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BEE codes unlikely to boost value of deals

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Johannesburg – Even though the black economic empowerment (BEE) codes of practice are ready to be written into the law books, the value of BEE deals is not expected to be in excess of R60 billion this year.

Colin Reddy, BusinessMap Foundation's BEE research director, estimated BEE deals to be between R50 billion and R60 billion for 2006.

"For BEE deals to increase, the volume of smaller transactions will have to increase significantly as many of the bigger deals have already been completed," said Reddy, who defined big deals as those worth R500 million and above.

He said BusinessMap was compiling final figures for 2006, which will be released by the end of February.

"The figure is probably not better or worse than 2005. There is a likelihood that it will match ... the figures for 2005."

The momentum of deals took a dip in 2005, with R55 billion worth of deals recorded compared with R62 billion in 2004.

Peter Vundla, the chairman of the Presidential Black Business Working Group, said that the empowerment codes, which

are meant to drive economic transformation, would become binding once they were gazetted by the end of this month.

The codes had managed to reduce complexity, and companies that held back on BEE deals were now in a position to proceed with deals.

Vundla said that although black business did not get all it wanted in the codes as they stood – such as the definition of small and medium enterprises, the principle of "once empowered always empowered" and the issue of pension funds – the group accepted the document.

"We registered our concerns on these issues, but overall we accept the codes as a working document," he said.

The codes, which were approved by cabinet in December, three years after the government drafted them, are a compromise between what black business activists and white and foreign businesses wanted. Both parties accepted the codes as a working document.

Key compromises include the fact that, subject to certain conditions, pension funds can be scored for empowerment or left out of any calculations of equity ownership.

This means that companies need to sell fewer shares to black people to meet their black ownership requirements.

The exclusion principle in the codes allows for ownership by certain entities to be excluded from calculation of ownership

up to a maximum of 40 percent of the measured entity. The entities that can be omitted include state-owned companies, non-profit companies and mandated investments such as pension funds, medical schemes and insurance funds.

Bill Lacey, an economist at the SA Chamber of Business, said that while the chamber expected deals to increase, "our concern is how small business people will apply these codes, which are still fairly complex to understand".