files 3 were found to be duplicates. Therefore, for the purposes of this study, the database of the 272 major B-BBEE transactions that were registered by the B-BBEE Commission between June 2017 and 31 March 2018 was supplemented by the data collected in a qualitative survey, which was undertaken in October 2018. Ten (10) participants (8 from the registered entities and 2 from the B-BBEE Commission) were purposively selected and interviewed. The analysis was done to find out whether the deals entered into by the parties meet the B-BBEE objective of Code 100.

This report, however, presents only the results obtained on specific indicators and descriptions of the ownership element in terms of the Codes and the B-BBEE Act.

5. Limitation

The information received from the files was not adequate to find out whether the deals entered by parties would achieve the objectives of the B-BBEE Act. The qualitative survey was also not good enough either, because out of the sampled 53 entities only 19% were willing and participated in the study. Therefore, we could not determine value creation per sector; find the reason why black women ownership participation is low and break-down the ownership participation for Black Designated Groups to identify ownership participation for Black youth. This implies that the validity of the information provided by the registered entities in the files still needs to be tested, which calls for another more comprehensive research study to cover the impact of these deals.

Further, based on the qualitative survey, the number of black people in decision-making positions has improved significantly; more black people employed by the entities are also shareholders or owners of those entities. The question whether they are actively involved in decision-making still needs to be investigated as the study could not determine exercisable voting rights by employees.
6. Results

6.1 Total value of presented and registered major B-BBEE transactions for each sector code

The values of registered major B-BBEE transactions under the period of June 2017 to 31 March 2018 are shown in Table 2 and illustrated more clearly in Figure 1.

Table 2: Total value of presented and registered transactions under the period of June 2017 to 31 March 2018 for Codes of Good Practice

<table>
<thead>
<tr>
<th>Sector Code</th>
<th>Total value (Billion R)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>2,252</td>
<td>1.2</td>
</tr>
<tr>
<td>Construction</td>
<td>0,352</td>
<td>0.2</td>
</tr>
<tr>
<td>Financial</td>
<td>16,074</td>
<td>8.5</td>
</tr>
<tr>
<td>Generic</td>
<td>78,091</td>
<td>41.4</td>
</tr>
<tr>
<td>ICT</td>
<td>19,896</td>
<td>10.5</td>
</tr>
<tr>
<td>MAC</td>
<td>0,632</td>
<td>0.3</td>
</tr>
<tr>
<td>Property</td>
<td>9,037</td>
<td>4.8</td>
</tr>
<tr>
<td>Tourism</td>
<td>58,047</td>
<td>30.8</td>
</tr>
<tr>
<td>Integrated Transport</td>
<td>4,363</td>
<td>2.3</td>
</tr>
<tr>
<td>Forestry</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>188,745</td>
<td>100.0</td>
</tr>
</tbody>
</table>
The results indicate that overall black ownership is highest for the Agriculture sector (76.3%), Integrated Transport sector (63.1%) and MAC sector (56.3%).

Black Designated Groups ownership is highest for the Tourism sector (100.0%), followed by the MAC sector (46.5%) and Property sector (34.3%).

Black new entrants' ownership is highest for the Property sector (54.0%), followed by Generic (28.6%) and ICT sector (19.3%).

Black people voting rights are highest for Agriculture sector (76.3%), Integrated Transport sector (60.9%) and Property sector (52.8%).

Black women voting rights are highest for Agriculture sector (31.6%), followed by MAC (28.1%) and Integrated Transport sector (26.9%).
According to the information provided in the files of the 272 registered major B-BBEE transactions by the B-BBEE Commission (between June 2017 and 31 March 2018), the average ownership by a beneficiary is 37.5%, overall black ownership is 48.2%, black women ownership is 20.3%, and the respective voting rights for overall black people and black women are 46.1% and 19.6% respectively. The average black designated groups shareholding is at 23.1% and that of black new entrants is 21.5%.

6.2 Ownership in line with the requirements of Code Series 100

The grand total value of all the registered major B-BBEE transactions is R188,745 billion of which the top three (3), are 78,091 billion (41.4%) for the Generic sector, R58,047 billion (30.8%) for the Tourism sector and the lowest of the 3, R19,896 billion (10.5%) for the ICT sector.

Apart from the Forestry sector which does not have any registered major B-BBEE transaction, the other sector with relatively very low transaction value is the Construction sector, which registered transactions valued at R0.352 billion, accounting for 0.2% of the grand total value.
a. Overall black ownership is highest in the Wholesale Trade, Commercial Agents and Allied Services (63.8%); Catering, Accommodation and other Trade (59.0%), and Electricity, Gas and Water (55.9%) sectors.

b. Black women ownership is also highest in the Wholesale Trade, Commercial Agents and Allied Services (35.1%); Other (21.2%), and Manufacturing (20.6%) sectors.

c. Black Designated Groups ownership is highest in the Wholesale Trade, Commercial Agents and Allied Services sector (34.3%); followed by the Catering Accommodation and other Trade (25.0%) and Manufacturing (10.2%) sectors.

d. Black new entrants' ownership is highest in the Electricity, Gas and Water sector (34.7%); Manufacturing (22.4%), and Finance and Business (20.6%) sectors.

e. Black people voting rights are highest in the Wholesale Trade, Commercial Agents and Allied Services (63.8%); Catering, Accommodation and other Trade (59.0%), and Finance and Business Services (56.5%) sectors.

f. Black women voting rights are highest in the Wholesale Trade, Commercial Agents and Allied Services (46.9%); Other (23.6%), and Manufacturing (20.6%) sectors.
by the B-BBEE investment is not enough to pay off the loan. Dividends are paid only when the entity makes a profit; if there are no profits, the participant is likely not to be able to pay the instalment that year. In addition, the longer the payback period the more costs incurred. This sometimes ends up in the shares being re-purchased by the entity or somebody else, not necessarily a B-BBEE participant.

ii. Have B-BBEE participants been able to generate further economic benefits and sustained value resulting in; wealth creation, job creation and profit gained in a major B-BEE transaction?

The study indicates that there are long-term benefits for B-BBEE participants, which include job creation and dividend distribution. The following pointers were given:

Wealth creation
Investments benefit the shareholders in an entity, which in return might benefit a black community directly. Major B-BBEE transactions pay dividends to shareholders; this can result in wealth creation from an ownership perspective, but it is subject to commercial risk. Hence, the enhanced value creation must be tied with the commercial risk.

Job creation
Major B-BBEE transactions tend to create employment. The noticeable positive changes attributable to the B-BBEE initiative include job creation for black people in general and black women in particular. The question is whether the economic empowerment is sustainable. This depends on making sure that funding structures are sustainable and successful.

iii. Profit
Profit depends on the funding structure and many major B-BBEE transactions may be unsuccessful in this respect. For example, typically, funding structures of the external founders like the commercial banks are very expensive. Therefore, government should try to make funding structures cheaper and more accessible because owner funding terms for black people for ownership participation are not relatively cheap, and shareholders only receive a benefit if there is a dividend distribution.
6.2.1 Meaningful Participation - When Beneficiaries have Direct Influence or Control of their Equity

Participants (from entities) mentioned different views regarding the areas that influence black people to have direct control over their equity. While some mentioned that this decision is influenced by the B-BBEE laws, others stated that it is influenced by the share price and others alluded that it is purely the entity’s decision, direct equity and the entity’s trust in the B-BBEE participant.

According to the participants from the B-BBEE Commission, “Trusts” are a vehicle that can influence meaningful economic participation of black people in the major B-BBEE transactions. In the ownership environment, Trusts allow for employees to gain not only the monetary value, but also equity, knowledge, skills and the expertise to be able to participate within that specific environment.

6.2.2 Sustained Value - Function of three Variables:

i. Release of black participants from all third-party rights arising from financing of a major B-BBEE transaction (ownership fulfilment).

Most black participants are not released from third-party rights. Bank loan interest rates or the costs of servicing debts are extremely high, such that, at the end of the loan term there is no significant net value created in the hands of Black participants. The debt used to initiate a B-BBEE transaction tends to be so high that by the time the repayment period reaches its maturity, usually less than 10 years, the value of the B-BBEE rewards might not be significantly higher or might even be less than the outstanding debt, which may result in the beneficiary losing the shares through the share-buyback process. A typical term of funding is 4 years after which assets are released.

There is always a debt to pay even for schemes. Hence, it was found that there has been very little release of black participants from all third-party rights arising from financing of a major B-BBEE transaction because a lot of these transactions have been having such a high level of debt that lenders, including commercial banks, have been involved throughout their participation and in the end, the value of the dividend generated
6.2.4  Net Amount Value Created after all Debt and other Financial Obligations have been deducted

An assumption was made that net value would be created to the extent that vendor financing can be repaid within 10 years. The net value created was not calculated in this study because of non-availability of updated audited balance sheets showing asset values at market value and liabilities.

6.2.5  Beneficiaries and Strategic Partners

The primary financial contributors to most of the registered major B-BBEE transactions are commercial banks (e.g. FNB, ABSA, Nedbank, Investec and Standard Bank). Some participants attain their funding from government structures such as the IDC and PIC. Underlying investments are normally the security presented to the banks.

6.3  The extent of major B-BBEE transactions that have been allocated to black people and designated groups

The extent of major B-BBEE transactions that have been allocated to black people and designated groups is shown in table 3. Based on the 272 major B-BBEE transactions analysed, on average, the extent of black ownership in South Africa is 48.2%.

The average percentages of black women ownership (20.3%), exercisable voting rights for black women (19.6%), ownership of Black Designated Groups (23.1%) and ownership of Black new entrants (21.5%) are relatively low.
iv. Benefit or profit gained from a major B-BBEE transaction

In general, the major B-BBEE transactions are in line with the goals of their business organisations. It was observed that, depending on the industry in which the B-BBEE enterprise operates, the major B-BBEE transactions are assisting in economically empowering black people in South Africa.

6.2.3 Impact of major B-BBEE Transactions - sustained B-BBEE and Economic Growth and Poverty Eradication

The major B-BBEE transactions have a direct impact on shareholders’ lives and their families but not as much to the broader society. For instance, while they improve the wealth of the shareholders, they do not necessarily have a direct impact on everyone else. In addition, entities are also able to partner with large corporate’s for business due to their B-BBEE status. Often, there is some sort of job creation as the entity grows, but this does not necessarily imply that it has a positive impact on economic growth.

In addition, although there is growth for the entity, particularly the shareholders, there would necessarily be no impact on the general staff (i.e. cleaners, drivers etc.) or families of the shareholders. It can therefore be concluded that, based on the analysis of the 272 major B-BBEE transactions and the qualitative survey, there is as yet no observed significant poverty eradication due to the major B-BBEE transactions.

The major B-BBEE transactions have allowed more black people to work with big corporations and/or acquire equity in the private sector, but when it comes to poverty alleviation, there has not been a visible significant change. However, many major B-BBEE transactions seem to result in economic benefits flowing to black people. Seemingly, it is the elite who are gaining from the B-BBEE initiatives.

The effectiveness of a major B-BBEE transaction with regards to poverty eradication and economic development depends on the nature of the entity; that is, whether it is an operating entity or a non-operating entity. Operating entities may provide for establishment / maintenance of subsidiaries, thus leading to job creation, poverty eradication and economic development / transformation. On the other hand, non-operating entities use the major B-BBEE transaction mainly to improve their score and to tender for government projects.
Table 3: Summary of B-BBEE Ownership Elements

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Black Ownership</th>
<th>Exercisable voting rights for black people</th>
<th>Black Women Ownership</th>
<th>Exercisable voting rights for black women</th>
<th>Black designated groups ownership</th>
<th>New Entrants ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average percent</td>
<td>37.5%</td>
<td>48.2%</td>
<td>46.1%</td>
<td>20.3%</td>
<td>19.6%</td>
<td>23.1%</td>
</tr>
</tbody>
</table>

a. The Extent to which Voting Rights in the Entity are in the Hands of Black People

The average exercisable voting rights in the hands of black people is deemed to be 46.1% and 19.6% for black women. The exercisable voting rights in the hands of black people ranges from 4% and to 100% and those of black women range from 0.0% to 100%. The study has found that, based on the information provided by the registered entities, more black people have a higher degree of voting rights; and the number of beneficiaries who have voting rights through trustees seems to have also increased.

b. Level of participation achieved for black people and black women in a major B-BBEE transaction

The data obtained from the registered major B-BBEE transaction files indicated that on average black ownership participation is 48.2% and that of black women is 20.3%. Getting involved in daily operations of an entity helps black people to participate in decision-making, understand the environment they are operating in and have innovative ideas to grow the entity and industry concerned. Most of the B-BBEE transactions seem not acceptable for B-BBEE as some of the clauses in the agreements are not aligned with the goals of the B-BBEE Act.
Table 4: Total value and Number of major B-BBEE transactions per Type of Funding

<table>
<thead>
<tr>
<th>Type of Funding</th>
<th>Total Value (Billion R)</th>
<th>Percent</th>
<th>No. of Major B-BBEE Transactions</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loan</td>
<td>37,018</td>
<td>19.6</td>
<td>52</td>
<td>19.1</td>
</tr>
<tr>
<td>Bank Loan &amp; Vendor Financing</td>
<td>2,245</td>
<td>1.2</td>
<td>3</td>
<td>1.1</td>
</tr>
<tr>
<td>Cash</td>
<td>20,771</td>
<td>11.0</td>
<td>59</td>
<td>21.7</td>
</tr>
<tr>
<td>Cash &amp; Bank Loan</td>
<td>1,161</td>
<td>0.6</td>
<td>4</td>
<td>1.5</td>
</tr>
<tr>
<td>Cash &amp; Vendor Financing</td>
<td>2,748</td>
<td>1.5</td>
<td>5</td>
<td>1.8</td>
</tr>
<tr>
<td>Government Funding</td>
<td>1,770</td>
<td>0.9</td>
<td>4</td>
<td>1.5</td>
</tr>
<tr>
<td>Government Funding &amp; Share Swap</td>
<td>0,211</td>
<td>0.1</td>
<td>1</td>
<td>0.4</td>
</tr>
<tr>
<td>Share Swap</td>
<td>1,778</td>
<td>0.9</td>
<td>8</td>
<td>2.9</td>
</tr>
<tr>
<td>Vendor Financing</td>
<td>89,498</td>
<td>47.4</td>
<td>96</td>
<td>35.3</td>
</tr>
<tr>
<td>Other (e.g., Dividend loan account, etc. and no funding.)</td>
<td>31,544</td>
<td>16.7</td>
<td>40</td>
<td>14.7</td>
</tr>
<tr>
<td>Grand Total</td>
<td>R188,745</td>
<td>100%</td>
<td>272</td>
<td>100%</td>
</tr>
</tbody>
</table>

Figure 4: Total value and Number of major B-BBEE transactions per Type of Funding

- Government contributed only R1,770 billion (0.9%) to the funding of major B-BBEE transactions. Government Funding has the lowest number of funded major B-BBEE transactions of 4 (1.5%).
- The types of funding with the highest numbers of funded major B-BBEE transactions are Vendor Financing (96; 35.3%), followed by cash (59; 21.7%) and Bank loan (52; 19.1%).
- Vendor Financing is associated with the highest percentage of the grand total value (R188,745 billion) of the major B-BBEE transactions registered during the period of interest at R89,498 billion (47.4%); then Bank loan with R37,018 billion (19.6%) and cash with R20,771 billion (11.0%). These are the most commonly used types of funding. Hence, vendor financing contributed the most to B-BBEE at 47.4% to the value of R89,498 billion accounting for 96 (35.3%) deals. The highest contribution to the funding of a major B-BBEE transaction by Vendor Financing is likely to mean that entities want quick means to be B-BBEE compliant but take a long time to release B-BBEE entities from debt using high interest rates.
6.4 The impact and effectiveness of funding structures undertaken in B-BBEE transactions

The investments for the B-BBEE enterprises are normally recovered over a period of 10 years, using pledges of shares as surety. However, banks' requirements for entities to access funding are very strict making it difficult for black and smaller potential B-BBEE beneficiaries to get funding.

Most major B-BBEE transactions are vendor financed; the reason for this is not known, but the funding is dependent on the future dividends' distribution and underlying investments. Because dividends distributions are not predictable, it is difficult to then rely on private or bank funding.

The cost of a bank loan is very high and tends to defeat the purpose of the deal to be a meaningful facilitation of black economic participation. The question of whether the participants of B-BBEE are economically better off than others, needs a deeper investigation.

6.5 Accessibility, Adequacy of Funding to Create Sustained and Meaningful Participation for Black People and Types of Funding Including Highlighting Whether Transactions were Vendor Financed, State Funded, Private Funding and Other

Funding structures play a very important role as they may necessarily affect the performance of the B-BBEE deals. Table 4 and Figure 4 show the total values and number of major B-BBEE transactions for the different types of funding used to facilitate a major B-BBEE transaction.
6.6 The Analysis of Transformation and Decision-Making Capacity by Black People and Black Designated Groups in Entities where they have a B-BBEE Shareholding

Entities seek to achieve the time-based graduation factor to ensure that, overtime, the level of the debt attributable to the economic interest held by black participants relative to the value of the economic interest is reduced.

a. Level of improvement in the decision-making capacity of black people in relation to ownership

Based on the qualitative survey, the number of black people in decision-making positions has improved significantly; more black people employed by the entities are also shareholders or owners of those entities. The question whether they are actively involved in decision-making still needs to be investigated as the study could not determine exercisable voting rights by employees.

b. The achievement in improving the decision-making capacity of black people, black women and designated groups

The data provided by the registered entities indicated that ownership participation of black women has equally improved. According to the data, a lot has changed for the better in the entities since the B-BBEE Act came into existence and there are positive results such as creating shareholder wealth for black people whilst continuously creating business for them. However, the validity of all this information still needs to be tested. Contrary to this though, based on the qualitative survey, negative results also exist such as the difficulty associated with shareholder agreements due to the expected strict requirements and costs of legal fees to comply with the B-BBEE requirements.

c. Measure of the Extent to which Communities Will Benefit through Trusts, ESOPS and BBOS in terms of the B-BBEE Act

The extent to which Black Designated Groups will benefit through Trusts, ESOPs and BBOS as identified in the B-BBEE Act in terms of ownership participation is 23.1%. Some of the entities' trust deeds do not comply with the requirements of Annexe 100 (D) Trust Rules for reasons such as “trust deed does not define the beneficiaries and the proportion of their entitlement to receive distribution of paragraph 4.1.1 or 5.1.1 of Annexe 100 (D)”. If the objectives of the entity to ownership requirements and trust rules are not aligned, its trust cannot be recognised for Black ownership participation and therefore remains unprofitable to the Black beneficiaries.
6.7 Researchers’ Observations

Vendor Financing and state-funded transactions are better than others for ensuring that there is access to value creation. Private funding may fail, resulting in unintended consequences such as increased financing cost for future deals, no real economic empowerment for the intended beneficiaries, and a significant decrease of value for the firms that pursued black economic empowerment.

Among the major B-BBEE transactions analysed, there were a few for which fronting was suspected. As mentioned above, there were also major B-BBEE transactions which had trusts falling short of the requirements, for example, a situation where the participants were not clearly defined and/or with a blurred line created between investment facilitation and the ownership intended by the major B-BBEE transaction. We noted a situation where the same large B-BBEE enterprise was used as a beneficiary in more than one major B-BBEE transaction, supposedly to score B-BBEE points and be able, for example, to increase the chances of tendering for government projects. A situation like this does not help to achieve the objective of B-BBEE.

Though the ownership participation of black people in major B-BBEE transactions has seemingly improved according to the information obtained from the entities, there is still a lot to be done, especially in the areas of black women economic empowerment, black designated groups and black new entrants. This would go a long way in increasing the impact of major B-BBEE transactions on sustained broad-based black economic empowerment, economic growth and poverty eradication.
Figure 5 shows the types of funding associated with particular Codes more clearly. There is no relationship found between Type of Funding and the Codes.

**Figure 5: Type of funding and Codes of Good Practice**

- **a.** Most of the major B-BBEE transactions funded by a bank Loan are for Generic (21; 40.4%), Financial (17; 32.7%) and ICT (5; 9.6%) sectors.
- **b.** The major B-BBEE transactions funded in cash are mostly for the Generic (27; 45.8%), followed by the Financial (19; 32.2%), Agriculture, ICT and Integrated Transport 3 (5.1%) sectors.
- **c.** The major B-BBEE transactions funded by Vendor Financing are mostly for the Generic (48; 50.0%), Financial (14; 14.6%) and Integrated Transport (8; 8.3%) sectors.
- **d.** "Share Swap" was mostly for the Generic (3; 37.5%) and Financial (2; 25.0%) sectors.
- **e.** Government funding was predominantly for the Generic (3; 75.0%) and Integrated Transport (1; 25.0%) sectors.
- **f.** "Cash" was predominantly for the Generic (27; 9.9%), Financial (19; 7.0%) and ICT (3; 1.1%) sectors.
- **g.** Bank Loans were predominantly for the Generic (21; 7.7%), Integrated Transport (17; 6.3%) and ICT (5; 1.8%) sectors.
7. Conclusion

The analysis of the data obtained from the files of the 272 major B-BBEE transactions registered from June 2017 to 31 March 2018 by the B-BBEE Commission and data obtained from a qualitative survey undertaken in October 2018 shows that the overall black ownership participation; and in particular, black women ownership participation, and the percentage of the black designated groups and black new entrants who hold rights of ownership in entities are still low. Interventions are required to increase ownership participation levels.

The grand total value of the 272 presented and registered major B-BBEE transactions in the period of June 2017 to 31 March 2018 is R188,745 billion. Most of these major B-BBEE transactions were vendor financed. These kinds of investments are normally recovered over a period of not more than 10 years based on the Time-Based Graduation Factor, pledging shares as surety.

Entities seek to achieve the time-based graduation factor to ensure that, overtime, the level of the debt attributable to the economic interest held by black participants relative to the value of the economic interest is reduced.

Broad-based black economic empowerment still has a long way to go in terms of women economic empowerment for about 15.0% of the registered major B-BBEE transactions do not have Black women ownership participation and surprisingly, 43.6% of them do not have Black women voting rights.

Black women ownership (20.3%) and voting rights (19.6%) are relatively very low. In addition, 81.4% of the registered 272 major B-BBEE transactions do not have Black Designated Groups ownership (i.e black military veterans, youth, people with disabilities, black people living in rural and underdeveloped areas, etc.) and 78.1% of them do not have Black new entrants' ownership participation.
8. Recommendations

Business entities seeking to achieve black ownership element in the Codes should also focus on the growth and profitability of the empowering entity (i.e. strategic partner) including its past performance; and should ensure that dividend policies are aligned with its empowerment objective.

Government should consider finding ways to encourage improved black women ownership participation and their exercisable voting rights, as well as black designated groups and black new entrant ownership participation.

9. References


Nhasengo, A., McGill, J. 2006. Sustainability of funding models used in black economic empowerment transactions in the south African Mining Sector. Faculty of Engineering and the Built Environment, University of the Witwatersrand.

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