GUIDE 2 -
B-BBEE IN SOUTH AFRICA:
SOME PRACTICAL STEPS
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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) 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 – 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 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 (Codes) 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 regulations that govern it. This, the second in the series, provides a step-by-step overview of the practical steps that can be followed by any company considering and/or implementing a B-BBEE strategy or plan.

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.
Step 1: Understand the Broad Regulatory Framework Applicable to B-BBEE in South Africa

How is B-BBEE regulated in South Africa?

- The BEE Act is the principal legislation for the promotion and measurement of B-BBEE in South Africa.
- The BEE Act also establishes the B-BBEE Commission (B-BBEE Commission) which is responsible for investigating alleged ‘fronting’ practices and referring them for prosecution.
- The BEE Regulations are published under the BEE Act.
- Among other things, the BEE Regulations regulate the functions of the B-BBEE Commission including, for example, the complaints process and the registration of major B-BBEE.

- The BEE Act 53 of 2003 (BEE Act)
- The B-BBEE Regulations, 2016 (BEE Regulations)
- The Liquid Fuels Charter, 2003
- The Mining Charter, 2018
- The sector-specific codes
- The Codes of Good Practice (Codes or general Codes)

- The Liquid Fuels Charter is published as a Schedule under the Petroleum Products Act 120 of 1977 and is intended to empower historically disadvantaged South Africans in the petroleum and liquid fuels industry.
- The process of aligning the Liquid Fuels Charter with the B-BBEE legislation is underway.
- For more information on the Bowmans’ Oil and Gas Practice, click here.

- 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 Bowmans’ services concerning the Mining Sector, click here.

- The Codes are published under the BEE Act and detail the manner in which B-BBEE must be measured in South Africa.
- In assessing B-BBEE, a ‘scorecard’ (measurement) approach is used whereby the different aspects of B-BBEE, including ownership, management control, skills development, enterprise and supplier development (including preferential procurement), and socio-economic development, are accorded points to arrive at the B-BBEE score of a company.
- The Codes set out these indicators to measure B-BBEE and the weightings attached to these indicators.

Step 2: Assess and Understand the Environment Applicable to the Business

Question: What is the annual turnover and Black ownership of the enterprise?

An assessment of the annual turnover and Black ownership of a business will be important as it will determine how a business will be measured under the Codes. In other words:

- Will it be measured as a large enterprise or as a QSE, EME or start-up?
- Is it a foreign company or multinational corporation, and can the South African operations be ring-fenced?
- Does the enterprise currently have any Black ownership?

Question: Which sector does the enterprise fall into from the perspective of its core business?

An assessment must be made as to the applicable sector into which the enterprise falls into with regard to its core business. The Black ownership targets and thresholds will be different in terms of each sector code, and the manner in which the elements are dealt with may differ.

In a licensing, permit or authorisation context, B-BBEE requirements are implemented in the empowering legislation for the licence, permit or authorisation in question (e.g. banking, broadcasting, mining, telecommunications, transportation, etc.) and in certain instances, B-BBEE minimum thresholds may be set.

Question: To which sectors does the enterprise supply (in which sectors are its customers)?

An assessment must be made as to the sectors supplied by the enterprise (the sectors in which the enterprise’s customers can be found). This is because an enterprise’s customers may have certain B-BBEE procurement targets to achieve under certain sector-specific codes which would mean that the enterprise’s target B-BBEE rating would be important.

Question: What is the B-BBEE level of the enterprise’s competitors?

Against this background, it is necessary to consider the enterprise’s competitors’ B-BBEE levels as this may affect the business’s assessment.

- The various sector-specific codes published under the BEE Act detail the manner in which B-BBEE must be measured for businesses operating in particular sectors (although sector-specific codes generally apply the same broad principles as the general Codes).
- 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 brokers)
  - Forestry
  - Information communication and technology (ICT)
  - Marketing and advertising and communications (MAC)
  - Property
  - Tourism
  - Transport
Step 3: Assess and Understand the B-BBEE Requirements of Existing and Prospective Customers

Any existing contractual requirements relating to an enterprise’s B-BBEE level must be considered.

Consideration must also be given to the nature of the enterprise’s current and prospective customers, and to any specific tenders or procurement programmes the enterprise is targeting (where a specific B-BBEE level may be required):

- **Government bodies and state-owned enterprises (SOEs):** In terms of the BEE Act, government bodies and SOEs are required to take private-sector parties’ relative B-BBEE levels into account when they procure any goods or services or enter into any partnerships. This means businesses that sell to Government would need to consider their levels of B-BBEE in order to conduct their businesses in those sectors. B-BBEE requirements are generally set out in tender documents.

- **Private sector companies:** B-BBEE is relevant even to private-sector businesses which do not require government licences or sell goods or services to Government. Most private 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 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.

Step 4: Obtain an Indicative B-BBEE Rating

To the extent that the measured enterprise – the entity that wants to obtain a rating certificate – decides to pursue a particular B-BBEE certification, it would be important to obtain an indication of its likely score under each of the various elements of the relevant scorecard.

This indicative B-BBEE rating could be obtained from an accredited verification or rating agency through a B-BBEE audit of the business. A business’ B-BBEE score will be determined based on its activities during the previous financial year and its ownership and management structures and staff profile as at the date of measurement.

Step 5: Conduct a B-BBEE Gap Analysis

At the same time as determining an enterprise’s likely score, a gap analysis should be performed (i.e. a determination of where steps could be taken to improve the enterprise’s scoring under certain elements of the Codes). This will ultimately determine the points that should be achieved on the ownership element and the appropriate ownership structure, if any, to be implemented.
Step 6: Develop a B-BBEE Plan, Which May Include an Ownership Transaction

An enterprise may also consider participating in the Youth Employment Services (YES) Initiative which has been introduced to provide for enhanced B-BBEE recognition for YES-measured entities in South Africa, enabling these entities to improve their B-BBEE rating by one to two B-BBEE levels. In essence, the YES Initiative aims to place one million young (below the age of 35) Black South Africans in employment for at least a year to upskill them and make it easier for them to find further work opportunities.

For more information on ownership transactions and structures, please see the third part in this series of B-BBEE guides focusing on the ownership element.

Step 7: Obtain a B-BBEE Rating but Constantly Re-assess the Environment Applicable to the Business

Once a B-BBEE plan has been developed and implemented, a B-BBEE rating should be obtained, 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. Remember that a B-BBEE audit will be conducted once a year and the measured entity’s B-BBEE rating will be determined based on its activities during the previous financial year as well as its ownership and management structures and staff profile as at the date of measurement.

Once a B-BBEE rating has been obtained, it will be necessary for a measured entity to consistently re-assess and re-evaluate its position in the market, particularly concerning its competitors and the requirements of its current and aspirational customer base.

It is imperative to keep up to date with any legislative developments within the B-BBEE space, as well as the approach adopted by the BEE Commission.
Our Firm

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

We have an enviable track record of providing legal services to the highest professional standards in Africa. We work for clients across numerous African jurisdictions on corporate, finance, competition, taxation, employment, technology and dispute resolution matters.

With eight offices in six African countries and over 400 specialist lawyers, we draw on our unique knowledge of the business and socio-political environment to advise clients on a wide range of legal issues.

Everywhere we work, we offer clients a service that uniquely blends expertise in the law, knowledge of the local market, and an understanding of their businesses. Our aim is to assist clients to achieve their objectives as smoothly and efficiently as possible while minimising the legal and regulatory risks.

Our clients include domestic and foreign corporates, multinationals, funds and financial institutions, across almost all sectors of the economy, as well as state-owned enterprises and governments.

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 2022, Bowmans won six IFLR Africa Awards including overall M&A Team of The Year; Jurisdictional Firm of the Year: South Africa; Loans Firm of the Year: South Africa; M&A Firm of the Year: South Africa; and Project Finance Firm of the Year: South Africa. We also advised on the deal named M&A Deal of the Year. At the 2022 Africa Legal Awards, we won four practice awards including Banking and Finance Team of the Year; Capital Markets Team of the Year; Tax Team of the Year; and Transport and Infrastructure Team of the Year.

On the global front, Bowmans has long-standing and excellent relationships with a range of international law firms with whom we often work on Africa-focused client mandates. We are also a member firm of Lex Mundi, a global association of more than 160 independent law firms in all the major centres across the globe. Lex Mundi gives us the ability to connect our clients with the best law firms in each of the countries represented.
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