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NEVA MAKGETLA: Hard to figure out what the BBBEE project is really about

A lack of consensus has produced too many internal contradictions and too much complexity

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03 AUGUST 2020 - 14:17 by NEVA MAKGETLA



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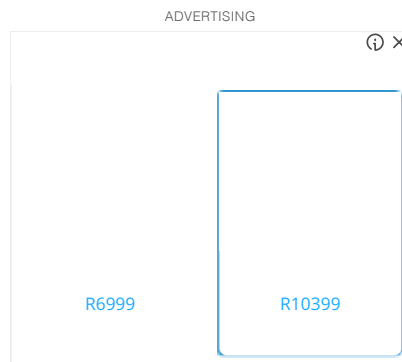
Apart from taxes and possibly electricity, it is likely that broad-based BEE is the government's most expensive policy for business. Yet it is difficult to tell what it really aims to achieve.

SA suffers from both a lack of diversity in ownership and control, and from extraordinary inequalities in pay, workplace organisation and assets. But it is not clear what BBBEE sees as the desired end-state.

Does it aim primarily to empower black executives; to support more equitable ownership of financial investments; to promote more equal, skilled and harmonious workplaces; to encourage new, dynamic, enterprises; or to support the broader industrial policy aims of economic diversification and job creation?

In theory, the BBBEE scorecard answers this question by identifying different dimensions for empowerment and allocating weights to them. The dimensions are enterprise development, weighted at close to 40%; ownership, at almost 25%; representivity in management and skilled positions, at under 20%; skills development,

also under 20%; and socioeconomic development (effectively corporate social investment) at 5%.



In practice, the importance of the different dimensions remains at best ambiguous. For one thing, each dimension includes three or four subtargets. For instance, training is assessed by skills level. Procurement points are allocated according to the BBBEE level of suppliers, but also separately by their ownership by black people and by black women.

Even more confusingly, the scorecard synthesises four separate scoring techniques. It sets points for each subtarget; minimum thresholds for priority subtargets; percentage scores, which, perplexingly, can exceed 100%; and provides some bonus points.

This complexity means most workers and managers don't understand the BBBEE requirements, so they can't help achieve them. It encourages stakeholders to focus narrowly on technical requirements rather than monitoring progress towards the desired socioeconomic outcomes. And of course, the extraordinarily complicated reporting requirements and calculations add to the administrative burden for businesses.

The scorecard's complexity also makes it hard to foresee the impact of amendments. For instance, in 2019, the government fast-tracked new points for university bursaries by reducing the score for employee training. That amendment effected a radical shift in the skills development element, from seeking to transform power and career mobility within enterprises to promoting business funding for tertiary education for black students.

However, there was little public discussion or analysis of how this trade-off affects the broad aim of a more equitable and inclusive economy.

Similarly, BBBEE has long been criticised because it does not incentivise local procurement. A company can improve its score by replacing a local producer with a low BBBEE rating with a small black-owned importer. That may end up meaning reduced local employment, and arguably a less equitable and dynamic economy overall.

In 2015/2016, the codes therefore included a requirement that qualifying suppliers meet a target for local value added. Then the department of trade & industry suspended the new requirement indefinitely on the basis that it was too hard to measure or to meet. This is, of course, the best of all possible bureaucratic worlds: it signals a virtuous adherence to the local procurement policy without actually having to enforce it.

A further challenge is that the codes were essentially designed around listed companies. Smaller businesses and other ownership structures such as large partnerships are accommodated only to a limited degree, mostly by relaxing some

requirements. In particular, the ownership points assume that businesses have a host of small anonymous investors who are continually in flux. But small businesses and professional partnerships can't afford much churn in ownership, and often are not profitable enough to attract outside investors.

Ultimately, the complexity and internal contradictions in the codes reflect the failure to reach true consensus around the aims of BBBEE. In this context, the complexities of the scorecard serve to obscure, rather than clarify, the real trade-offs over who should benefit from this core economic policy.

• *Makgetla is a senior researcher with Trade & Industrial Policy Strategies*

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Alexander du Plessis • a day ago

All that we are left with is a massive disincentive to invest in South African business.

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Mr Jones → Alexander du Plessis • 9 hours ago

And a wide range of entry points for systemic corruption

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David De Beer • 8 hours ago

You are spending too much time trying to apply rationality on something that is simple and primal -- BEE is the mechanism whereby the governing elite legalizes their plunder and looting.

That is what it is. Its only purpose is the enrichment of the comrades.

Everything else is just pretty colors and obfuscatory dress-up to hoodwink the voting majority into supporting them.

There is nothing else to understand about Black Elite Enrichment policy.

1 ^ | ▾ • Reply • Share ›



Pierre Jordaan • 6 hours ago

There is an alternative - by requiring BEE compliant and non-compliant quotations we'll realize that BEE probably inflates prices with 25% (at best) and 60%. A complex system is open to exploitation, and effectively excludes local businesses and small enterprises.

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