



BEE
Micel Schnehage | 06 September 2010 00:07

What BBEE should really look like

Analysts argue a shift from ownership to enterprise development is needed.

JOHANNESBURG - Broad based economic empowerment (BBEE) analysts agree BBEE in its current form needs to be revisited with, among others, a shift from ownership to enterprise development.

MTN (JSE:MTN), Gold Fields (JSE:GFI), Sappi (JSE:SAP), SABMiller (JSE:SAB) and Adcock Ingram (JSE:AIP) are among companies that have announced BBEE deals this year running into billions of rands.

And then of course, there is last month's astounding BBEE transaction in the mining industry putting 26% of certain assets of Arcelor-Mittal (South Africa) into the hands of the Ayigobi consortium.

This, after ArcelorMittal offered to buy 100% of Imperial Crown Trading (ICT) for R800m, subject to various legal challenges faced by ICT being unsuccessful.

The BEE deal has confounded players in the industry as it blatantly favours ICT's politically connected shareholders, including President Jacob Zuma's son, Duduzane, and Sandile Zungu - a member of the president's BEE advisory council. Others standing to gain from the deal are the wealthy Gupta family, from India - clearly not qualifying as previously disadvantaged - and friends and benefactors to the president. Gugu Mtshali has for some time been named as romantic partner of deputy president Kgalema Motlanthe.

Alana Bond of Bravura Consulting says BEE in its current form is impossible to police. She says there needs to be a shift from ownership and employment equity to enterprise development which will advance BBEE. It can also add value to the country through job creation and economic growth.

Steven Hawes of Empowerdex concurs that there needs to be more emphasis on skills and enterprise development.

Bond says while verification agencies are policing BEE compliance, it is impossible to police the spirit of transformation. Compliance and transformation are not necessarily the same thing and it is up to companies to actively seek the latter or BEE will never achieve what it intended to.

This could take the form of an employee share incentive scheme which could encourage the best talent within a company. Incentive schemes are also likely to keep valuable staff while simultaneously achieving black ownership. Bond says given senior management which is often incentivised through these structures, it does not necessarily need to mean a passive, non-value shareholding.

BBEE could also take the form of a trust which could help employees pay for their children's education and to improve the communities in which they live.

Bond says if ownership transactions are allowed to continue without sufficient focus on broad based BEE and sustainability, South Africa will run the risk of having made little impact on transformation ten years down the line.

She says the country's Gini coefficient (a measure of income inequality within a population) has worsened in recent years with South Africa ranking among the highest in the world.

Bond says one of the loopholes in BEE legislation is that while companies might pump money into empowerment deals, earning them points in terms of compliance, the system does not compel them to go back and check whether or not their deals have in fact made a difference. Nor does it check that the deal had in fact empowered the people it was supposed to.

Donations are sometimes made as part of BEE, but again follow-ups are rarely made to see how the money is used or distributed among communities.

Bond says BEE needs to involve more sustainable ownership transactions and fewer deals being financed off the flow of dividends that often cannot keep up with the rate of interest. This may leave the financier better off than the intended BEE beneficiaries.

Hawes says another way of encouraging responsible BBEE is creating incentives for businesses to comply. These could take the form of tax incentives or allowances. He says in the absence of incentives there will always be deals "strategic in nature". Hawes says skills development is equally important as well as access to finance to start small businesses.

Write to Micel Schnehage: micel@moneyweb.co.za

Is a shift from ownership to enterprise development needed?

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- No

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Finish the first phase first!

This is a superficial argument that presupposes that enterprise development and broad economic empowerment exist at different points along an imaginary continuum. Something that I don't believe is actually the case. Because if that was the case, I would have argued that, you need to give all ...show more

By **Bo** on 06 Sep 2010, 04:05

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Creation of Sovereign Wealth Fund

The 21.4% stake that reverted to the Government after Arselor failed to convert it, should never have been 'sold' or if you like 'allocated' to this fly by night fictitious prospecting licence on an existing mine recipient called ICT Trading 268 (or whatever). This stake in the absence of anything ...show more

By **Mtima** on 06 Sep 2010, 04:17

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BEE morally flawed

The real problem is that BEE is morally flawed. You may as well be arguing about how to effectively relocate black people to homelands or gas Jews. It's a morally flawed premise. Just come out and say so.

By **Sidwell** on 06 Sep 2010, 07:12

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My approach to BBEEE

Is to employ the competent, hard working, young white men who are denied advancement because of their skin colour and in spite of their ability. Sidwell, you my man are right on the money.

By **donovan** on 06 Sep 2010, 08:00

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Topsy-turvy land

So first you give the "PDI's" ownership of companies, and then 10 years later they come back and ask you to show them how to do the job they claimed they had the right to do in the first place. Something amiss there, I think. BEE is intrinsically and essentially wrong; it's as simple as that. ...show more

By **Outthere** on 06 Sep 2010, 08:30

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@Sidwell

BEE is a re-allocation of resources in our economy. If you feel that BEE is morally flawed, you should have the same strong feelings about tax, social development, education, hospitals and every other form of government interference in the economy which results in favouring any form or part of the ...show more

By **Free markets** on 06 Sep 2010, 08:37

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White-victimhood myth

@ Donovan - please stop playing the white victim card as White unemployment sits at a very first-world 4.1%, better than most developed economies, including many Scandinavian countries...so your claims of "disadvantaged white youth" is extremely ill-informed. White South Africans as the ...show more

By **Charles** on 06 Sep 2010, 08:45

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The ANC is trying to take the country from the whites without doing it too openly or too fast.

By **SR** on 06 Sep 2010, 09:08

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BBBEEE!!!

For godsake get rid of this parasitic process that undermines every known capitalistic principle. Wealth should accumulate to those with the best and most innovative ideas, those that can implement their ideas and to those who reinvest their capital at risk. BBBEEE is a fraud of huge proportions ...show more

By **john** on 06 Sep 2010, 09:09
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The Racist whites is trying to take the country from the blacks without doing it too openly or too fast.

By **SR2** on 06 Sep 2010, 09:23
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@Charles: Whites are never victims
And never have a 'give me' victim mentality. Nope, we make a plan, china.

By **donovan** on 06 Sep 2010, 09:28
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Who are we trying to kid - BEE was purposefully designed as a means to benefit the elite
Any logically person must surely have recognised that the Ownership Element of BEE is a legalised method (if not immoral) of "rewarding the political elite" and then to extract political contribution from those that benefit. Pure genius!
Anyone who dares argue this - is labeled anti-transformation ...show more

By **Albie** on 06 Sep 2010, 10:14
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The cream always always settle back on top of the cappucino, it doesn't matter how much you shake it...(and i'm not talking in racial terms but more in the lines of intelligence, competence etc.) And that my friends is why BEE is flawed, if you don't work for something in life then you don't ...show more

By **Flyleonardo** on 06 Sep 2010, 10:28
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BUT...
they will need to pitch up for work in the first place :)

By **beep-beep** on 06 Sep 2010, 10:44
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law of unintended consequences is it not
I will employ the disadvantaged-ie the white male,ironically the white man with skills in sa is actually doing quite well.How do u stop smaller white owned business just under bee threshold that dont need this bee junk?

By **james** on 06 Sep 2010, 10:48
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I looveee some of the postings in here. They merely confirm what some of us Africans have been saying for a while. No matter what logic you throw into this debate, and show the pros of BEE, the whites will never ever accept that. Time for talking and reasoning is over - the only thing we have for all of this talking in the last 15 years are good ...show more

By **Well well well** on 06 Sep 2010, 11:09
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BEE is an unsustainable, corrupt and racist practice that will lead to our downfall
Job reservation and discrimination based on race in the old apartheid government was an appalling practice, as it is today with the shameful ANC government. White Economic Empowerment = EXPIRED; Black Economic Empowerment = TIRE; Poor Economic Empowerment = WHAT WE WANT. Put to stop to government ...show more

By **Vusn** on 06 Sep 2010, 11:29
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At least 50% of BEE deals should be broad-based
At least 50% of BEE deals should be broad-based.

By **Investor** on 06 Sep 2010, 11:30
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BEE
As long as the focus is on "Black" instead of "Poor", BEE as a means to reduce inequality is going to fail miserably, over and over again.

By **cjrh** on 06 Sep 2010, 12:22
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WHO MEAURES IMPOWERMENT?

Lets remove this piece of s* completely, empowerment should be about business development, skills training.etc and not just giving ANC people freebies at the expense of the poor.It is a sad state of affairs because our president doesn't have the balls(oh wait he does have balls for other things, ...show more

By **mg** on 06 Sep 2010, 12:22
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BBEEE

It seems such a great idea - but its flawed.But a bigger problem is the fact that it cannot - in South Africa - be discussed in a calm and logical manner - this MW forum is excellent evidence of that fact! If any system is to be sustainable then it must be fair and seek to place the best and most ...show more

By **PeterW** on 06 Sep 2010, 13:03
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BBBEE

I think that the ACL ICT deal is an example of what we do not want, however I do not agree that deals structured along the lines of MTN's latest deal should stop - on the contrary they should happen more often. There are lots of elderly black people out there that have something of a decent ...show more

By **whips excite me** on 06 Sep 2010, 14:32
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BEE Falacy

Tell me one business created out of BEE that can today survive without BEE business. None of these enterprises mature because the opportunities go to related parties not because of their brainwave and abilities but because they are connect. What is even worse is that the primary focus is on making ...show more

By **Gambu** on 06 Sep 2010, 14:33
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Transformation and Justice

I fully support efforts to empower the poor. I strongly oppose efforts to grossly enrich the rich - while pretending to help the poor. Which of the two is BEE?

By **Che** on 06 Sep 2010, 20:44
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To all the BBBEE nay-sayers...

Think about this: You cannot take a person that has been shackled in chains for years, free him/her, then bring him/her to the starting line of a race and then tell him "You are free to compete with the others", and still think that you have been totally fair...

By **Meiki** on 08 Sep 2010, 12:51
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