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Foreword

Broad-based black economic empowerment (B-BBEE) is a central part of the South African Government’s transformation strategy.

Broad-based black economic empowerment (B-BBEE) is a central part of the South African Government’s transformation strategy. B-BBEE comprises various components aimed at increasing the numbers of Black people (being South African citizens who have been racially classified as African, Indian or Coloured) who manage, own and control the country’s economy, and decreasing racially based income inequalities.

There is no positive obligation to have a particular B-BBEE status level. However, any company wishing to do business in the South African environment must consider and develop its B-BBEE position as – in addition to the pressures from Government – an entity that does not have a good B-BBEE rating or does not strive to improve its B-BBEE rating may be hampered in the conduct of its day-to-day business with Government, organs of state and the private sector.

Further, a company’s B-BBEE rating and/or its local ownership may be a determining factor when applying for a state licence, permit or authorisation, depending on requirements imposed by sector-specific legislation.

Bowmans provides trusted, specialist advice in all areas of B-BBEE. Our lawyers have extensive experience advising and acting for major local and international commercial and industrial corporations, mining houses, banks and private equity funds across a range of industry sectors. We have also been involved in several ground-breaking B-BBEE transactions. We advised Isanti Glass on its proposed ZAR 1.5 billion acquisition of Nampak Glass, which was named BEE Deal of the Year for 2019 at the Dealmakers South Africa Awards event which was held in February 2020. Isanti Glass is 60% owned by black-owned investment company Kwande Capital and 40% owned by SABSA Holdings, the South African holding company of SA Breweries. SABSA is owned by AB InBev, the world’s biggest brewer and one of the largest glass manufacturers.

We are up to date with the most recent developments in B-BBEE, including the amendments to and interpretations and nuances arising in the context of the Codes of Good Practice and the various sector-specific codes. We regularly engage – both independently and on behalf of our clients – with the B-BBEE Commission, the Department of Trade and Industry and various B-BBEE verification agencies.

Because B-BBEE is such an important consideration for any company conducting business in South Africa, we have produced a series of four guides to help our clients understand the complex regulatory framework applicable to B-BBEE in South Africa.

This, the first in the series, provides a general overview of B-BBEE (Part 1) with a focus on understanding the measurement of B-BBEE for:
• large enterprises (Part 2);
• small to medium-sized enterprises, which are referred to as exempted micro-enterprises (EMEs) and qualifying small enterprises (QSEs), and start-up enterprises (Part 3); and
• foreign companies and multinational corporations (MNCs) (Part 4).

The guide also provides a high-level overview of B-BBEE in certain sectors (Part 5).

We are in a unique position to help our clients in the development and implementation of lasting and sustainable transformation. Please contact us if you would like to discuss either the content of this guide in more detail or your unique B-BBEE challenges.

Key contacts are set out at the end of this guide.

Ashleigh Hale
Co-head of Corporate

The contents of this guide are for reference purposes only and should not be considered a substitute for detailed legal advice. It is correct as at October 2020. If you require further information, please contact one of the key contacts listed at the end of this guide.
Part 1: An Overview of B-BBEE in South Africa

How is B-BBEE regulated in South Africa?

- The B-BBEE Act is the principal legislation for the promotion and measurement of B-BBEE in South Africa.
- The B-BBEE Regulations, 2016 (B-BBEE Regulations) are published as a Schedule under the Petroleum Products Act 120 of 1977 and is intended to empower historically disadvantaged South Africans (HDSAs) to facilitate sustainable transformation, growth, and development of the mining industry.
- For more information on the B-BBEE Act, click here.
- The Codes of Good Practice (Codes or general Codes) are set out in the Codes of Good Practice (Codes or general Codes) document.
- The sector-specific codes are set out in the Codes of Good Practice (Codes or general Codes) document.
- The mining Charter, read together with the Implementation Guidelines, is published under the Mineral and Petroleum Resources Development Act 28 of 2002 and is intended to facilitate sustainable transformation, growth, and development of the mining industry.
- For more information on B-BBEE, click here.
- The various sector-specific codes published under the B-BBEE Act detail the manner in which B-BBEE must be measured in specific sectors.
- Sector codes have been published for the following sectors:
  - Agriculture
  - Chartered accountancy (draft version)
  - Construction
  - Defence
  - Financial services (including banks, short-term insurance, reinsurance and financial services intermediation and brokerages)
  - Forestry
  - Information communication and technology (ICT)
  - Marketing advertising and communications (MAC)
  - Property
  - Tourism
  - Transport

A high-level overview of the Codes of Good Practice

<table>
<thead>
<tr>
<th>CODE SERIES</th>
<th>STATEMENT</th>
<th>TITLE</th>
<th>OVERVIEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>CODE SERIES 000</td>
<td>STATEMENT 000</td>
<td>Framework for measuring B-BBEE</td>
<td>Among other things, specifies the interpretative principles of B-BBEE, the application of the Codes and basis for measurement under the Codes, and the application of the Codes to SMEs, QSEs, QSEs, and start-up enterprises.</td>
</tr>
<tr>
<td>STATEMENT 003</td>
<td>Amended guidelines for developing and gazetting sector codes</td>
<td>Provides guidance about the treatment of ownership for specialised enterprises (e.g., higher education institutions and non-profit companies) for B-BBEE, and specifies applicable scorecards.</td>
<td></td>
</tr>
<tr>
<td>STATEMENT 004</td>
<td>Scorecards for specialised enterprises</td>
<td>Specifies the process for developing and gazetting sector codes.</td>
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<tr>
<td>CODE SERIES 100</td>
<td>STATEMENT 100</td>
<td>The general principles for measuring ownership</td>
<td>Sets out the measurement of the effective ownership of entities by Black people.</td>
</tr>
<tr>
<td>STATEMENT 102</td>
<td>Recognition of the sale of assets, equity instruments and other businesses</td>
<td>Sets out the conditions where the sale of assets, equity instruments and other businesses will be recognised and sets out how the ownership points will be determined.</td>
<td></td>
</tr>
<tr>
<td>STATEMENT 103</td>
<td>Recognition of equity equivalents for multinationals</td>
<td>Defines how MNCs may apply for recognition of equity equivalent programmes and sets out how ownership points will be determined.</td>
<td></td>
</tr>
<tr>
<td>CODE SERIES 200</td>
<td>STATEMENT 200</td>
<td>The general principles for measuring management control</td>
<td>Sets out the measurement of the effective control of entities by Black people.</td>
</tr>
<tr>
<td>CODE SERIES 300</td>
<td>STATEMENT 300</td>
<td>The general principles for measuring skills development</td>
<td>Sets out the measurement of the extent to which employers carry out skills development initiatives designed to develop the competencies of Black employees and Black people internally and externally.</td>
</tr>
<tr>
<td>CODE SERIES 400</td>
<td>STATEMENT 400</td>
<td>The general principles for measuring enterprise and supplier development</td>
<td>Sets out the extent to which businesses operating in particular sectors carry out supplier development and enterprise development initiatives intended to assist and accelerate growth and sustainability of enterprises owned by Black people.</td>
</tr>
<tr>
<td>CODE SERIES 500</td>
<td>STATEMENT 500</td>
<td>The general principles for measuring socio-economic development</td>
<td>Sets out the measurement of the extent to which entities carry out initiatives that contribute towards socio-economic development or sector-specific initiatives that promote access to the economy for Black people.</td>
</tr>
<tr>
<td>CODE SERIES 600</td>
<td>STATEMENT 600</td>
<td>Qualifying Small Enterprises (QSE)</td>
<td>Specifies the elements of B-BBEE measurable under the QSE scorecard, as well as the applicable measurement principles.</td>
</tr>
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<td>STATEMENT 601</td>
<td>Ownership for QSEs</td>
<td>Specifies the elements of B-BBEE measurable under the QSE scorecard, as well as the applicable measurement principles.</td>
<td></td>
</tr>
<tr>
<td>STATEMENT 602</td>
<td>Management control for QSEs</td>
<td>Specifies the elements of B-BBEE measurable under the QSE scorecard, as well as the applicable measurement principles.</td>
<td></td>
</tr>
<tr>
<td>STATEMENT 603</td>
<td>Skills development for QSEs</td>
<td>Specifies the elements of B-BBEE measurable under the QSE scorecard, as well as the applicable measurement principles.</td>
<td></td>
</tr>
<tr>
<td>STATEMENT 604</td>
<td>Enterprise and supplier development for QSEs</td>
<td>Specifies the elements of B-BBEE measurable under the QSE scorecard, as well as the applicable measurement principles.</td>
<td></td>
</tr>
<tr>
<td>STATEMENT 605</td>
<td>Socio-economic development for QSEs</td>
<td>Specifies the elements of B-BBEE measurable under the QSE scorecard, as well as the applicable measurement principles.</td>
<td></td>
</tr>
<tr>
<td>SCHEDULE 1</td>
<td>Interpretation and definitions</td>
<td>Specifies the interpretation and definitions applicable to the Codes.</td>
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</tbody>
</table>
Are companies required to achieve specific B-BBEE targets in South Africa?

In general, no. Other than in certain state licensing, permitting and authorisation processes, there is no ‘hard law’ requiring that a private entity in South Africa must achieve a certain level of B-BBEE or that Black people must hold a certain percentage of equity in a business. There are also no sanctions for non-compliance. However, in certain sectors, such as mining and telecommunications, minimum equity requirements are or may be imposed in terms of the sector-specific legislation governing those sectors.

How important is B-BBEE for government bodies and state-owned enterprises?

In terms of the BEE Act, government bodies and state-owned enterprises (SOE) are required to take private-sector parties’ relative B-BBEE levels into account when they:

- procure any goods or services,
- issue any licence or other authorisation, or
- enter into partnerships with the private sector.

In licensing and public procurement, SOEs are required to consider the relative B-BBEE level of their suppliers.

Are there offences and/or penalties for non-compliance with B-BBEE requirements?

There are no offences or penalties under the B-BBEE legislative framework relating to B-BBEE performance. However, there may be penalties in certain sectors where B-BBEE requirements are imposed for licensing or other authorisation purposes.

Further, under the B-BBEE legislation, it is a criminal offence to engage in a fronting practice or to make deliberate misrepresentations about an enterprise’s true B-BBEE status. Fines for fronting may be up to 10% of a company’s annual turnover.

What is fronting?

The Codes provide that, when measuring B-BBEE levels, substance applies over legal form. This is an attempt to limit instances of fronting by enterprises which make representations that they have adopted particular B-BBEE initiatives to score points when, in substance, the initiatives have not been adopted.

The BEE Act defines a ‘fronting practice’ as ‘a transaction, arrangement or other act or conduct that directly or indirectly undermines or frustrates the achievement of the objectives of [the BEE Act] or the implementation of any of the provisions of [the BEE Act]’.

The Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA) also provides that B-BBEE must be considered by any public sector body in the context of its procurement practices and details the manner in which B-BBEE must be taken into account by government departments and agencies and SOEs.

The PPPFA Regulations allow B-BBEE minimum thresholds to be set for certain tenders and in every tender evaluation process:

- tenders for contracts with a value of up to ZAR 50 million are scored on the basis that 80% of the available points are based on price, and 20% of the available points are based on the bidder’s B-BBEE rating; and
- tenders for contracts with a value above ZAR 50 million are scored on the basis that 90% of the available points are based on price, and 10% of the available points are based on the bidder’s B-BBEE rating.

For more information on Bowmans’ services concerning Government Contracting and Public Procurement, click here.

How important is B-BBEE for the private sector?

B-BBEE is relevant even to private sector businesses which do not require government licences or sell goods or services to Government. Most private sector businesses will have customers who have to meet their own B-BBEE procurement targets. As a result, customers are likely to consider the B-BBEE rating of their suppliers (this will be a factor in determining the entities with whom to do business). Where customers impose B-BBEE requirements, a prospective supplier’s B-BBEE measurement is a competitive assessment of its B-BBEE status relative to that of its competitors.

This means that – although there are no absolute requirements in relation to B-BBEE – any company wishing to do business in the South African environment must consider and develop its B-BBEE position because an entity that does not have a good B-BBEE rating or does not strive to improve its B-BBEE rating, may be hampered in the conduct of its day-to-day business with the private sector (as well as with Government and organs of state, as discussed above).
Part 2: The Measurement of B-BBEE: Large Enterprises

What is considered a large enterprise?

A ‘Large Enterprise’ is any enterprise with annual total revenue of ZAR 50 million or more.

The term ‘total revenue’ is defined under the Codes as the total income of an enterprise from its operations as determined under South African Generally Accepted Accounting Practice (which are effectively the same as the International Financial Reporting Standards (IFRS)).

How is B-BBEE measured: the scorecard approach

In assessing B-BBEE, a scorecard approach is used whereby the different aspects of B-BBEE are weighted according to a points system to determine the B-BBEE score of a measured entity. A general scorecard is included in the general Codes, while sector-specific scorecards are included in the sector codes that apply to particular sectors.

The scorecards detail the various elements and sub-elements of B-BBEE on which enterprises are measured and stipulate targets to be achieved for each element and sub-element. The closer an enterprise is to reaching a particular target, the more points it will achieve for that element of B-BBEE.

What are the elements of B-BBEE and how are they weighted?

Under the general Codes, the elements of B-BBEE on which a measured entity’s B-BBEE score is measured are as per the graphic opposite:

- Measurement of the extent to which employers carry out initiatives designed to develop the competencies of Black employees and Black people internally and externally
- Measurement of the extent to which enterprises carry out initiatives that contribute towards socio-economic development or sector specific initiatives that promote access to the economy for Black people
- Measurement of the effective control of entities by Black people
- Measurement of the effective ownership of entities by Black people
- Measurement of the extent to which enterprises buy goods and services from Empowering Suppliers with strong B-BBEE recognition levels (preferential procurement) and
- Enterprises carry out supplier development and enterprise development initiatives intended to assist and accelerate growth and sustainability of enterprises owned by Black people
- Socio-Economic Development (Code Series 500)
- Management Control (Code Series 200)
- Skills Development (Code Series 300)
- Enterprise and Supplier Development (Code Series 400)
- Elements under the General Codes of Good Practice
- Ownership (Code Series 100)
A detailed overview of the various elements of B-BBEE and their respective weightings under the general Codes is as follows:

### Ownership

The ownership element considers the extent to which:

- Ownership interests (voting rights and economic interest) in a measured entity are held by Black people, and by Black women specifically; and
- Such ownership interests are unencumbered by debt (referred to as ‘net value’).

- **Proof of ownership rights in the hands of Black people (e.g. share certificates, shareholders’ agreement, etc.).**
- **Points available: 25**

### Management control

The management control element refers to the number of Black members, and Black women in particular, who sit on the measured entity’s board of directors, as well as the number of Black people who participate in all levels of management (executive, senior, middle and junior management).

- **Proof of Black people in top, senior, middle and junior management. Interviews will be held to confirm remuneration, job description, salary, etc. Submission of an employment equity report required.**
- **Points available: 19**

### Skills development

The skills development element is measured based on the amount of money that an entity spends on skills development programmes for Black employees.

- **Proof of training spend on Black employees or non-employees and accredited programmes (e.g. apprenticeships, learnerships, internships, and mentorship programmes).**
- **Points available: 20 (plus 5 bonus points)**

### Enterprise and supplier development

The enterprise and supplier development element under the Codes has three components: preferential procurement, enterprise development, and supplier development.

- **Proof of purchases from current suppliers that have a B-BBEE rating and are empowering suppliers as a percentage of total procurement spend.**
- **Points available: 40 points in total (plus 4 bonus points)**
- **Points required: 25**

### B-BBEE STATUS

<table>
<thead>
<tr>
<th>B-BBEE STATUS</th>
<th>NUMBER OF WEIGHTING POINTS REQUIRED</th>
<th>PROCUREMENT RECOGNITION LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1 Contributor</td>
<td>≥ 100 points</td>
<td>15%</td>
</tr>
<tr>
<td>Level 2 Contributor</td>
<td>≥ 95 points &lt; 100 points</td>
<td>12.5%</td>
</tr>
<tr>
<td>Level 3 Contributor</td>
<td>≥ 90 points &lt; 95 points</td>
<td>10%</td>
</tr>
<tr>
<td>Level 4 Contributor</td>
<td>≥ 80 points &lt; 90 points</td>
<td>8%</td>
</tr>
<tr>
<td>Level 5 Contributor</td>
<td>≥ 75 points ≤ 80 points</td>
<td>5%</td>
</tr>
<tr>
<td>Level 6 Contributor</td>
<td>≥ 70 points &lt; 75 points</td>
<td>2.5%</td>
</tr>
<tr>
<td>Level 7 Contributor</td>
<td>≥ 55 points ≤ 70 points</td>
<td>0%</td>
</tr>
<tr>
<td>Level 8 Contributor</td>
<td>≥ 40 points ≤ 55 points</td>
<td>0%</td>
</tr>
<tr>
<td>Non-Compliant Contributor</td>
<td>&lt; 40 points</td>
<td>0%</td>
</tr>
</tbody>
</table>

The B-BBEE status level and why do they matter?

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The B-BBEE status level and why do they matter?
How is a business’ B-BBEE level assessed?

Where a business presents any information regarding its B-BBEE score – for example, in the context of a tender response – this must be supported by a certificate issued by an accredited verification or rating agency. The certificates issued by the verification agencies are valid for 12 months and certify a measured entity’s B-BBEE level based on a B-BBEE audit of the business which is conducted on an annual basis.

A business’ B-BBEE score will be determined on the basis of its activities during the previous financial year and its ownership and management structures and staff profile as at the date of measurement.

What are the priority elements and how does this affect a business’ B-BBEE level?

There are three priority elements: ownership (net value), skills development, and enterprise and supplier development. A large enterprise is required to comply with all the priority elements. Sub-minimum requirements – 40% of the relevant targets – apply in the context of the three priority elements.

If any of the sub-minimum requirements are not met, a measured entity will be deemed to drop one B-BBEE level. In other words, if a business scores sufficient points to be a Level 3 B-BBEE contributor but fails to meet one of the sub-minimum requirements, it will be deemed to be a Level 4 B-BBEE contributor.

What does this mean about the points that must be scored on each of the priority elements?

- Ownership: 40% of the points for net value (8 points) = 3.2 points
- Skills development: 40% of the total points, excluding bonus points, for skills development (20 points) = 8 points
- Enterprise and supplier development: 40% of the total points for each category under enterprise and supplier development, excluding bonus points:
  - 40% of the total points for preferential procurement (25 points) = 10 points
  - 40% of the total points for supplier development (10 points) = 4 points
  - 40% of the total points for enterprise development (5 points) = 2 points


Different measurement criteria apply under the Codes to an exempted micro-enterprise (EME), a qualifying small enterprise (QSE), and a start-up enterprise.

What is an EME and how is it measured?

Under the Codes, any enterprise with an annual total revenue of ZAR 10 million or less qualifies as an EME.

A deemed B-BBEE status level means an EME does not need to be measured using the scorecard approach under the Codes, and its B-BBEE status level will be determined solely with reference to its percentage of Black ownership. However, EMEs are allowed to be measured in terms of the QSE scorecard should they wish to maximise their points and move to the next procurement recognition level.

The measurement of an EME is as follows:

- 100% Black-owned will be deemed to have a Level 1 B-BBEE status
- 51% Black-owned will be deemed to have a Level 2 B-BBEE status
- Under 51% ownership by Black people will be deemed to have a Level 4 B-BBEE status (B-BBEE procurement recognition of 100%)
What is a QSE and how is it measured?

Under the Codes, any enterprise with an annual total revenue of between ZAR 10 million and ZAR 50 million qualifies as a QSE. The measurement of a QSE is as follows:

- **100% Black-owned**: will be deemed to have a Level 1 B-BBEE status
- **51% Black-owned**: will be deemed to have a Level 2 B-BBEE status
- **Under 51% ownership by Black people**: must be measured Under the QSE Code

The QSE Code contains simplified scorecards for each of the five elements and includes adjusted points weightings for skills development and enterprise and supplier development. Under the QSE Code, the elements of B-BBEE on which an enterprise’s B-BBEE score is measured and their respective weightings are:

<table>
<thead>
<tr>
<th>B-BBEE ELEMENT</th>
<th>CODE SERIES 600</th>
<th>POINTS AVAILABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>Statement 601</td>
<td>25</td>
</tr>
<tr>
<td>Management control</td>
<td>Statement 602</td>
<td>15</td>
</tr>
<tr>
<td>Skills development</td>
<td>Statement 603</td>
<td>25 (plus 5 bonus points)</td>
</tr>
<tr>
<td>Enterprise and supplier development</td>
<td>Statement 604</td>
<td>30 (plus 3 bonus points)</td>
</tr>
<tr>
<td>Socio-economic development</td>
<td>Statement 605</td>
<td>5</td>
</tr>
<tr>
<td><strong>TOTAL (including bonus points)</strong></td>
<td></td>
<td><strong>108</strong></td>
</tr>
</tbody>
</table>

With regard to the priority elements, a QSE is required to comply with the sub-minimum requirements for ownership (as a compulsory element) as well as the sub-minimum requirements for either skills development or enterprise and supplier development (unless it is eligible for a deemed rating).

What is a start-up enterprise and how is it measured?

A start-up enterprise is defined under the Codes as ‘a recently formed or incorporated entity that has been in operation for less than one year’. Importantly, a start-up enterprise does not include any newly constituted enterprise which is merely a continuation of a pre-existing enterprise.

Under the Codes, start-up enterprises must be measured as EMEs for the first year following their formation or incorporation (unless the start-up enterprise chooses to be measured on the QSE scorecard or generic scorecard). This provision applies regardless of the expected total revenue of the start-up enterprise.

If, however, a start-up enterprise tenderers on large projects, it must submit a scorecard. The value of the tender will determine whether a start-up enterprise is required to submit a QSE scorecard or a generic Code scorecard.

How is the B-BBEE recognition level of an EME, QSE and a start-up enterprise assessed?

All EMEs (including start-up enterprises) and certain QSEs (QSEs with 51% or 100% Black ownership) will not need to be verified by a verification agency and will only need an affidavit (signed before a Commissioner of Oaths) or a certificate issued by the Companies and Intellectual Property Commission, confirming the following:

- details of the deponent;
- reliance on either management accounts or financial statements;
- the financial year of the financial information;
- total annual revenue (either ZAR 10 million or less for an EME, or between ZAR 10 million and ZAR 50 million for a QSE); and
- level of Black ownership.

There is a standard form available for EMEs or QSEs wishing to complete an affidavit. The affidavit must be completed on an annual basis. Any misrepresentation is a criminal offence.

A QSE with less than 51% Black ownership will need to be measured under the QSE Code on each of the five ordinary elements of B-BBEE and must obtain a certificate issued by an accredited verification or rating agency.

It is important to note that, under the Codes, initiatives which split, separate or divide a measured entity as a means of ensuring eligibility as an EME, a QSE or a start-up enterprise may constitute an offence. Any such initiatives must be carefully considered before relying on such initiatives to obtain a B-BBEE recognition level.
Part 4: The Measurement of B-BBEE: Foreign Entities and Multinational Corporations (MNCs)

Must a foreign entity or MNC comply with B-BBEE requirements in South Africa?

No. Other than in terms of certain sector-specific legislation (which may impose limitations on foreign ownership within that sector, such as broadcasting and aviation), there is no requirement for a foreign entity or MNC to comply with B-BBEE. This means there is no requirement for a foreign entity or MNC to sell any equity to conduct business in South Africa.

However, an entity that is 100% foreign-owned will not generally score any points for ownership, as Black people do not hold any economic interest or voting rights in that entity. A score of zero for ownership will impact negatively on a business’ overall B-BBEE score which may affect its ability to do business in South Africa, particularly with Government and organs of state, as well as certain private sector entities.

Does that mean a foreign entity or MNC must sell equity to operate effectively in South Africa?

Not necessarily and much will depend on the sector and the market within which a foreign entity or MNC operates, including the role of competitors. Some options include the following:

Option 1: Sale of equity (See also our Guide 3 - B-BBEE in South Africa: Ownership and Ownership Structures)

Some possible sale of equity options include:
- 10% sale of equity (to avoid a penalty being imposed for failure to meet the ownership sub-minimum requirements)
- 25% + 1 sale of equity (to score all available points on the ownership scorecard, under the general Codes)
- 30% Black woman-owned (which has certain advantages from the perspective of preferential procurement)
- 51% Black-owned (which has certain advantages from the perspective of preferential procurement)

Option 2: Participation in an Equity Equivalent Investment Programme

The Codes recognise that some MNCs – defined as a measured entity with a business in South Africa and elsewhere which maintains its international headquarters outside South Africa – have global practices preventing them from complying with the ownership element of B-BBEE through the traditional sale of shares to Black South Africans.

Provided the global practice existed before 2003, the Codes make provision for the recognition of contributions in lieu of a direct sale of equity. Such contributions are referred to as equity equivalent (EE) contributions. EE contributions count towards the ownership element of B-BBEE made by MNCs. This is discussed further in our Guide 3 - B-BBEE in South Africa: Ownership and Ownership Structures.

Option 3: Exclusions from Total Measured Procurement Spend

Most private sector businesses to which services are rendered or goods are sold will themselves have to meet B-BBEE procurement targets. Under the preferential procurement element, the total spend of a measured entity with suppliers is measured against the total procurement expenditure or total measured procurement spend (TMPS). Measured entities can increase their scores on the preferential procurement element if they procure a greater percentage of goods and services from suppliers with higher B-BBEE ratings.

TMPS includes, among other things, cost of sales, operational expenditure, capital expenditure, imports and third-party procurements.

However, the Codes also provide for certain permissible exclusions from TMPS, including:
- imported capital goods or components for value-added production in South Africa provided there is no existing local production of such capital goods or components and those capital goods or components promote further value-added production in South Africa; and
- other imported goods and services if there is no local production of those goods or services including, but not limited to, imported goods or services that carry a different brand to the locally produced goods or services; or have different technical specifications to the locally produced goods or services.

Understanding whether goods and services can be excluded from customers’ procurement spend may form an integral part of a foreign entity or MNC’s B-BBEE strategy.
Part 5: An Overview of B-BBEE in Certain Sectors

The Minister of Trade and Industry has published various sector-specific codes which detail the manner in which B-BBEE must be measured for businesses operating in particular sectors. Where a sector-specific code has been issued, businesses in that sector are required to apply the relevant sector code rather than the general Codes. The general Codes apply only where there is no sector-specific code although the general Codes and the sector-specific codes should generally apply the same broad principles. All sector codes are required to be aligned with the general Codes.

The table below provides a high-level overview of the sector codes that have been published in various sectors to date.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Effective Date</th>
<th>Application</th>
<th>Ownership Targets</th>
<th>Notable Aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Codes</td>
<td>1 May 2015</td>
<td>General application</td>
<td>Black people: 25% Black women: 10%</td>
<td>Thresholds:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>EME: enterprise with annual total revenue less than ZAR 5 million.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>QSE: enterprise with annual total revenue between ZAR 5 million and ZAR 45 million.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Note: A draft amended Tourism Sector Code was published for public comment on 27 September 2019 to ensure alignment with the amended general Codes.</td>
</tr>
<tr>
<td>Tourism</td>
<td>20 November 2015</td>
<td>All enterprises within the Tourism Sector and all parts of value chain, including:</td>
<td>Black people: 30% Black women: 15%</td>
<td>Thresholds:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Accommodation</td>
<td></td>
<td>EME: enterprise with annual total revenue less than ZAR 5 million.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Hospitality and related services</td>
<td></td>
<td>QSE: enterprise with annual total revenue between ZAR 5 million and ZAR 45 million.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Travel and related services</td>
<td></td>
<td>Note: A draft amended Tourism Sector Code was published for public comment on 27 September 2019 to ensure alignment with the amended general Codes.</td>
</tr>
<tr>
<td>MAC</td>
<td>1 April 2016</td>
<td>• Advertising company</td>
<td>Black people: 45% Black women: 30%</td>
<td>Thresholds:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Public relations company</td>
<td></td>
<td>Different thresholds for EMEs, QSEs and large enterprises for each sub-sector.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Communication company</td>
<td></td>
<td>Additional points:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Increase in points available under management control (27 points, as opposed to 19 points under the general Codes).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Increase in the absorption points to 10 under the skills development element (higher than 5 points in the general Codes).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Additional element:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Responsible Social Marketing and Communications (5 points) - measuring contributions made towards the promotions of responsible social marketing.</td>
</tr>
<tr>
<td>ICT</td>
<td>7 November 2016</td>
<td>All persons, organisations and entities operating in the ICT sector in South Africa.</td>
<td>Black people: 30% Black women: 10%</td>
<td>Additional points:</td>
</tr>
<tr>
<td>Forestry</td>
<td>21 April 2017</td>
<td>All enterprises involved with commercial forestry and first-level processing of wood products, including the following sub-sectors: commercial primary growth, fibre production, contracting, sawmilling, pole and charcoal. Non-timber forest product enterprises fall outside the ambit of the Forest Sector Code.</td>
<td>Black people: 25% Black women: 10%</td>
<td>Ownership element:</td>
</tr>
<tr>
<td>Property</td>
<td>9 June 2017</td>
<td>All privately owned and public enterprises in the property sector, including the following industries:</td>
<td>Black people: 10% Black women: 25%</td>
<td>Additional element:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Residential property industry</td>
<td></td>
<td>1. 3 bonus points available for 35% disposal of assets to Black-owned and controlled company with at least 51% Black ownership, as a percentage of total asset disposal.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Commercial property industry</td>
<td></td>
<td>2. 3 bonus points available for 35% disposal of assets to Black-owned and controlled company with at least 51% Black ownership, as a percentage of total asset disposal.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Other property value chain areas</td>
<td></td>
<td>3. 3 bonus points available for 35% disposal of assets to Black-owned and controlled company with at least 51% Black ownership, as a percentage of total asset disposal.</td>
</tr>
<tr>
<td>Construction</td>
<td>December 2017</td>
<td>All entities falling within the construction sector, including:</td>
<td>Black people: 14% Black women: 35%</td>
<td>For both contractors and BEPs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Contractors (enterprises conducting construction projects, activities, including civil engineering, electrical engineering, power transmission, general building and specialist construction works); and</td>
<td></td>
<td>Years 1-3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Built environment professionals (BEP) (enterprises that conduct activities such as planning, design and costing of construction projects in the built environment).</td>
<td></td>
<td>Black people: 32.5% Black women: 10%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Year 4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Black people: 35% Black women: 14%</td>
</tr>
</tbody>
</table>

The above table provides a high-level overview of the sector codes that have been published in various sectors to date.
# Overview of B-BBEE sector nodes continued

<table>
<thead>
<tr>
<th>Sector</th>
<th>Effective Date</th>
<th>Application</th>
<th>Ownership Targets</th>
<th>Notable Aspects</th>
</tr>
</thead>
</table>
| **Financial**        | 1 December 2017| Any natural or juristic person conducting business in the South African financial sector, including: banking, long-term and short-term insurance, re-insurance, retirement fund administration, management of collective investment scheme assets, financial services intermediation and brokerage and private equity. | Black people: 25%  
Black women: 10%  
(unless exempted from ownership)  
**Scorecards:**  
Different scorecards (and points) for (1) banks and life offices, (2) short-term insurers, (3) stock exchanges and stock exchange members, and (4) other institutions.  
**Additional element:**  
Access to financial services aimed at facilitating access to finance for Black people and Black-owned enterprises. | **Targets**  
**Notable Aspects**  
Scorecards:  
Different scorecards (and points) for (1) banks and life offices, (2) short-term insurers, (3) stock exchanges and stock exchange members, and (4) other institutions.  
Additional element:  
Access to financial services aimed at facilitating access to finance for Black people and Black-owned enterprises. |
| **Agriculture**      | 21 April 2017  | Enterprises which derive more than 50% of turnover from:  
• primary production of  
• agricultural products;  
• provision of inputs and  
• services to enterprises  
• engaged in production of  
• agricultural products;  
• beneficiation of agricultural  
• products of primary or  
• semibeneficiated  
• form; and  
• storage, distribution and / or  
• trading and allied activities  
• related to non-beneficiated  
• agricultural products. | Black people: 25%  
Black women: 10%  
**Ownership:**  
Target for land ownership where applicable is 30%.  
**Socio-economic development:**  
Up to 15 points available under socioeconomic development (compared to only 5 points under the general Codes). | **Year 1**  
Black people: 25%  
Black women: 10%  
**Thresholds:**  
EME: enterprise with annual total revenue less than ZAR 5 million.  
QSE: enterprise with annual total revenue between ZAR 5 million and ZAR 50 million.  
**Additional element:**  
Localisation (10 points) – measures extent to which entities procure defence material from local enterprises that contribute to the development of manufacturing and new locally developed technology. |
| **Defence**          | 12 April 2019  | All entities in the South African defence industry, including private enterprises providing defence material or other supplies, products and services to the Department of Defence. | Year 1  
Black people: 25%  
Black women: 10%  
**Thresholds:**  
EME: enterprise with annual total revenue less than ZAR 5 million.  
QSE: enterprise with annual total revenue between ZAR 5 million and ZAR 50 million.  
**Year 2**  
Black people: 30%  
Black women: 15%  
**Additional element:**  
Localisation (10 points) – measures extent to which entities procure defence material from local enterprises that contribute to the development of manufacturing and new locally developed technology. |

<table>
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<tr>
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</tr>
</thead>
</table>
| **Transport**        | 21 August 2009 | Comprises eight sub-sectors:  
• Bus commuter and coach  
• services  
• Taxi industry  
• Road freight  
• Public sector – transport  
• Maritime transport and  
• services industry  
• Forwarding and clearing  
• Rail sector  
• Domestic aviation. | Black people: 25%  
Black women: 10%  
**Ownership:**  
Different ownership targets set for each of the sub-sectors. | **Year 1**  
Black people: 25%  
Black women: 10%  
**Thresholds:**  
EME: enterprise with annual total revenue less than ZAR 5 million.  
QSE: enterprise with annual total revenue between ZAR 5 million and ZAR 50 million.  
**Additional element:**  
Localisation (10 points) – measures extent to which entities procure defence material from local enterprises that contribute to the development of manufacturing and new locally developed technology. |
| **Chartered accountancy** | Draft sector code only | The chartered accountancy profession and sector. | Black CAs: 20%  
Black people: 22.5%  
Black women CAs: 6.5%  
Black women: 13%  
**Ownership:**  
Up to 3 bonus points given as an incentive for enterprises to achieve various higher ownership targets. |
Our Firm

We help our clients manage legal complexity and unlock opportunity in Africa.

Our expertise is frequently recognised by independent research organisations. Most recently, our Kenyan practice won the 2022 Chambers Africa Award for Law Firm of the Year in Kenya. In 2021, Bowmans won three IFLR Africa Awards including National Firm of the Year for South Africa and for Zambia. At the 2021 Africa Legal Awards, we won five practice awards, more than any other law firm.

In the 2021 DealMakers Africa Awards we ranked first in East Africa for both deal value and deal flow, with a 52% and a 40% share of the market respectively. We also advised on the deals named East Africa Deal of the Year and East Africa Private Equity Deal of the Year. In the 2021 DealMakers Awards we placed first by deal flow and second by deal value in the Unlisted M&A Transactions category; first by deal flow and third by deal value in the BEE Deals category; third and fourth by value and flow respectively, in the Listed Company M&A Transactions category; and fourth by deal value and deal flow in the General Corporate Finance category.

Our Presence in Africa

Recognising the size and enormous diversity of Africa, our approach to providing legal services across the continent is intended to offer on-the-ground advice in the countries that matter for our clients. Our presence in Africa is always evolving to meet the changes that are shaping the future of this vast continent.

Currently, we have our own offices in six African countries: Kenya (Nairobi), Mauritius (Moka), South Africa (Cape Town, Durban, Johannesburg), Tanzania (Dar es Salaam), Uganda (Kampala) and Zambia (Lusaka).

We work closely with our Bowmans Alliance firms in Ethiopia (Aman Assefa & Associates Law Office) and Nigeria (Udo Udoma & Belo-Osagie). These are two of the leading corporate and commercial law firms in their jurisdictions.

We have special relationships with competent practitioners in Malawi and Mozambique. We also have a non-exclusive co-operation agreement with French international law firm Gide Loyrette Nouel that provides our clients access to assistance in francophone west and north Africa. The arrangement provides complementary access for Gide’s clients and lawyers to markets in central, southern and eastern Africa.

We ensure that, whenever our clients need legal advice in other parts of Africa, we can assist them by tapping into our comprehensive database of contacts of the best firms and practitioners across the continent.
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