



cutting through complexity

BEE Coming of Age

2013 BEE Survey

kpmg.co.za



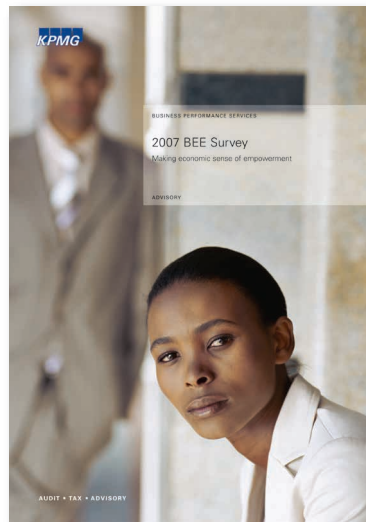
THE FLAME OF DEMOCRACY

10 DECEMBER 2011

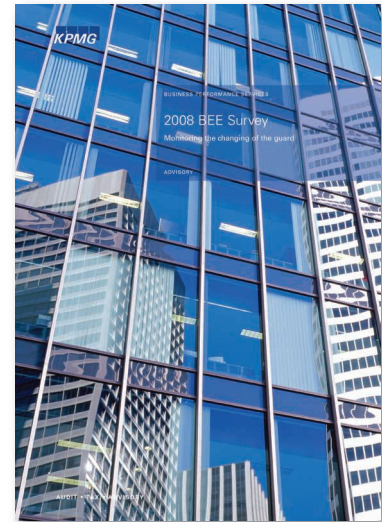
Celebrating the 15th anniversary of the signing of the South African Constitution



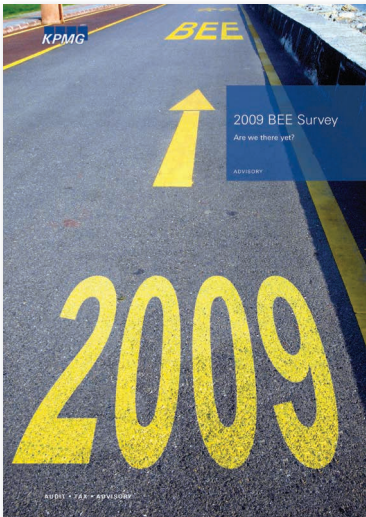
2006: Benchmarking BEE



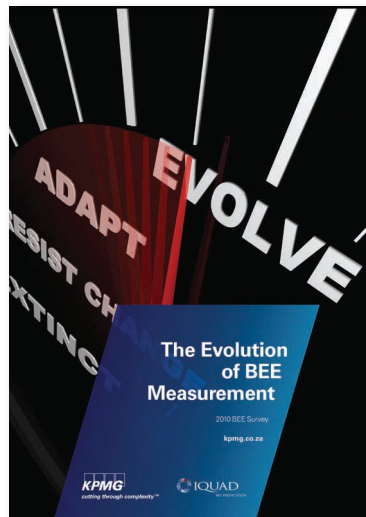
2007: Making economic sense of empowerment



2008: Monitoring the changing of the guard



2009: Are we there yet?



2010: The Evolution of BEE Measurement



2011: A Time for Transformational Leadership



2012: Shifting the BEE landscape



CONTENT

	Page
Foreword	2
Survey Approach	3
How are South African organisations are progressing with B-BBBE	4
Drivers of compliance	18
Do you believe B-BBBE is achieving its objectives?	20
The Revised Codes of Good Practice	22
Conclusion	26
Glossary of content Table	28



1 FOREWORD

In the 20th anniversary year of democracy in South Africa, the question of whether Black Economic Empowerment (BEE) has been a success is still contentious. There are certain pockets of business that believe that economic transformation laws are not achieving their goals, whilst others maintain that laws are unnecessarily punitive to those corporations already attempting to be corporate citizens. The recent Revision of the Codes has added to the debate on the success of these policies. The much anticipated Revised Codes were gazetted by The Department of Trade and Industry (the dti) in October 2013.

2014 was an election year, which prompted citizens to reflect on what has been accomplished to date. Corporate citizens also had an opportunity 'to cast their votes', in the form of developing strategies around B-BBEE given the revision of the Codes.

During his State of the Nation Address, President Zuma, gave the National Economic Development Plan renewed emphasis; which is consistent with the increased requirements of the Revised Codes. As the laws surrounding BEE become more familiar and strategies more creative.

KPMG is once again pleased to present the findings of our 2013 Broad-Based Black Economic Empowerment (B-BBEE) Survey.

In last year's survey, companies were apprehensive about these changes - the impact was believed to be negative. The changes are now gazetted, and some frustrations are already apparent; companies are concerned about how these changes will ultimately affect them and the industries in which they operate. However, they already are putting strategies in place to ensure that they are able to meet the requirements.

By means of this survey, KPMG continues to evaluate the challenges faced by organisations in the current legislative environment, and how the new regulation will be implemented. In this review, we have sought to understand how different industries that are governed by Charters, and these Charters themselves, would fair against the Revised Codes of Good Practice.

The Survey findings and analysis over the following pages, provide insight into the progress of black economic transformation in South Africa; and are benchmarked against our 2012 Survey. They assess the pace of B-BBEE implementation, monitoring and reporting over the past year.



BEE Advisory Team (left to right) Boitumelo Ngutshane (Head of BEE Advisory), James Ledwaba, Mpho Ford and Bonolo Sinobolo



2 SURVEY APPROACH

This section outlines the approach and methodology used for the KPMG BEE Survey.

Duration of the Survey

Over time, South Africa has moved through a number of phases where B-BBEE is concerned, and in KPMG's eighth year of reporting, we are still committed to publishing these developments annually.

In order to measure and evaluate the extent of B-BBEE advancement in the country, the results of the 2013 KPMG BEE Survey are compared to those of the 2012 KPMG BEE Survey. In this year's survey, we have sought to evaluate the impact of changes in regulations on companies against their current scores.

Measurement Criteria

The following gives an indication of the criteria employed by the annual KPMG BEE Survey in measuring respondents' B-BBEE contributions:

- 2006 and 2007 – dti Codes of Good Practice and the 2013 Revised Codes of Good Practice
- 2008 to 2013 – dti Codes of Good Practice, industry Sector Codes and Charters.

This enables yearly comparisons to be drawn in the results obtained from 2006 to 2012, and beyond.

Sample and Categorisation

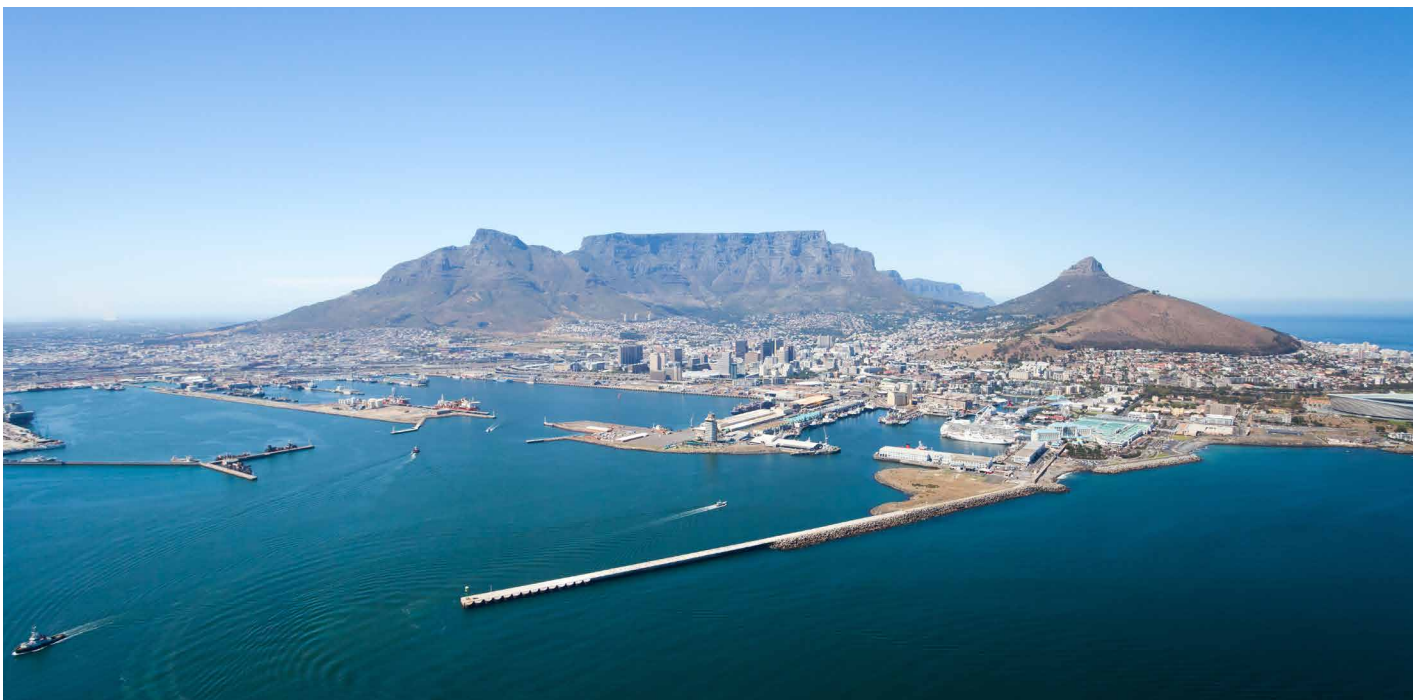
The KPMG 2013 BEE Survey was sent to over 2 000 organisations operating in different industries. In the current year, we also sought to obtain BEE Scores from the surveyed companies' websites. Consistent with previous years, the responses received were analysed according to industry, company type and company size.

These categories were further divided into the following subcategories, as per the dti Standard Industrial Classification:

- State-owned companies
- Retail industry
- Mining industry
- Financial services industry
- Construction industry
- Pharmaceutical industry
- ICT industry
- Manufacturing industry
- Property industry

Company type

- JSE Listed
- Unlisted
- State owned companies



3 SURVEY QUESTIONS

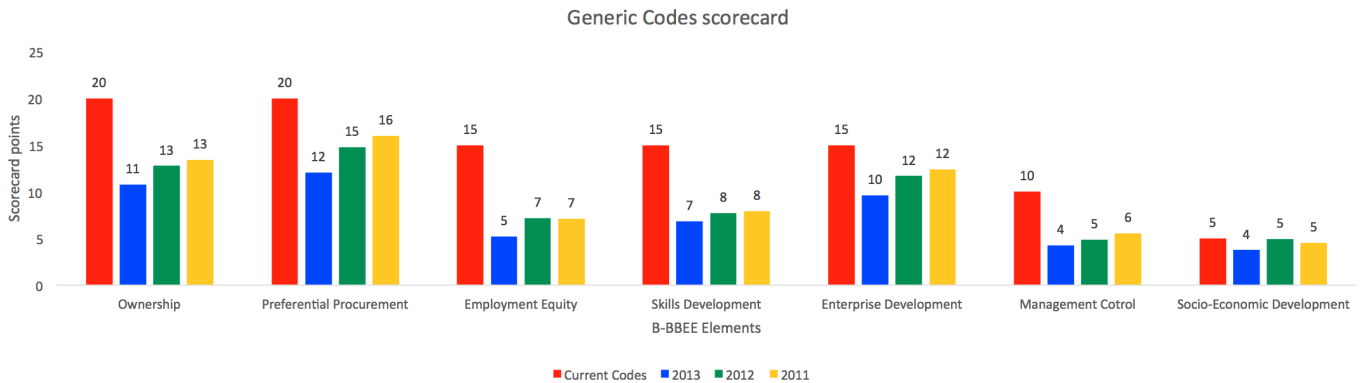
The 2013 BEE Survey includes similar questions posed in previous editions of the survey, allowing a base for comparison year-on-year.

Due to the changes in the BEE landscape through the performance against Amendment Bill and the Revised Codes of Good Practice, the 2013 Survey includes questions pertaining to organisations' awareness of, and their reaction to the changes. The theme for the 2013 Survey, is BEE Coming of age, informing on evaluation of the organisations' renewed look at the legislation seeking to undo injustice of the past.

3.1 HOW ARE SOUTH AFRICAN ORGANISATIONS PROGRESSING WITH B-BBEE?

The Survey findings and analysis over the following pages, provide insight into the progress of black economic transformation in South Africa; and are benchmarked against our previous Survey and revised codes. They assess the pace of B-BBEE implementation, monitoring and reporting over the past year.

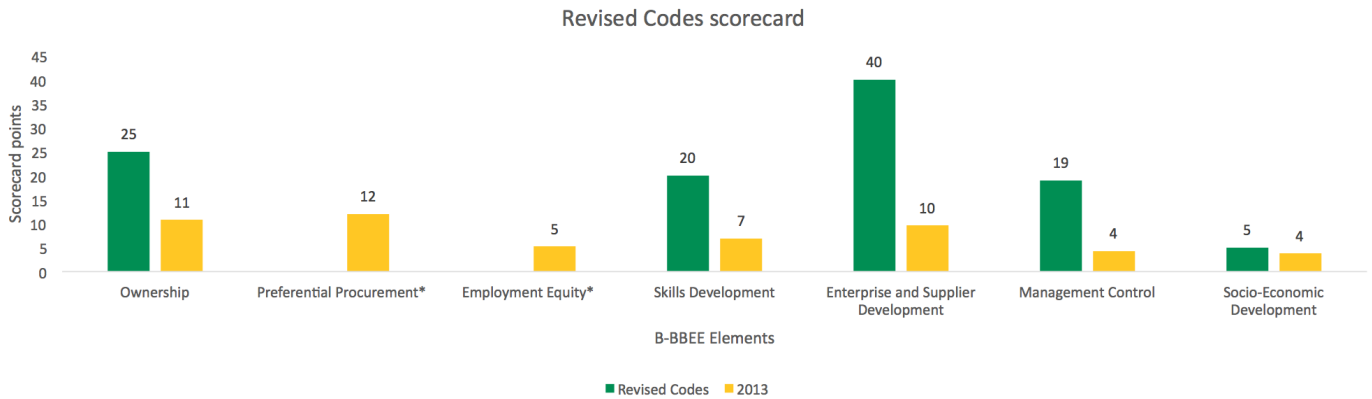
Indicate your organisation's B-BBEE score for each element



- The BEE average score obtained for 2013 was 52.53, resulting in an average score of level 6 BEE contributor, drop in BEE status level when compared to the level 5 obtained in the previous year at an average score of 63.95.
- A year-on-year analysis reveals that a decrease in the average score resulted largely from preferential procurement decreasing by 2.79, enterprise development by 2.09 and ownership decreasing by 1.98.
- Management Control had a slight decrease from an average of 4.87 obtained in the 2012 results, to 4.28 obtained in the 2013 survey results. In the same light, Socio-economic development also decreased slightly from 4.92 points in 2012 to 3.75 points in 2013.

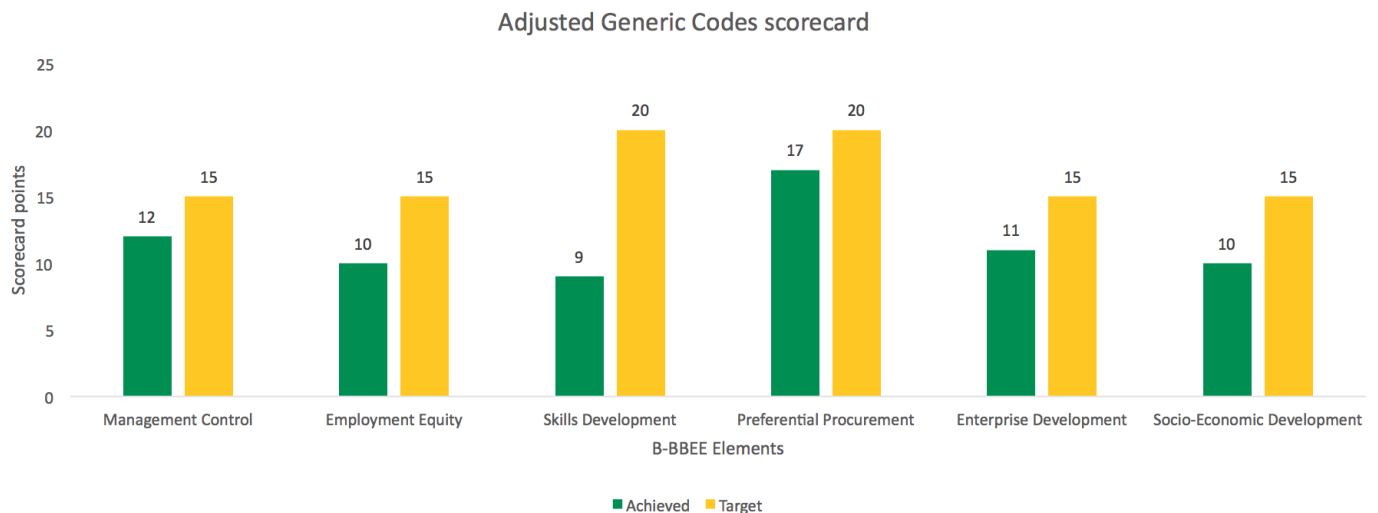


How will organisations fair against the Revised Codes?



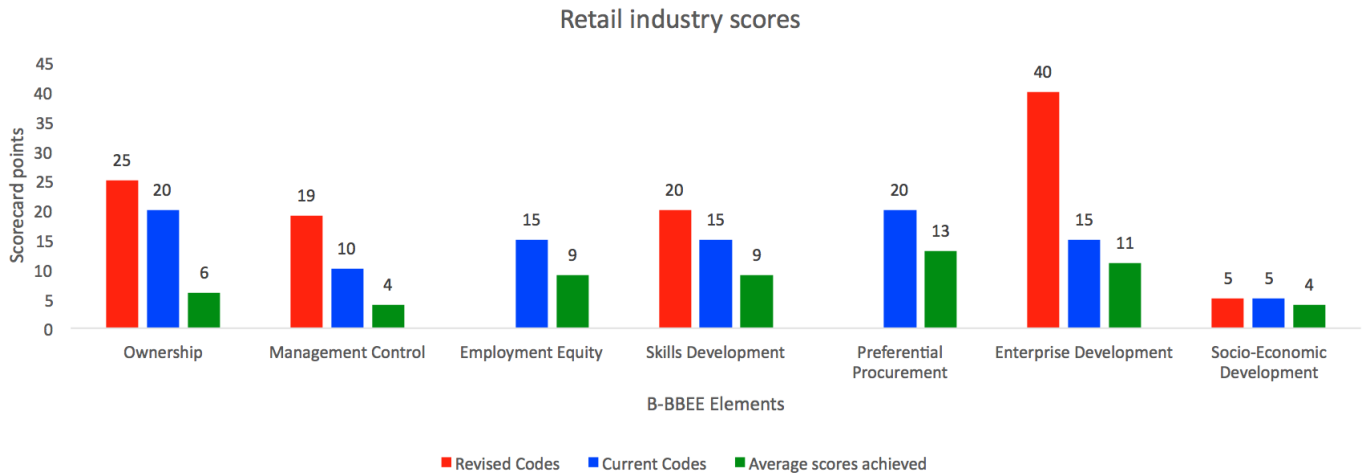
- This graph depicts a like-for-like analysis of the current rating of the surveyed entities against the B-BBEE Revised Scorecard. On the three priority elements the following is achieved: 44% against the target point of ownership, 25% against the target point of Supplier and Enterprise development, and only 35% against Skills Development. This implies that most companies would be at risk of being discounted a level as the subminimum for ownership is not achieved. Socio Economic Development scored the highest at 80% target points achieved, with an average score currently achieved of 52,53 the expectation under the new codes is a drop two levels to level eight for our respondents.

How are State-Owned Companies fairing against the Codes?



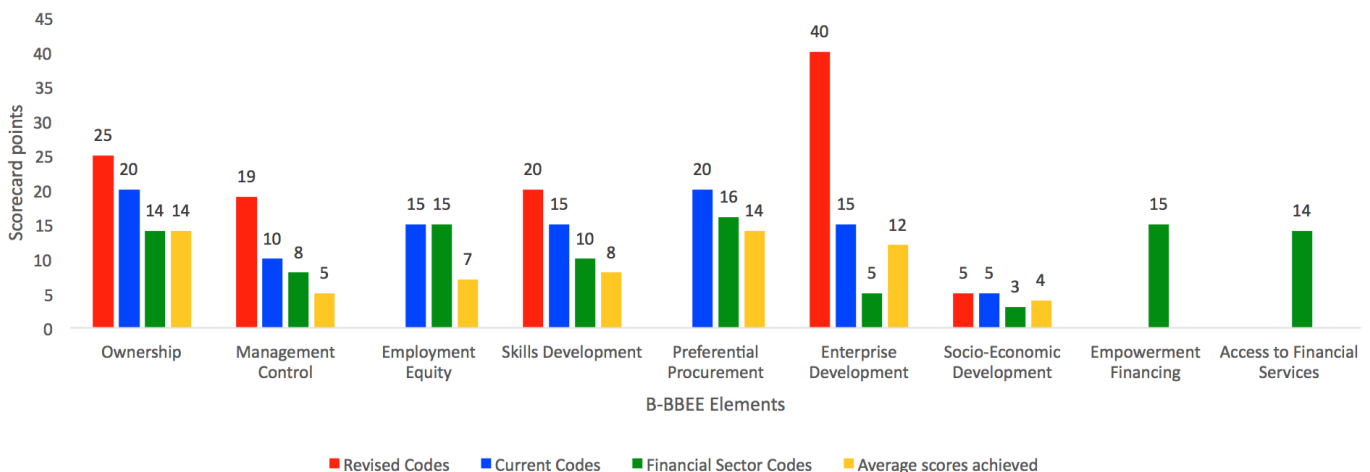
- State-Owned Enterprises (SOE) are measured on the Adjusted Generic Scorecard.
- Our analysis reveals that SOEs obtained an average score of 69 points when rated on the Adjusted Generic Scorecard. This average translates to a level 4 average BEE status achieved by these enterprises.
- Under the revised codes, this would be level 7.
- The graph illustrates that SOEs are scoring the highest points on Preferential Procurement achieving 17 points followed by Management Control at 12 points with Enterprise Development coming third at 11 points.
- Employment Equity achieved 10 points with Skills Development obtaining the lowest points at an average of 9 points.

How is the Retail Industry fairing against the Codes?



- The Retail Industry applies the Generic Codes Scorecard for B-BBEE measurement purposes. The Industry was analysed against the current Generic Codes and Revised Codes of Good Practice.
- Industry average B-BBEE status of level 5 was achieved, scoring 56 points on the B-BBEE Generic Codes Scorecard, and a level 7 BEE status was obtained when measured against the Revised Codes.
- The sector obtained the highest points on Socio-Economic Development, achieving 80% of the target, under both the current and the Revised Codes. 65% was achieved against target on Preferential Procurement under the Current Codes. A 60% target was obtained for Enterprise and Supplier development after consolidating the elements for measurement under the Revised Codes.
- 40% was achieved for Management control and 60% for Employment Equity of the target under the Current Codes, a consolidation of the two elements shows a target of 68% being achieved against the Revised Codes.

How is the Financial Industry fairing against the Codes?

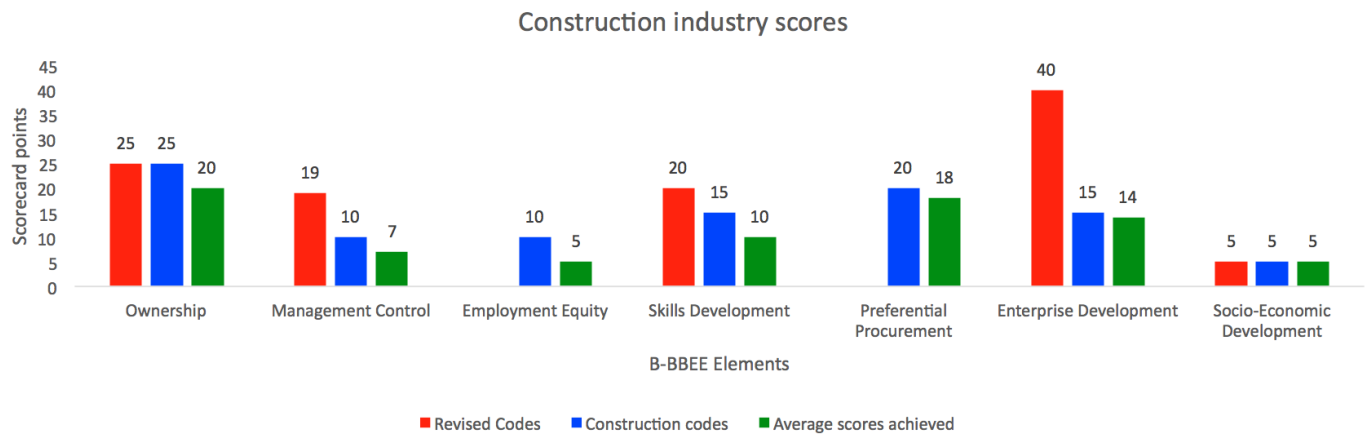


- An analysis into the Financial Services Industry found that majority of the companies in the Financial Sector applied the Generic Codes for B-BBEE measurement. This could be as a result of the Financial Sector Charter having been gazetted no longer that a year ago.
- For purposes of this survey, we then analysed these companies against the Financial Sector Code, the Generic Codes and the Revised Codes.



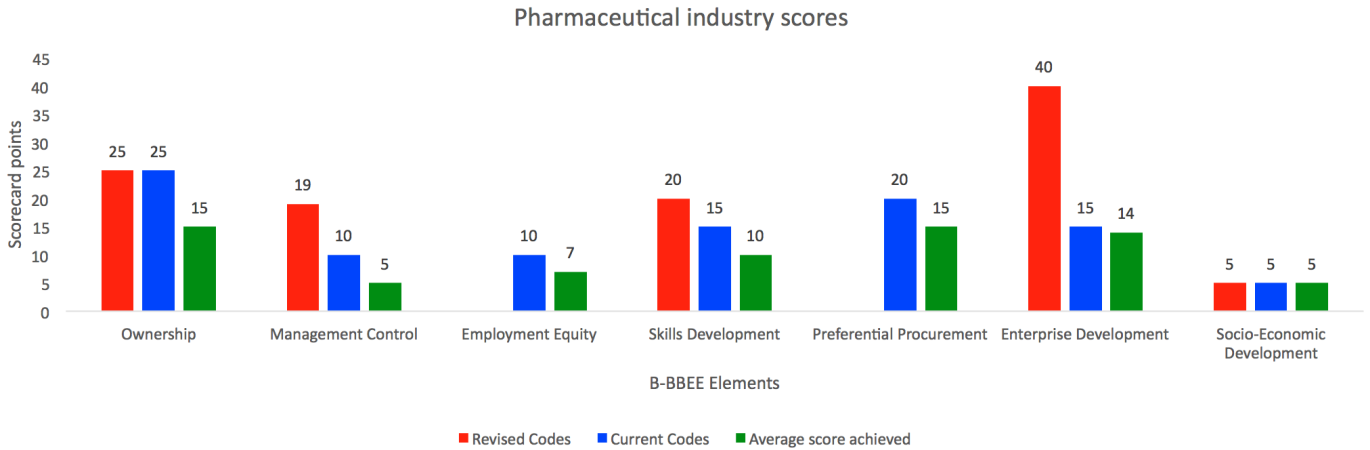
- The Financial Sector Industry average points achieved were 64 points, with just one point from achieving a level 4 status under the Current Codes. A level 7 was achieved under the Revised Codes whilst the companies qualified for a level 5 under the Financial Services code.
- When comparing the Financial Services companies against the Current Codes target, it can be said that the Financial Services Industry is scoring reasonably well on Enterprise Development and Ownership with 80% and 70% target achieved on average respectively.
- An analysis against the Revised Codes shows that 65% was obtained for Enterprise and Supplier Development and 63% for Management Control against target. The score was 56% and 40% for Ownership and Skills Development respectively, achieving the 40% subminimum required for priority elements.
- As Generic Codes were applied, measurement for empowering financing and access to financial services scores were not available.

How is the Construction Industry fairing against the Codes?



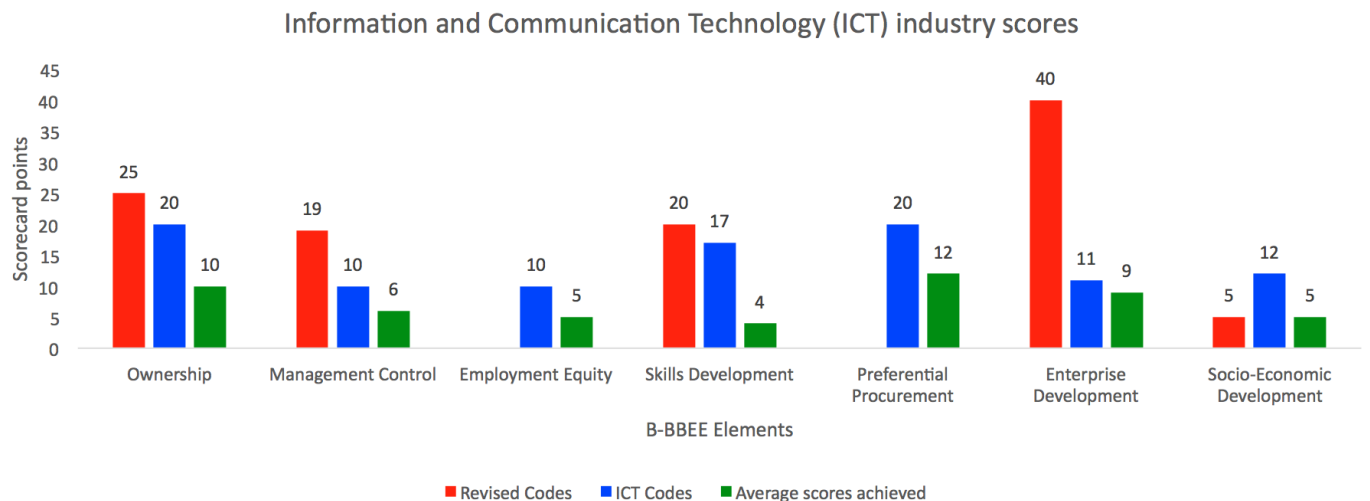
- Our analysis into the Construction Scorecard covered the Contractor’s Scorecard only, the Buildings Environment Professionals Scorecard did not form part of our analysis.
- The Construction Industry has proved to be amongst the best performing industry in terms of B-BBEE Compliance with a level 3 contributor being achieved on average by this sector.
- Our analysis shows the Socio-Economic Development element averaged maximum points for both the construction and Revised Codes Scorecard. The Ownership and Enterprise and Supplier Development elements have also performed well, scoring an average of 80% when applying the Revised Codes. Similar targets have also been achieved when measuring these two elements under the Construction Scorecard.
- Employment Equity however, remains a challenge in this sector as is clearly indicated by an achieved score of 50% against the required target under the construction Scorecard.
- As shown on our graph analysis above, Construction Sector companies performed extremely well under the Construction Sector Charter Scorecard and the Revised Codes Scorecard.

How are is the Pharmaceutical Industry fairing against the Codes?



- The Pharmaceutical industry was measured against the Current Codes and the Revised Codes of Good Practice.
- The Pharmaceutical industry obtained a B-BBEE Status of level 4 with 71 points achieved as an industry average under the Current Codes, and qualifying as a level 6 contributor under the Revised Codes.
- Pharmaceutical companies have managed to achieve an average of 15 points on preferential procurement element under the Current Codes. Ownership scored 15 points, translating into a 75% target achievement. This score drops to 60% under the Revised Codes measurement.
- Employment Equity proves to be a challenge for the industry with only a 47% target score achieved under the Current Codes. A strong correlation is evident between Employment Equity and Management Control, as Management Control only managed to achieve a 50% target score. A consolidation of Employment Equity and Management Control under the Revised Codes scores the Industry a 63% average.
- Enterprise Development and Socio Economic Development have achieved the highest targets, achieving 93% and 100% respectively under the Current Codes.

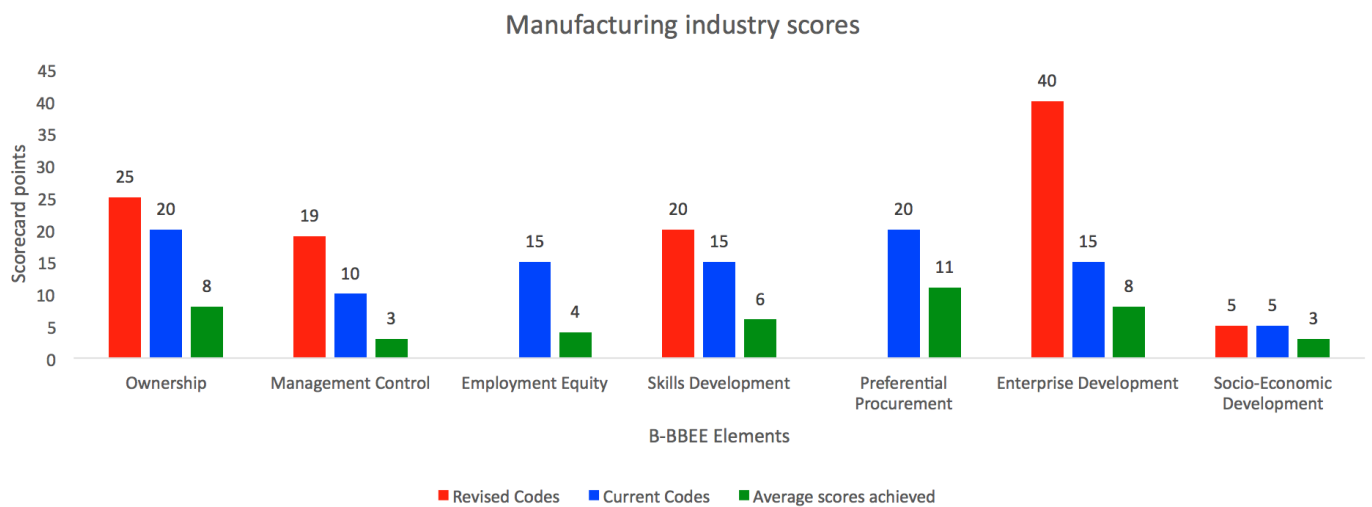
How is the ICT industry fairing against the Codes?



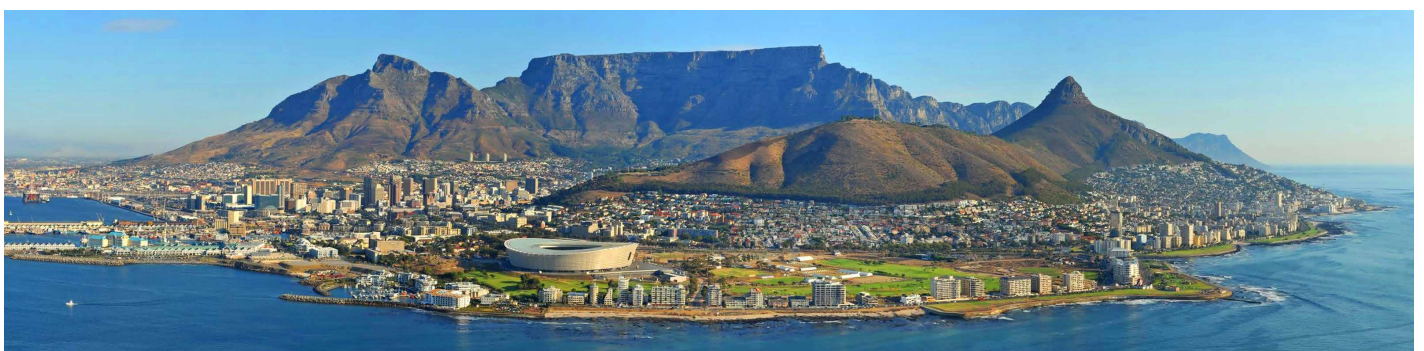


- The ICT industry was analysed against the ICT Scorecard Charter and the Revised Codes. It can be said that the ICT Scorecard places much more emphasis on Ownership, Preferential Procurement and Skills Development elements.
- ICT companies' main emphasis is Enterprise Development, scoring an average target of 82% under the ICT Scorecard. From our analysis, Ownership and Employment Equity scored an average of 50% each under the ICT Scorecard. Skills Development did not perform well, with a score of 4 points achieved out of the possible 17.
- As shown on our graph analysis above, ICT companies have not performed very well under the ICT sector and the Revised Codes Scorecard.

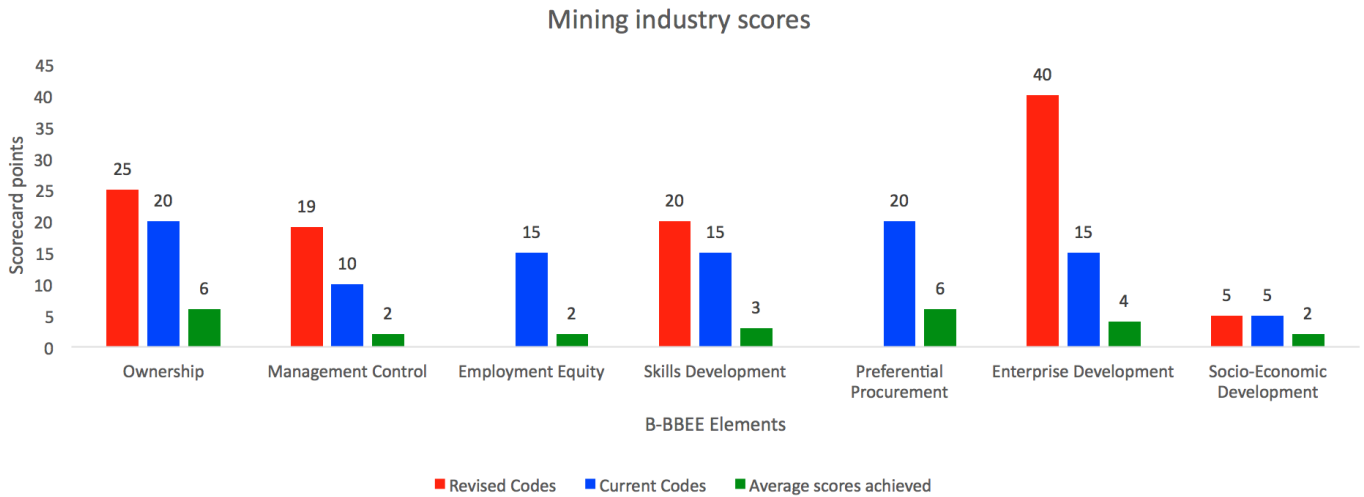
How is the Manufacturing Industry fairing against the Codes?



- The Manufacturing Industry was measured against the B-BBEE Generic Scorecard and the Revised Codes. The Manufacturing Industry achieved a B-BBEE Status of level 7 under the current Codes and level 8 under the Revised Codes, scoring 43 points as an industry average.
- Manufacturing companies scored 3 points out of a possible 5 points for Socio-Economic Development.
- This Industry has scored an average of 53% on Enterprise Development, being the second best performing element followed by Preferential Procurement with an average of 55% scored under the Current Scores. Ownership achieved a 40% target with Skills Development achieving 40% under the Current Codes.
- The Revised Codes score shows Management Control and Skills Development scoring 37% and 30% respectively. Ownership dropped to a 32% mark under the Revised Codes Score. Two of the priority elements did not achieve the subminimum requirement.



How is the Mining Industry fairing against the Codes?



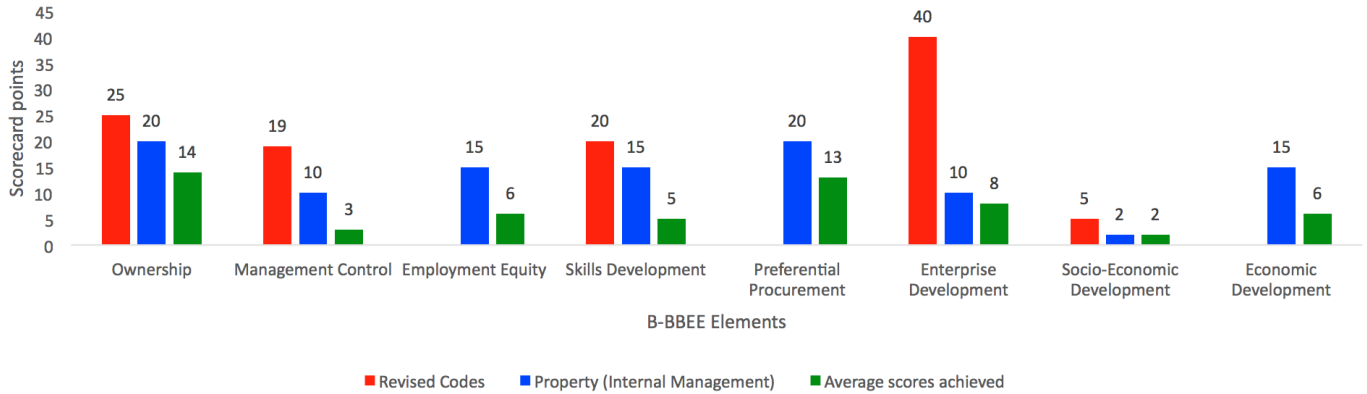
- The Mining Industry was analysed against the B-BBEE Generic Scorecard and the Revised Codes Scorecard.
- The Mining Industry is classified as a non-compliant BEE contributor level scoring an average total of 25 points under both the Current and Revised Codes. This is primarily due to emphasis being placed on ownership in the Mining Charter.
- Our analysis indicates that the Socio-Economic Development element averaged 40% against the target points, Ownership averaged only 30% of target under the Current Codes and only 24% under the Revised Codes, which does not appear consistent with the Mining Charter requirement.
- Industry scored 30% and 27% against target on Preferential Procurement and Enterprise Development respectively under the Current Codes.
- Management Control averaged only 20% and 21% against target for the Current Codes and Revised Codes respectively. Skills Development and Employment Equity achieved 20% and 13% of the target required respectively.





How is the Property – Internal Management Industry fairing against the Codes?

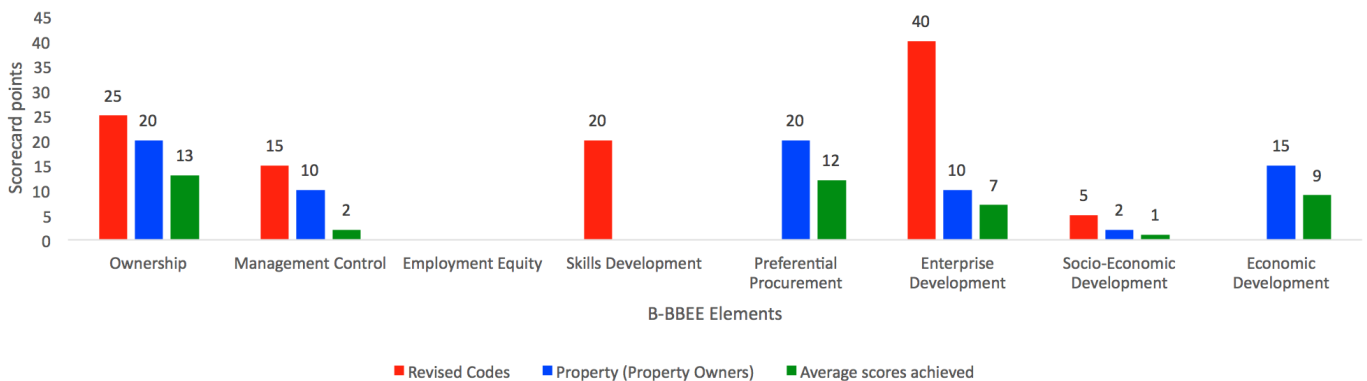
Property Internal Management industry scores



- An analysis into the Property Sector was based on the gazetted Property Sector Charter covering the Internal Management Scorecard and Revised Codes Scorecards. The Property Sector Scorecard shows Ownership, Preferential Procurement and Enterprise development as the key elements for this Sector.
- 70% of target was achieved on Ownership element and 65% for Preferential Procurement. The score for Enterprise Development and Economic Development were 80% and 40% respectively against the Sector Charter.
- Against the Revised Codes target, Skills Development was only 25%, which doesn't meet the subminimum of the priority element and Management Control measuring at 47% of the target.

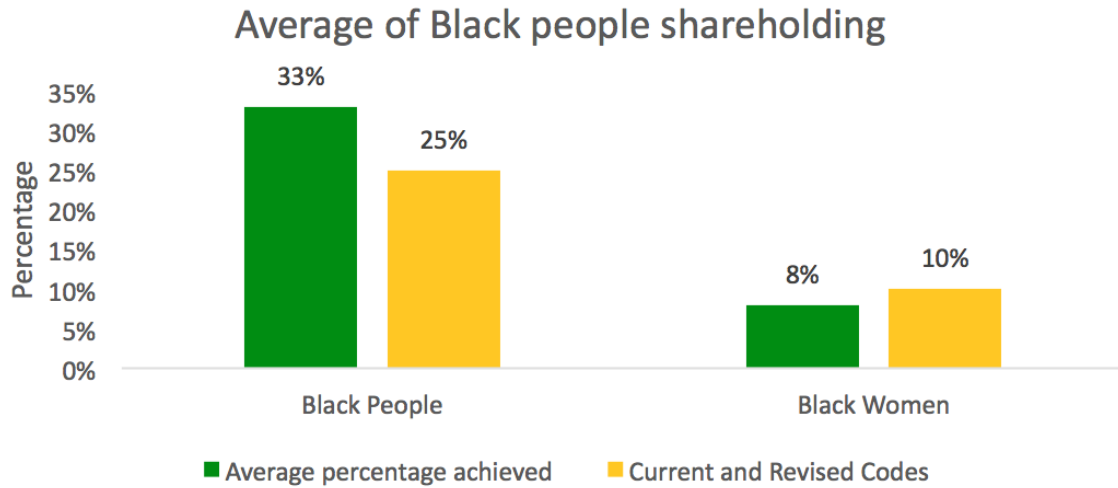
How is the Property Owners Industry fairing against the Codes?

Property Owners industry scores



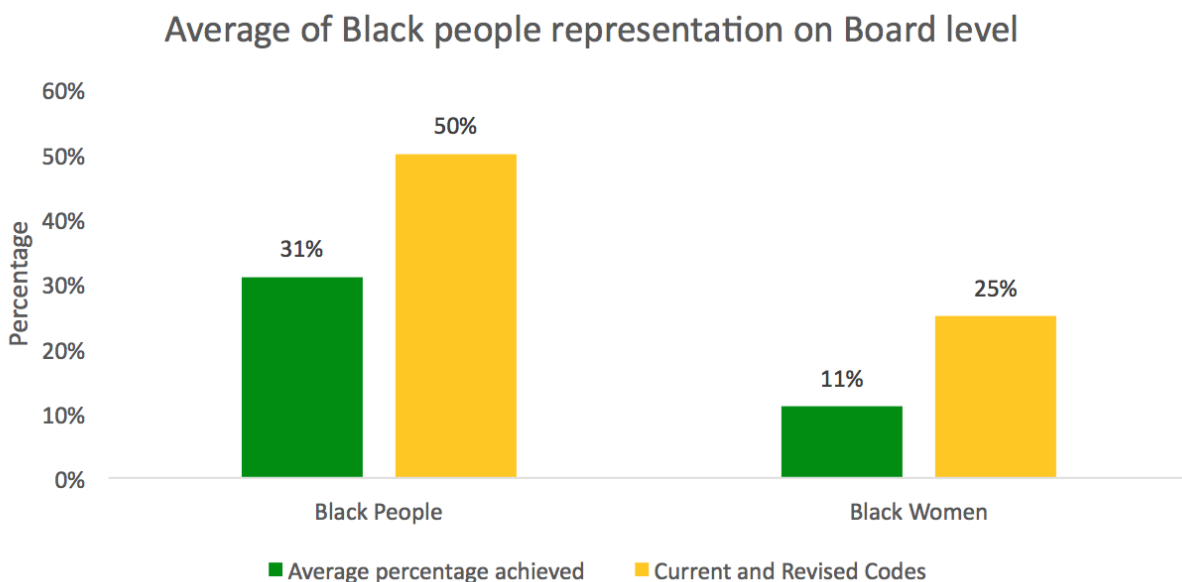
- The Property Owners Sector was analysed against the gazetted Property Owners Sector Charter covering the Property Owner's Scorecard and Revised Codes scorecards. The Property Owners Scorecard shows Ownership, Preferential Procurement and Enterprise development as the key elements to be addressed by this Sector.
- When comparing Property companies against the Sector Scorecard, it can be said that Property companies are fairly responding to the Property Owner's Scorecard. 65% of target was achieved on Ownership and 60% on Preferential Procurement. The score achieved against target was 70% and 60% for Enterprise Development and Economic Development respectively.
- Employment Equity and Skills Development could not be analysed against these companies as the sector focuses on Property owners and not employees.

What is the average shareholding by black people?



- An average of 33% black ownership shareholding was achieved on the ownership element by surveyed companies based on the B-BBEE Codes of Good Practice. A majority of companies treat the Ownership element as their chief element and this can be seen by the forever-changing BEE ownership structures and deals concluded in pursuit of achieving highest possible points on black shareholding.
- Although companies achieved a score above the 25% required target on black people shareholding, only 8% of the 33% is in the hands of black women. This marginally low percentage of black women participation in ownership shareholding, is anticipated to be transformed in the near future by the rapid increase of inclusive and broader BEE ownership structures that are to be implemented by companies in the market.

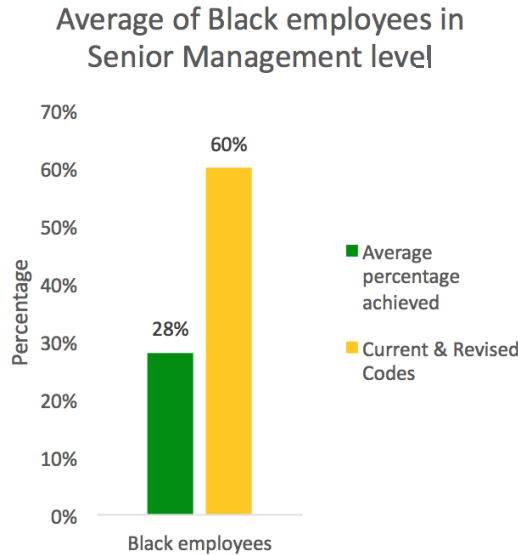
What is the average black representation at Board level?



- A representable average of 31% black people on Board level is achieved by respondents to the Survey, the target for this element is currently 50%.
- Of the 31% achieved, 11% was made up for black women representation on Board level as indicated by the graph. Even though this should be improved to reach a target of 25%, in our experience, we have noted that most companies use a balanced approach when it comes to board member appointments.
- This method is used to balance the gender representation at Board levels.

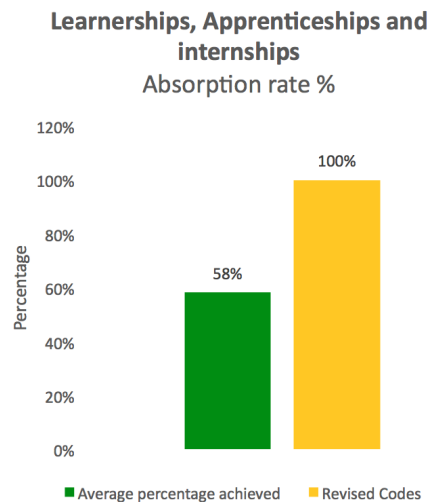


What is the average of black employees in Senior Management?



- Of the total respondents, an average of 28% was achieved on representation of black employees in Senior Management, as part of the Employment Equity Element analysis. The results of black representation under Senior Management roles are substantially lower and far-off from the 60% set target required.
- It can be said that this percentage leaves the broader industry precariously nowhere close to reaching the 40% subminimum target required under the Revised Codes.
- As translated by the Revised Codes targets, companies should take heed in improving their scores under Employment Equity.

How is Skills Development implemented in your entity?



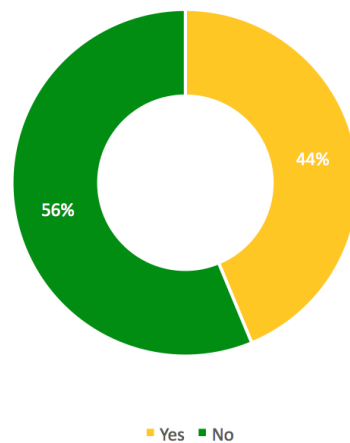
- Skills Development is classified as a priority element under the Revised Codes. The Codes have also introduced a requirement of learner absorption after the completion of Learnerships, Apprenticeship and Internships programmes as a bonus point. Companies were asked to indicate the percentage of learner's absorbed into their organisations after completion of such programmes.
- The set target for this requirement is 100% for full points to be awarded. Of the respondents, 58% of the learners are shown as haven taken up employment in the companies. We can conclude that this percentage will improve as companies begin implementing the Revised Codes, since this subcategory was not a requirement previously.





Availability of black business to meet Preferential Procurement

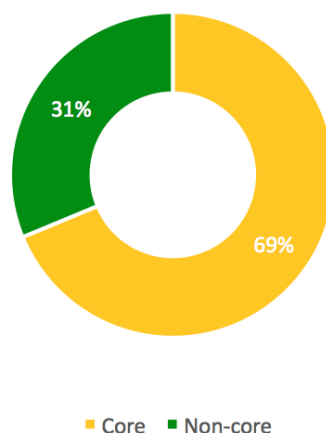
Is your organisation finding that there are sufficient Black Businesses to meet the Preferential Procurement requirements?
(Yes/ No)



- Of the respondents, 56% indicated that there are sufficient black businesses to meet the Preferential Procurement Requirements, with 44% indicating the opposite. Even though the response rate is not widely different from each side, it is safe to conclude that even though there are sufficient black businesses to trade within the market, this percentage still needs to be improved to cover all industries and niche markets.
- Based on our experience however, mostly entities that achieve good scores on procurement, still struggle to meet the targets on black-owned and black women owned procurement scores.

How are Black Suppliers utilised by organisations?

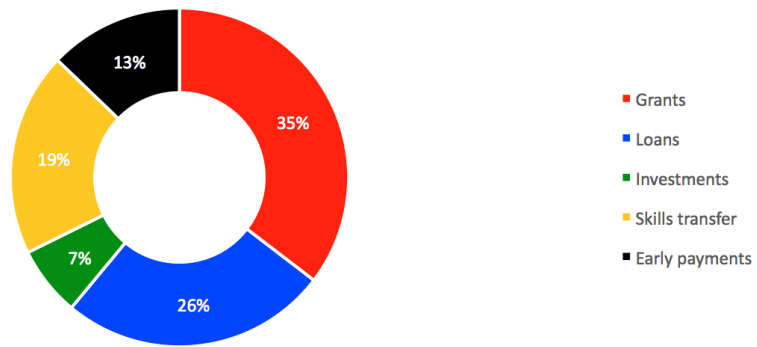
Are the current black suppliers utilized by your organisation in your core or non-core business operations?



- Although our previous Surveys showed that companies are finding it difficult to locate sufficient black businesses to meet their preferential procurement requirements, a superior 69 % of respondents indicated that their Black Suppliers are supplying their core business operations. A total of 31% of respondents indicated that their Black suppliers are on the non-core business operations. From the graph, it is clear that most Black suppliers are in the core business operations of their clients which is a good indication for the economy and a positive BEE achievement.

How did organisations develop Enterprises?

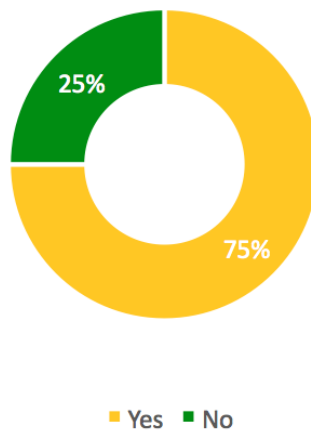
What Qualifying Enterprise Development contributions did your organisation make to beneficiaries?



- A greater proportion of the respondents, 35%, indicated that their Enterprise Development contributions were made in the form of grant contributions. This is followed by 26% of respondents indicating loan contributions as the contribution of choice.
- Amazingly, skills transfer is ranked as a third highest option with 19% of the respondents indicating that their contributions were from skills transfers. The Revised Codes have set a cap of 15% maximum recognition for shorter payments; it is not surprising that this type of contribution received only 13% preference.
- Last on the preferred list is equity investments and related contributions with 7% of the respondents favouring this contribution as their Enterprise Development (ED) initiative. The challenges that come with ownership in small entities result in this form of ED not being preferable to the respondents.

How did your organisation meet Enterprise Development?

Did your organisation house in your Enterprise Development contributions?



- A majority of respondents, 75%, indicate that they 'in-housed' their Enterprise Development Strategy. It appears that most companies utilise the skills in their workforce to structure for Enterprise Development contributions. A quarter of the total respondents, 25%, indicate to use third parties to make enterprise development contributions on their behalf. With the increased focus on this element, and a subminimum being set, it is anticipated that this will be outsourced.



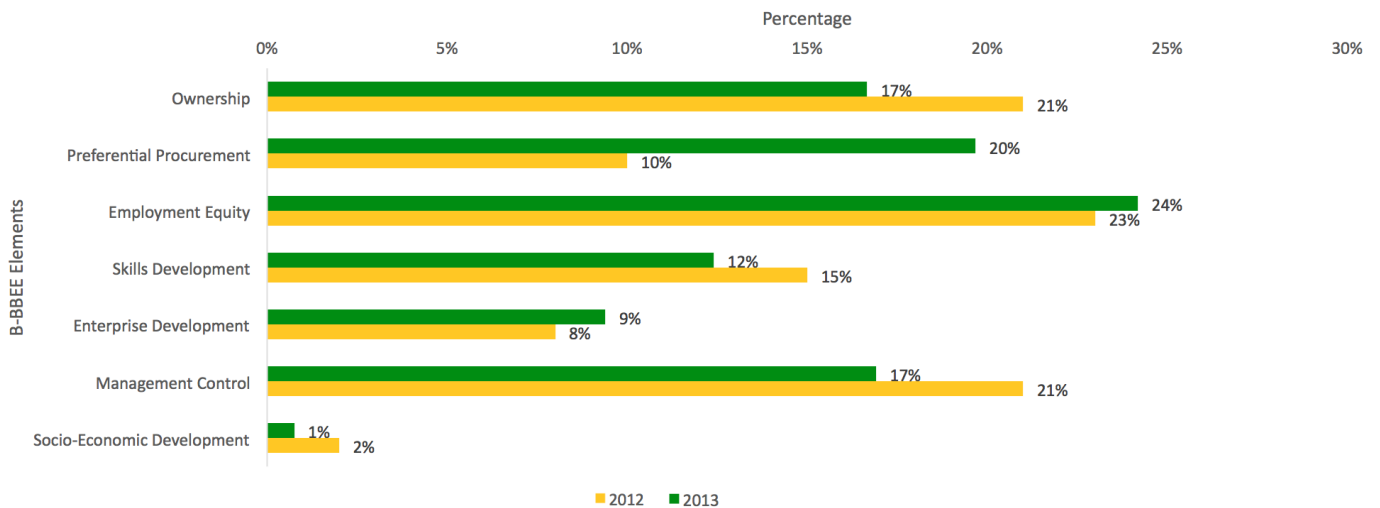
How did your organisation meet its Socio- Economic Development obligations?

Were your organisation's Qualifying Socio-Economic Development contributions outsourced to third parties or in-house?



- 81 % of respondents indicated that their Socio-Economic Development contributions are in-house. This trend is the most preferred method used by companies when it comes to contributions made for social development programmes. Only 19% of the respondents claim to use third parties for social contributions.

Which element is most challenging to implement?



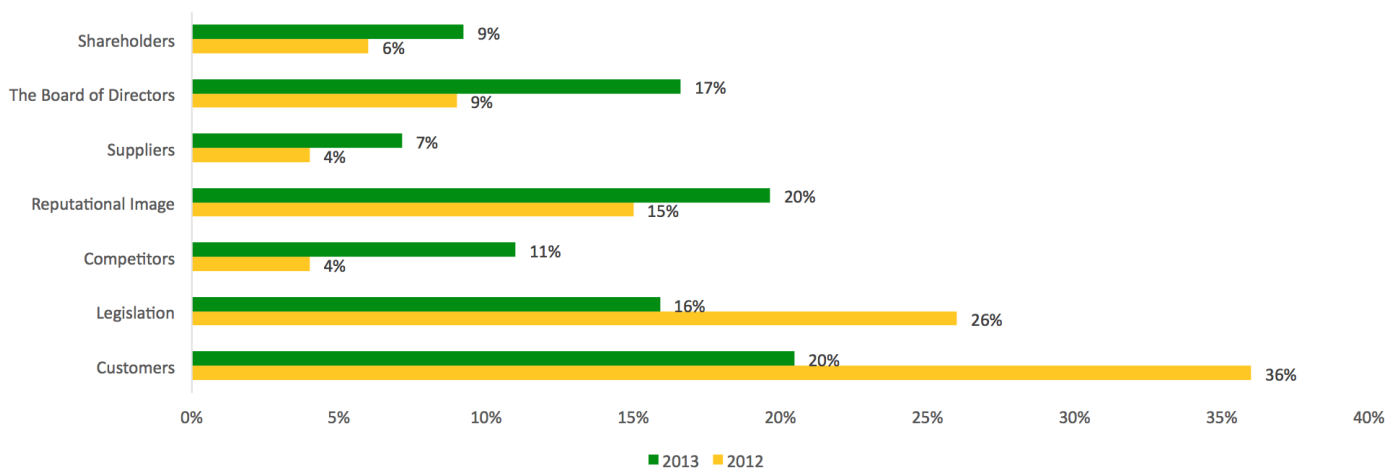
- Consistent with responses received in previous years, in 2013 the survey indicated that Employment Equity is still the hardest element to implement. This is no surprise since this may be as a result of shortage of skills in the form of education. Preferential Procurement is seen as the next challenging element to implement.
- Ownership and Management Control rank equally in terms of difficulty to implement. This is consistent with equity ownership as black owners would attend to management control.
- Socio-Economic Development is still seen as least challenging to implement with only 1% of respondent finding it challenging.

3.2 DRIVERS OF COMPLIANCE

Participants were asked questions to evaluate their view of the success of B-BBEE in its current form. The questions sought to evaluate the following:

- Measurements and costs associated with implementing the Regulations
- Benefits achieved from implementing the Regulations
- The most expensive element to implement

Who is applying pressure for compliance?

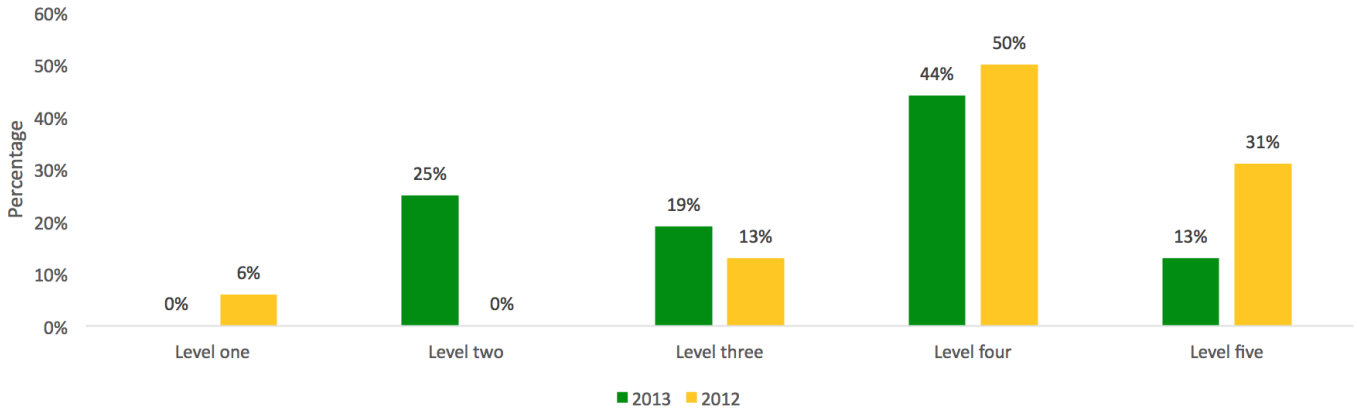


- Customers and reputational image are seen as the primary reasons why B-BBEE is being implemented within entities. The Board of Directors is also seen to have a large impact on applying the appropriate pressure which would be linked with legislation and reputation risk. With introduction of Social and Economic committee, it is expected that B-BBEE would be included more on the agenda of most Board of Directors.
- External forces are again clearly the main drivers to compliance.



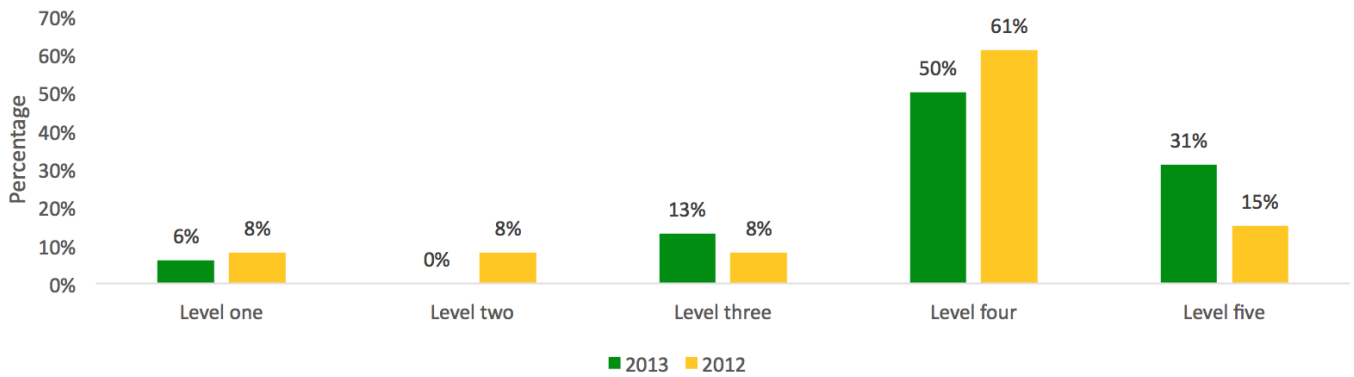


What is the minimum recognition level required from you?



- Similar to results from previous surveys, the majority of respondents are expected to achieve at least a level 4 contribution level.

What is the minimum recognition level you have set for suppliers?



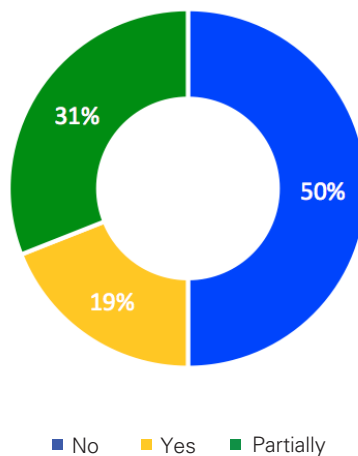
- 69% of respondent indicate that they require a minimum level 4 from their suppliers. Only 31% on respondents set a level below 4 as acceptable from their suppliers. The minimum required level is consistent with the request from the respondents' customers as can be seen from the previous graph.



3.3 DO YOU BELIEVE B-BBEE IS ACHIEVING ITS OBJECTIVE?

Do you measure economic value?

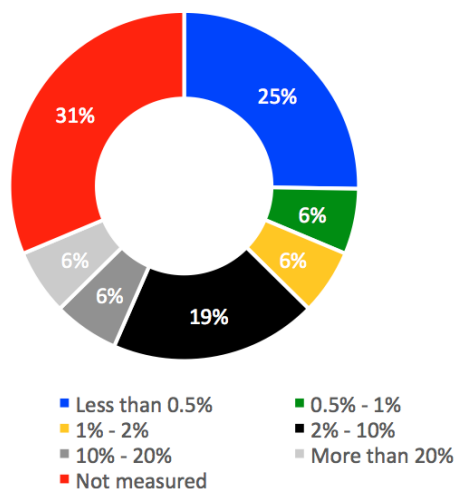
Do you measure your economic value added to your organisation as a result of compliance with B-BBEE?



- 50% of respondents indicated that they do not measure economic value of BEE implementation in their entity. It would appear that most companies see it as a sunk cost that they have no control over.

What is the estimated cost of complying with B-BBEE?

What is the estimated cost of complying with B-BBEE for your organisation as a percentage of turnover?

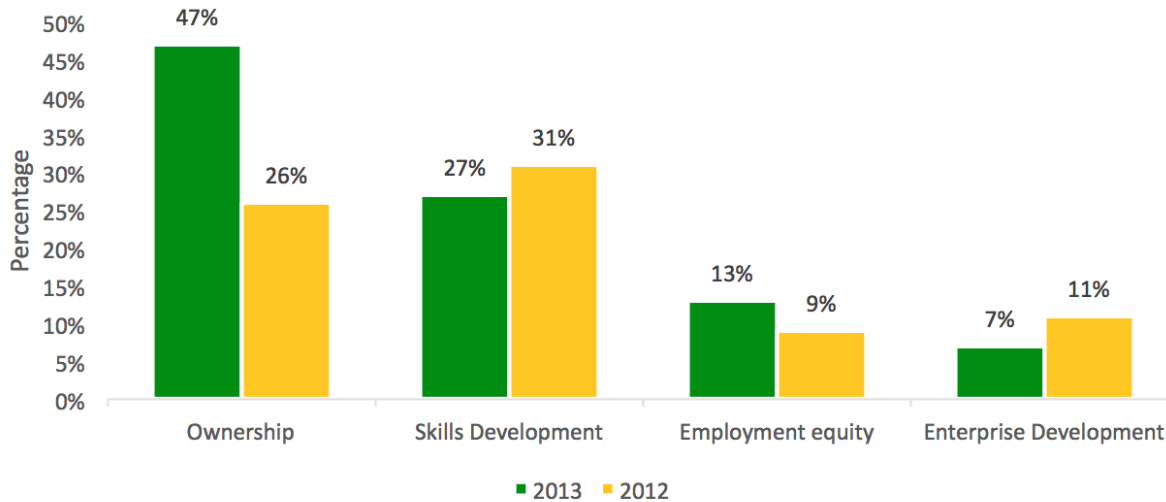


- 31% of the respondents do not measure the costs of implementing BEE in their organisations, whilst 12% believe that the costs are above 10% of turnover. 25% believe that the cost are less than 0.5% against turnover, whilst 19% believe it is between 2% and 10% of turnover. The measure may be slightly difficult for some entities as the cost of ownership may not be always linked with the costs associated with BEE implementation.



Which elements are most costly to implement?

Which BEE element do you believe is the most costly to implement in your organisation?



- Skills Development and Ownership are seen to be the most costly elements to implement in the organisations, similar to 2012. This may be as a result of ownership funding models as well as a target of 3% of payroll. Skills Development is also seen to be costly to implement as it is expected to be 3% of payroll. It is expected that these two elements will remain costly under the Revised Codes.



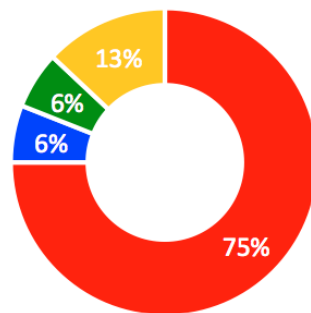
3.4 THE REVISED CODES OF GOOD PRACTICE

Participants were asked questions to evaluate their reaction to the proposed changes in B-BBEE legislation. The questions sought to evaluate the following:

- The perceived impact of the changes on the organisations
- The perceived impact of the changes on the overall South African environment
- The perceived impact on compliance
- If any measures have been put in place to meet changes.

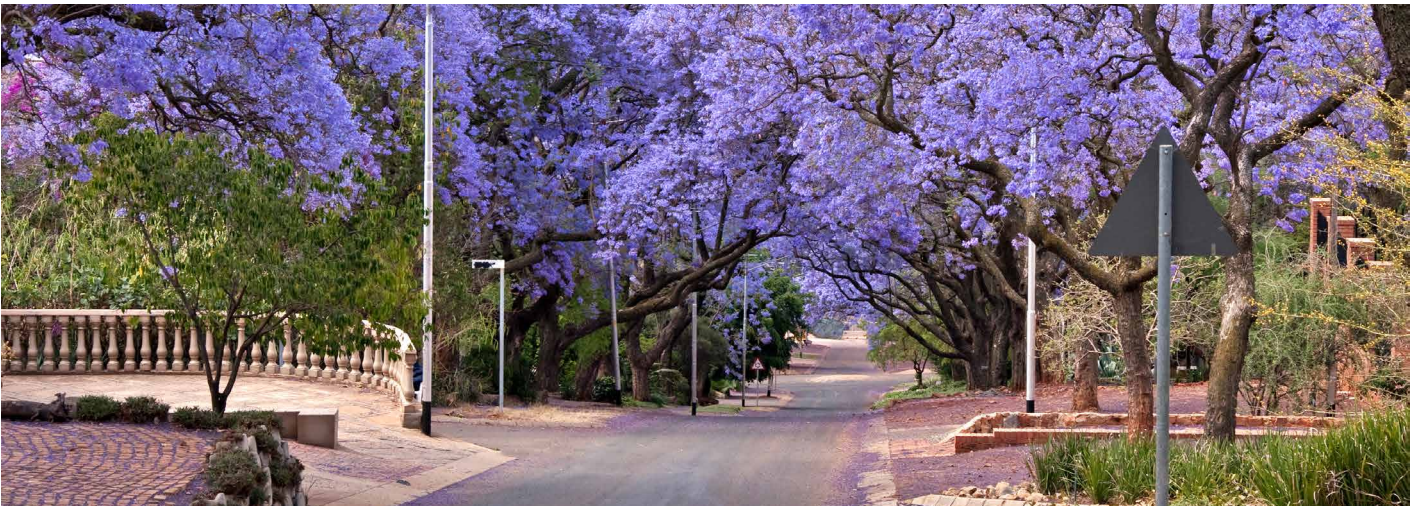
What impact will the Revised Codes have on your score?

What impact do you think the Revised Codes will have on your BEE score?



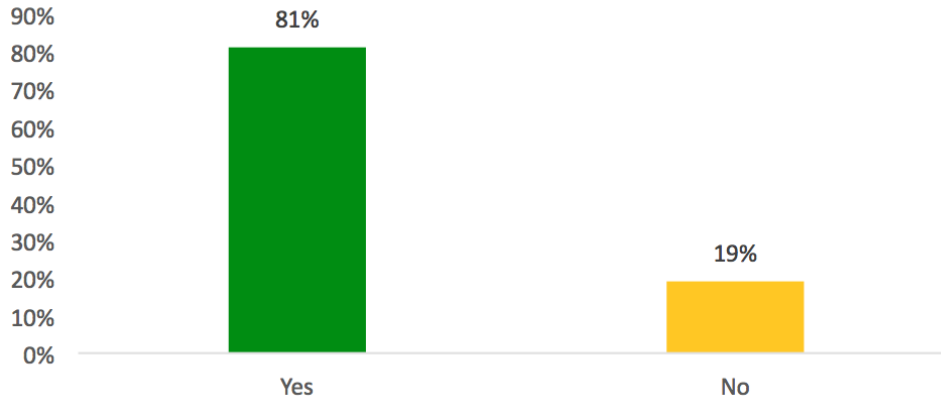
■ Decrease ■ Increase ■ No impact ■ Not sure

- 75% of respondents indicate that they anticipate a decrease in the rating based on the Revised Codes. This is consistent with the responses received prior to gazetting of the Codes in 2012. Taking the current Codes into account and considering the requirements for each level has increased, it is expected that most companies will decrease in recognition level. A surprising 6% of respondents anticipate an increase in their rating. These may be black owned QSE and EME entities who will benefit from enhanced recognition level.





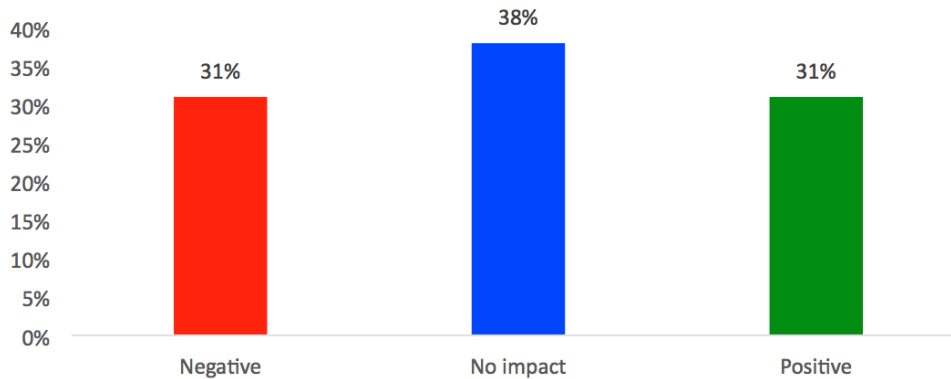
Have you put measures in place to respond to the Revised Codes?



- The current survey indicates that 81% of respondents have taken some measures to prepare for the new Codes. The fear of the decrease in levels has resulted in companies putting emphasis on developing strategy around the Revised Codes. In the 2012 survey most companies had not taken any measures to prepare for the Revised Codes of Good Practice as there was limited clarity of the final Codes and when they would be applicable.

What impact will the Revised Codes have on creation of jobs?

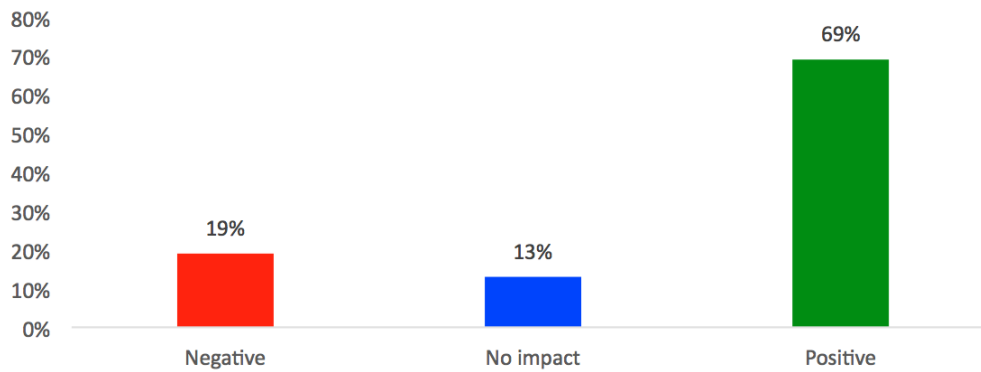
What impact will the Revised Codes have on your organisation's ability to create jobs?



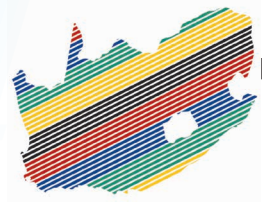
- It is evident that entities are still divided around the impact of the Revised Codes' ability to create jobs, a similar response as the 2012 survey.



What impact will the Revised Codes have on small business?



- Unlike last year's response, it seems that most companies believe that the Revised Codes will have a positive impact on small business. This may be a result of enhanced recognition level depending on black ownership and also introduction of Supplier and Enterprise development as a priority element.



4 CONCLUSION

South Africa is in its 21st year of democracy. As a democracy coming of age, its laws reflect learnings from some unintended consequences.

Rating against revised codes

A like for like analysis indicates an average drop of two levels from six to eight with potential of most entities being non-compliant should discounting be applied.

The rush to establish strategies around BEE by companies indicates that companies are taking seriously the impact of the codes on their business.

BEE focus areas

BEE appears to have become part of 'doing business' for most entities. The choice by most entities has been to leave skills development and enterprise development elements in house. With the introduction of subminimum requirements by the Revised Codes, entities may opt to outsource these elements as they become more onerous.

BEE Pressure

External forces are still the driving cause of compliance. Customers and reputational image are seen as the primary drivers of compliance. In the past, it has been thought that the main driver for BEE was the Government. It is apparent from the respondents that the main drivers for organisations to comply with BEE, are in fact their customers, which in some cases could be Government, followed by legislation and reputational image pressures. This emphasises the importance of the preferential procurement element as the driver for BEE implementation. Noticeable is the requirement by customers for their suppliers to have relatively high BEE ratings.

Most State-Owned Entities are continuing to apply increased pressure as Government is seeking to achieve its objectives of increased employment and skills development by applying pressure through the entities that it has control over.

Objectives and costs of BEE

The jury is still out on whether the legislation is meeting its objective.

There are companies that still do not measure the impact of BEE on turnover or measure its costs. This implies that companies view this as a sunk cost, a tax for any corporate citizen with minimal opportunity to be creative.

Ownership is regarded as expensive to comply with, as many organisations are in the process of reviewing or restructuring their black ownership transactions to ensure that they will not fall foul of the subminimum requirement, in respect of realisable value. Finance charges, consultant fees and other costs related to implementing a black ownership structure also consume significant amounts from organisations.

Skills Development is still regarded as a costly element to implement. Companies are required to spend up to three percent of their payroll costs to meet the targets of the BEE Scorecard; this can be an expensive exercise for those organisations that are labour intensive.

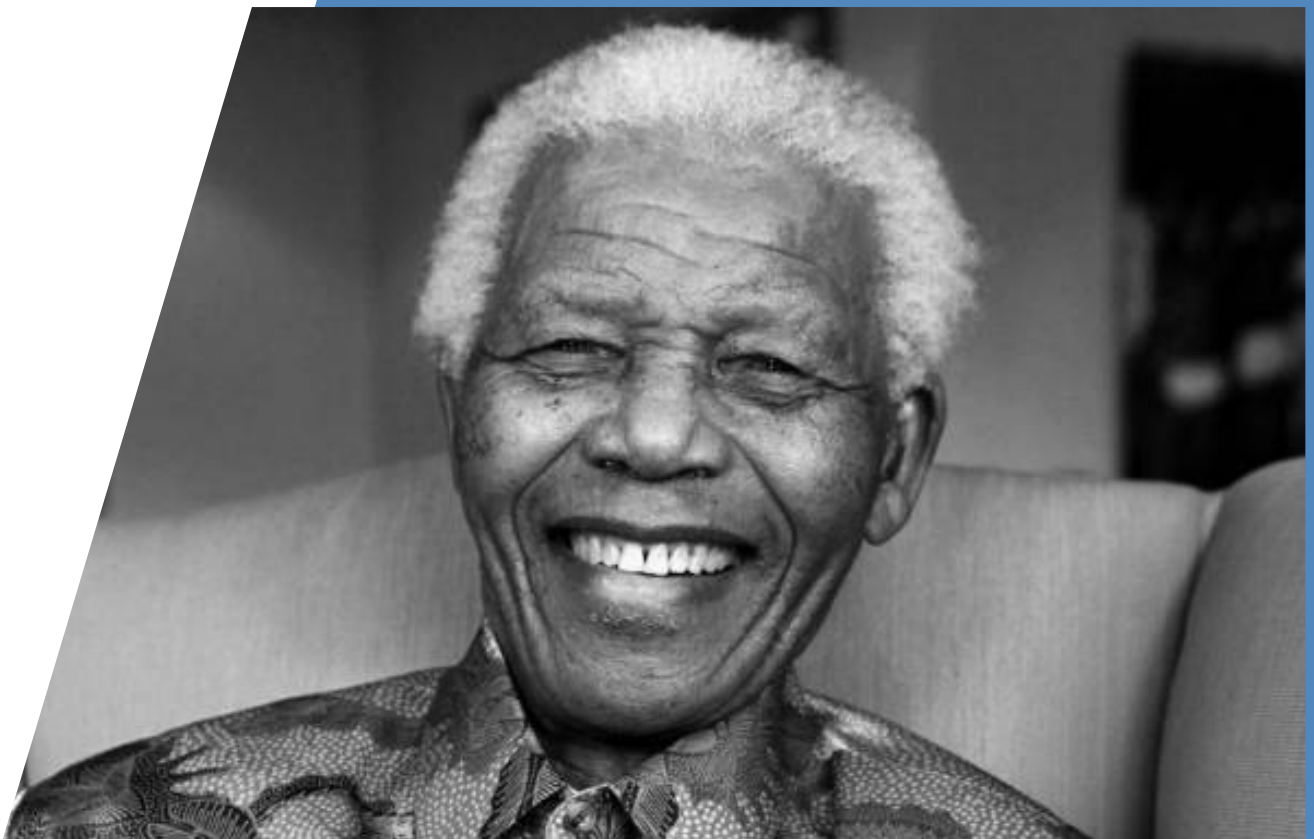
Changes in legislation

The Revised Codes were finally gazetted in October 2013, companies and Sector Charters have been given till 30 April 2015 to ensure they are ready for these increased requirements. The proposed changes were praised by many, in particular small business, but criticised by others. Due to the introduction of priority elements and the increased points for recognition levels, many organisations believe that their ratings will decrease. In the 2012 survey, many organisations were not prepared to respond to the proposed changes. Now that the Codes are gazetted into law, companies have sought advice around how to meet the new challenges of increased targets.

The initial process of aligning Sector Charters with the current BEE Codes was time-consuming, and for some Charters, a challenging process. The dti expects the Sector Charters to be aligned by May 2015, so most companies should, in effect, ensure that they have a strategy already in place to address the increased requirements.

The impact of the Codes on small business is seen as positive, with the introduction of enhanced recognition levels and the priority elements, in the form of Supplier and Enterprise Development.





**“ IT ALWAYS SEEMS IMPOSSIBLE
UNTIL IT’S DONE ”**

GLOSSARY OF CONTENT TABLE

Black people	<p>African, Coloured and Indian persons who are natural persons and:</p> <ul style="list-style-type: none"> • Are citizens of the Republic of South Africa by birth or descent; or • Are citizens of the Republic of South Africa by naturalisation before the commencement date of the Constitution of the Republic of South Africa Act of 1993; or • Became citizens of the Republic of South Africa after the commencement date of the Constitution of the Republic of South Africa Act of 1993, but who, had it not been for the Apartheid policy, would have qualified for naturalisation before then. <p>The definition of “Black people” now includes South African Chinese people as per the Pretoria High court ruling on 18 June 2008.</p>
Broad-Based Black Economic Empowerment (B-BBEE)	<p>The economic empowerment of all black people – including women, workers, youth, people with disabilities, people living in rural areas and unemployed people – through diverse but integrated socio-economic strategies that include, but are not limited to:</p> <ul style="list-style-type: none"> • Increasing the number of black people who manage, own and control enterprises and productive assets • Facilitating enterprises and productive asset ownership and management by communities, workers, cooperatives and other collective enterprises • Human resource and skills development • Achieving equitable representation in all occupational categories and levels of the workforce • Preferential procurement • Investing in enterprises that are owned and managed by black people.
dti Codes of Good Practice	<ul style="list-style-type: none"> • The dti Codes of Good Practice on Black Economic Empowerment gazetted on 9 February 2007.
Exempted Micro Enterprise (EME)	An entity with an annual turnover of less than R5 million.
Generic Scorecard	The balanced scorecard issued in line with the dti Codes of Good Practice, 2007.
Qualifying Small Enterprise (QSE)	An entity that qualifies for measurement under the Qualifying Small Enterprise Scorecard with a turnover of between R5 million and R35 million, which qualification does not result in the circumvention of the Codes.
Sector Charter (or Transformation Charter)	<p>A B-BBEE Sector Charter, gazetted in terms of Section 12 of the B-BBEE Act, means that it:</p> <ul style="list-style-type: none"> • Has been developed and agreed upon by major stakeholders in the industry • Is published for information purposes only and used as a statement of intent by industry play • Is fully binding between and amongst businesses operating in the industry. <p>A Sector Charter gazetted in terms of Section 12 has no bearing on state organs and departments.</p>
Revised codes	The dti Codes of Good Practice on Black Economic Empowerment as gazetted 11 October 2013.



CONTACT US

Please contact us for further information and advice.

KPMG's BEE Services has its headquarters in Johannesburg.

Physical Address: KPMG Crescent 85 Empire Road
Parktown 2193 Johannesburg
Postal Address: Private Bag 9 Parkview
2122

Contact:

Boitumelo Ngutshane

Director: Transaction Services and BEE Advisory,
KPMG in South Africa

T: 082 719 2573

E: boitumelo.ngutshane@kpmg.co.za

Bonolo Sinobolo

Associate Director: Transaction Services and BEE Advisory,
KPMG in South Africa

T: 082 718 5259

E: bonolo.sinobolo@kpmg.co.za

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014 KPMG Services Proprietary Limited, a South African company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in South Africa. The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

The opinions of the authors are not necessarily the opinions of KPMG. MC11878.