

## 7 OUT OF 10 FOR CODES OF GOOD PRACTICE

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Bravura Economic Empowerment Consulting (BEECon) today announced its views on the finalised Codes of Good Practice that was released by the Department of Trade and Industry yesterday.

Ajay Lalu, a Partner at BEECon, stated he gave the finalised Codes 7 out of 10. In his views the Codes would not satisfy all stakeholders but its robust nature ensures a fair document that all companies would be able to implement. He was concerned that the complexity of the Codes had not been reduced. His view is as a consequence of things like the Gender Recognition Adjustment and the process to prove indirect ownership and equity equivalents.

“While Equity Equivalents has been a concession to benefit multinational companies, equity equivalents programmes need to make business sense. On the one hand you are selling a 25,1% equity interest maybe at a slight discount and receiving cash for it. Assuming that this cash is re-invested in the business and the business continues to grow, it would yield a positive return. With an equity equivalents programme you have to invest the amount of cash you would have received had you sold equity, over a 10 year period and in projects with variable return. It will take a considerable amount of management time and administration costs to keep an equity equivalents programme running. On the one hand you have a net cash flow benefit while on the other hand you could have a net cash outflow.” Says Lalu.

He welcomed the limitation of ownership by broad based schemes saying that although some companies had implemented good schemes many companies had abused the employee share ownership schemes. “Many workers that participate in such schemes are more concerned about job security rather than playing a vital role in transformation or being an active shareholder.” Says Lalu.

On the issue of recognition of ownership after sale or disposal he felt that the Codes should have set a minimum limit of demonstrative value created for black shareholders. In the absence of a minimum even R1 of value created could conceivably result in ownership recognition provided the other criteria are met.

The Gender Recognition Adjustment is a very clever way for focusing the minds of companies on advancing black women. Previously companies would be willing to forego any points on black women but now whatever they actually score under these measures would be significantly reduced if at least 40% of the measure is not made up by black women. “In our view this would mean that companies should focus much more attention on recruiting and promoting black women in particular.”

According to BEECon the splitting of the compliance targets between 5 years and 10 years is a red herring unless companies plan according to the 10 year target and only measure themselves according to the 5 year target. If they do not do this in year 6 you would see a dramatic reduction in BEE status of companies.


On enterprise development BEECon welcomed the additional weighting given to Enterprise Development. "In our experience many corporate clients are doing very little in this area. It is one of the primary ways that corporates can significantly impact real empowerment and at the same time initiate economic growth. However the inclusion of industry specific initiatives allows for some level of abuse unless the dti can elaborate on what type of initiative would be allowed. So for example if the financial sector spent R100m on creating access to financial services this should not be enterprise development unless they are creating a new business that is black empowered that provides this service on behalf of the industry."

BEECon expects the Codes to be Gazetted early in 2007.

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KEITH WEBB, AJAY LALU

PARTNER, BRAVURA ECONOMIC EMPOWERMENT CONSULTING



Bravura Economic Empowerment Consulting is a 100% Black Empowered Company as per the DTI's Codes of Good Practice. It offers strategic consulting to help its clients find advantage in Black Economic Empowerment regulation. The company differentiates itself by placing specialised focus on finding and creating this strategic advantage.

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