



## B-BBEE Information Sheet

### Conrad Advisory/ Wesgro

#### What is Broad-Based Black Economic Empowerment (B-BBEE)?

South Africa's unique history of institutionalised racial discrimination, which systematically excluded non-white people from meaningful participation in the national economy, necessitates specific measures to address race-based social and economic inequality.

B-BBEE legislation is therefore designed to advance the participation of black people in the formal economy, advance black business ownership, and encourage skills development.

B-BBEE is an imperative policy to advance overall societal goals to ensure that enough South Africans are sufficiently skilled and their talents available to be harnessed. It is a national legal framework established to ensure that many more South Africans are actively participating in the economy – recognising that nurturing an inclusive economy is not only a moral but a business imperative.

#### Why is B-BBEE good for business?

“Think global, act local”.

Organisations are no longer judged only for their financial performance or even quality of their products or services



BUT, rather, they are being evaluated on the basis of their impact on society at large

– Deloitte HCT Report

B-BBEE is good for business because compliance not only ensures competitive advantages in South Africa, but also demonstrates positive social impact in line with global best practice such as environmental and social governance (ESG) and corporate social responsibility (CSR), which require that businesses demonstrate their values; engage employees; and communicate with stakeholders regarding the social and environmental impacts of their operations.

The number of signatories to the United Nations Global Compact (UNGC) over the last 5 years has increased from 6 000 in 2013 to more than 12 000 in 160 countries. This represents a growing global focus on ethical and sustainable reporting regarding human rights, labour, environment and anti-corruption.<sup>1</sup> Signatories oblige themselves to take actions that support society and to report annually both publicly and to the UNGC.

Many corporates globally are also members of Indexes/ Indices that require a level of compliance and reporting on ESG at both a qualitative and quantitative level. Examples of these indices are the FTSE4Good, FTSE4Good RAFI, FTSE4Good Emerging Index and the FTSE/JSE.

## Does having good corporate practices really matter?

Consumer power is another influence on business sustainability globally. Growing consumer activism against exploitative practices means that, in addition to demanding quality products, consumers expect corporations to operate responsibly.

A 2015 Cone Communications/Ebiquity Global CSR study found that a staggering **91%** of global consumers expect businesses to operate responsibly to address social and environmental issues. Furthermore, **84%** say they seek out responsible products wherever possible.<sup>2</sup> Millennials and Generation Z, who are joining the workforce in significant numbers, also want socially responsible products and support brands that are aligned with their beliefs.

*Within this context – thinking global but acting local in South Africa means embracing B-BBEE as a transformative strategy designed to ready the country for the future.*

## Our view is that B-BBEE should be seen as a value creating policy framework.

Conrad Advisory has a rich blend of executive and practical expertise in the areas of business and corporate compliance, programme and project management, risk management, transformation and sustainability. They focus on -

- developing **bespoke value creating strategies** through B-BBEE compliance for the full scorecard or a single element;
- guiding companies on how to develop **business aligned** transformation strategies;
- providing **tangible plans** for companies and managers per scorecard element, linked to performance;
- creating **monitoring systems to measure the results**;
- advising on and guiding the **development of Equity Equivalent Investment Programmes**; and
- linking compliance with B-BBEE to **global ESG** reporting requirements.

Conrad Advisory is 100% Black Owned, majority Black Female Owned Company.

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<sup>1</sup> <https://www.unglobalcompact.org/what-is-gc>

<sup>2</sup> <https://www.conecomm.com/research-blog/2015-cone-communications-ebiquity-global-csr-study>

<sup>3</sup> Section 13G of the B-BBEE Act

# Frequently Asked Questions

- **What is B-BBEE and how does the system work?**

The Department of Trade and Industry (the dti) issued Codes of Good Practice on B-BBEE in 2007, which were revised in 2013, providing the implementation framework. To provide consistency in the measure of B-BBEE performance by companies and organisations required to comply, the dti and the South African National Accreditation System (SANAS) introduced a system of accreditation for verification agencies that audit B-BBEE performance.

- **I am considering investing in South Africa, will I need to comply with B-BBEE? If so, what are the requirements?**

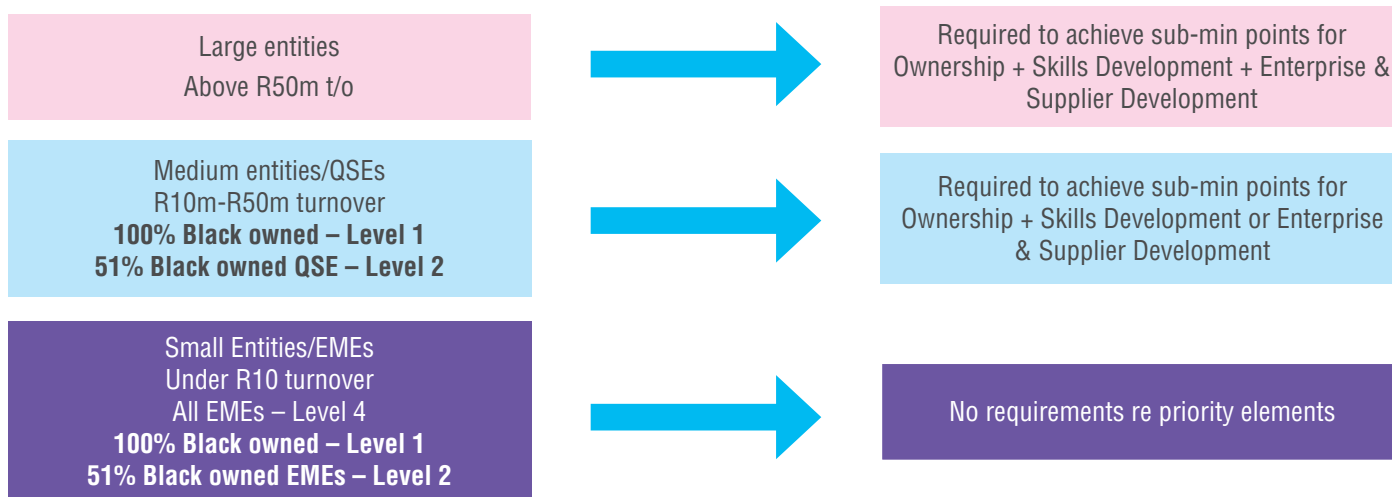
Compliance with B-BBEE legislation is good business practice. If you are reliant on government contracts or the sector is highly regulated, then compliance is required. All public companies listed on the Johannesburg Stock Exchange are required to submit a report on their B-BBEE compliance to the B-BBEE Commission.<sup>3</sup>

A company's level of compliance is determined by:

- The percentage of black ownership;
- The demographic make-up of your Board, Executive and Management teams;
- The application of your training spend - whether it is equitably assigned, reflecting regional or national demographics;
- The level of procurement from B-BBEE compliant companies;
- The level of procurement from black-owned and black women-owned companies;
- The level of support for the development of black-owned and black women-owned companies in your supply chain; and
- The focus of your corporate social investment spend and whether it benefits a majority of black people.

- **Do I have to meet a minimum level of requirements to obtain a B-BBEE certification?**

Yes, though the level depends on the size of your company. The table below reflects the compliance requirements based on a company's turnover



<sup>3</sup> Section 13G of the B-BBEE Act

- **How often do I have to re-apply for B-BBEE on an ongoing basis?**

Certificates are valid for a 12-month period.

- **How are B-BBEE scores determined?**

A B-BBEE Scorecard is used to measure performance. It includes weightings and scoring for different categories, in line with the overall policy objectives, which require a greater focus on women, the youth and people living in rural areas.

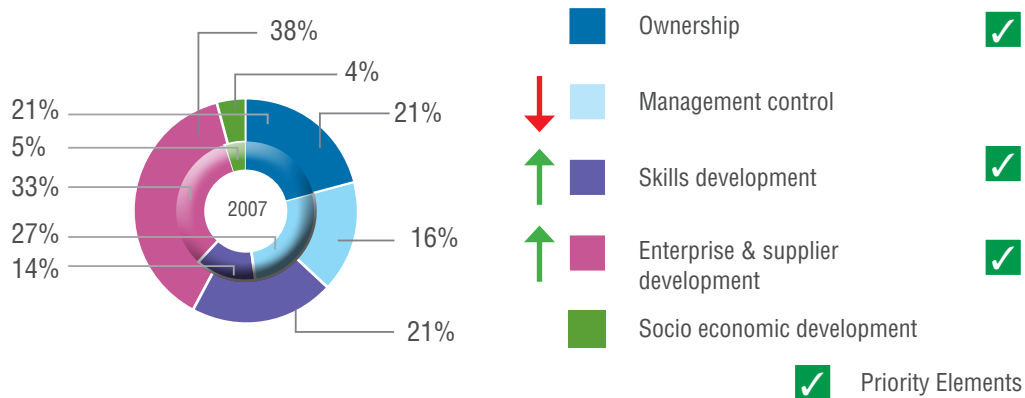
- **Is B-BBEE applied differently in different sectors?**

Yes, for example not all sectors have the same target for black ownership.



There is a generic Code of Good Practice that applies across all sectors, that was revised recently. Emphasis on skills development, enterprise & supplier development increased. Priority elements were also introduced that must be complied with. See table below.

- **Changes between 2007 v 2013 B-BBEE codes**



- **How long will it take to apply for a B-BBEE rating?**

For a medium sized company, if all the required information is available, it would take approximately 6 to 8 weeks.

- **If my business is based in South Africa but providing services to international clients only, do I need a B-BBEE certificate?**

It may not be necessary. However, if the business is reliant on any licence to operate, it will be necessary to comply with B-BBEE requirements. All public companies listed on the Johannesburg Stock Exchange are required to submit a report on their B-BBEE compliance to the B-BBEE Commission.<sup>4</sup>

- **Who makes the final decision on my B-BBEE rating?**

The B-BBEE rating is determined following a verification audit, which will be conducted by an accredited B-BBEE Verification Agency.<sup>5</sup>

An initial indicative assessment of your likely B-BBEE rating can be done before an audit, to identify areas for improvement. If your company is uncertain of its B-BBEE status and would like to be better prepared, we suggest that you contact the advisory company whose details are included below, to provide guidance.

- **What is the cost of applying for a B-BBEE rating?**

It depends on the size of your company and the number of employees. Each verification agency will provide details of the cost. An estimate for a company with a turnover of between R35million to R50million with 50 to 100 employees would be R25 000.

- **Is it possible to quantify the impact of B-BBEE on my business?**

Yes it is possible to quantify the impact. However, it is an imperative that you integrate B-BBEE compliance within your business strategy and operations. An example would be measuring the impact of investments within communities over time to reflect actual lasting changes in the lives of ordinary South Africans.

- **How do I ensure that implementing B-BBEE has a positive impact on my business?**

Through implementing B-BBEE with a value creating approach rather than a tick box compliance approach, your business activities will contribute towards reducing current societal challenges. Your company's public image will be enhanced, which is important for employees, clients and other key stakeholders.

In a highly consumerist society reflecting commitment to local social, economic and educational developments differentiates your business and products from others operating in the same sector. For employees, the impact is much more personal, as it boosts morale. It will also position your company to attract millennials and Generation Z, entering the workplace, to whom socially responsible behaviour is important.

- **How do I ensure that implementing B-BBEE has the most positive impact on society at large?**

As a responsible corporate citizen, your ESG practices should be directed towards achieving a positive and sustainable impact on society. Implementing B-BBEE in a manner that aims to do this will result in more employable people (with improved skills), as well as a greater number of sustainable black businesses in the formal economy (through investing in enterprise and supplier development).

<sup>4</sup> Section 13G of the B-BBEE Act

<sup>5</sup> Accreditation is issued by the South African National Accreditation System

- **Will B-BBEE dilute my shareholding?**

Complying with B-BBEE requirements will place your business in a much more positive and resilient position.

If a transaction is concluded in which part of a company's shareholding is sold to a Black partner or an Employee Share Trust, part of the rationale would ordinarily be that it will contribute towards the long term sustainability of the business. Whilst the sale of shares may result in a dilution of ownership at the time of the transaction, the positive is that it stabilises the business and places it in a better position to meet customers' requirements or licence/ tender requirements. This should translate into a much more valuable stake in a bigger business with greater opportunities.

- **Who do I approach if I feel I have been given an unfair B-BBEE rating?**

The B-BBEE Commission is able to deal with complaints regarding practices that undermine or frustrate the objectives of the B-BBEE Act.

- **Do I have to have a B-BBEE rating to work with government?**

Yes, all spheres of government, public entities and organs of state are required to report on their compliance to the B-BBEE Commission.<sup>6</sup>

- **Where can I access more information about B-BBEE?**

The Department of Trade & Industry (the dti) provides strategic direction in the development of policies and strategies that promote enterprise growth, empowerment and equity in the economy. Further information is available on [http://www.dti.gov.za/economic\\_empowerment/bee.jsp](http://www.dti.gov.za/economic_empowerment/bee.jsp)

- **If I have a local distributor, but am an overseas company, how does that work?**

The local distributor will have to comply with B-BBEE legislation. The B-BBEE Codes require all businesses operating in the South African economy to contribute towards achieving the objectives of B-BBEE.

- **If I am an Multi National Corporation (MNC) how do I comply?**

It will depend on the sector in which you operate, as well as the turnover of your company. For example, banks, credit card companies, insurance companies and investment funds are measured according to the Financial Services Sector Code. MNCs are required to comply with B-BBEE legislation, in the same way as local South African companies.

However, the B-BBEE Codes recognise that some multinationals may have global practices that prevent compliance with the ownership element of the Scorecard. The Codes provide that multinationals which can prove that they have not concluded an ownership elsewhere in the world, outside of its home base, may apply for the recognition of an Equity Equivalent Investment Programme (EEIP) which will contribute towards the ownership element. EEIPs are often sector specific, though must be aligned to the objectives of the B-BBEE Act.

An example of an EEIP is IBM's "research hub" programme that was started in 2015 and which is being rolled out over ten years. It is designed to not only fulfil the requirements of B-BBEE ownership but drive socio-economic advancement and development within the South African economy. A first-of-a kind programme in South Africa, it integrates academic, enterprise development and research and development components into a holistic skills development programme intended to accelerate South Africa's digital capability in the global market.<sup>7</sup>

<sup>6</sup> Section 13G of the B-BBEE Act

<sup>7</sup> <https://www-05.ibm.com/za/aic/news.html>

- **Are you able to recommend trusted B-BBEE consultants?**

Yes. We highly recommend that you contact Conrad Advisory, a professional advisory team with significant practical and executive experience in developing and implementing business aligned B-BBEE strategies. They will be able to explain the legislative requirements as well as what is required during a verification process. (see Pg 2 for details)

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