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EXECUTIVE SUMMARY

From March to November 2018, a research project was conducted, which focused on and was titled “Contribution of European Union Investments to Inclusive Growth in South Africa”. The study, fully funded by the SA-EU Dialogue Facility and implemented at the initiative of the Black Management Forum (BMF) with an endorsement from the Department of Trade and Industry (the dti), comprised of a combination of company surveys, evaluation of publicly available B-BBEE Scorecard and Employment Equity Report data, deep dive workshops and a concluding panel discussion in the context of the BMF Annual Conference, 11 October 2018.

In accordance with the overall objectives of the EU-SA Dialogue Facility, this project sought to facilitate a meaningful dialogue between SA and EU partners. The aim of the project was to undertake an exploratory study on the contribution of EU investment to inclusive growth and broad-based transformation in SA. For this reason, 1,611 companies were randomly identified, selected and profiled, which met the criteria of a 50%+ effective shareholding by an EU-domiciled shareholder.

The specific objectives were to:

a. Determine the nature and structure of EU FDI in SA;
b. Assess the contribution of EU FDI to economic participation (via employment) in SA; and
c. Examine the contribution of EU FDI companies towards broad-based transformation in SA.

The underlying assumption was that more evidence-based information will support future policy and partnership discussions between SA and EU. As this study was a first of its kind considering the specific objectives, it was meant to set a base line and inform future research direction in areas which were identified during the research project but require further investigation and exploration.

Based on data disclosed by the sample of companies, the following major observations were made:

1) The economic activities of EU companies, reflected in the sample data, are representative of all major industrial classifications. However, investments are not evenly distributed. Most companies operate in the manufacturing industry, financial and business services, and trades.

2) 868 companies disclosed their employment figures, which totalled at least 468,474 jobs, 95% of which were permanent jobs. 79% of the employees represented people of colour with 16% being white locals and 2% foreign nationals. 74% of the analysed employees were semi-skilled and skilled.

3) Results appear to indicate that gender and racial spread in EU companies reflect national averages but that balance in medium and higher skilled positions EU investors compare favourably.

4) The study suggests that South Africa is failing to attract investment from EU SMEs. Workshop participants highlighted the challenges faced by SME FDI investors, which included complex administrative and regulatory regimes and policy uncertainties (export and investment guarantees), as well the adoption of the B-BBEE legislation. Perception played a major role, in particular amongst SMEs in terms of the equity element of the Scorecard, the current land reform debate and the termination of the bilateral investment treaties.

5) Inclusive growth and the corresponding transformation objectives were not only widely accepted and welcomed but a view amongst contributing companies prevailed that South Africa had to move beyond aspects of compliance towards a culturally entrenched approach. Overwhelming support for B-BBEE as a concept was contrasted with the bureaucratic challenges and intricacies of the actual verification and data capturing process. EU companies stressed their commitment to diversity and equality even beyond the obligations set out by the B-BBEE Scorecard, whilst at the same time a high number of Scorecards (over 60%) was not disclosed due inter alia to tender-related competitive aspects.

6) An observation which was widely shared by workshop participants across all the workshops was that the youth component had not been adequately accounted for in the sample data. One workshop participant, in particular, stressed the importance of this in light of the high unemployment rate amongst the youth in South Africa.
Finally, in several of the interventions, participants expressed the opinion that fast-tracking skills transformation (with a view towards increasing management control) still required both patience and time. Some added that one could only fast-track skills transformation to a point and, also, that any fast-tracking should remain substantive. Experience could only be fast-tracked or compressed to a point. Substantive transformation also meant that anyone who had been fast-tracked in South Africa, particularly in a multinational context, should be able to be globally competitive and suited to a similar role anywhere in the world.

Conclusions can be mainly tentative considering limitations affecting the sample. Further research should be conducted notably to check information used so far against other sources.

In summary, the intent of the study to advocate for more evidence-based policy in the context of FDI and inclusive growth has been widely supported, not least during the concluding panel session of the BMF Annual Policy Conference. Stakeholders at the conference also noted the need for policy interventions to consider the experience of those at the implementation end of the policy to facilitate a seamless and consistent policy implementation process.

All stakeholders have expressed their support for additional research and, subsequently, implementation of findings.
1. BACKGROUND AND INTRODUCTION

The concept of foreign direct investment (FDI), and, in particular, its benefits for host countries, remains contested especially in developing countries. One view is that on the African continent, FDI is largely structured around foreign companies exploiting the abundant natural resources and the industries linked to these activities. This view has been preserved by the prevalence of financial outflows, especially illegal financial outflows widely known as Illicit Financial Flows (IFFs). On the other hand, FDI has also been viewed to have positively impacted on economic growth and employment within host countries. Interestingly, as stated in Wentworth, Schoeman and Langalanga (2015), what has not been substantially explored is the role of FDI in driving inclusive growth in societies which suffer from huge inequalities, such as in South Africa.

This research study, aimed at understanding the contribution of EU investments to Inclusive Growth in South Africa is embedded in the EU-SA Dialogue Facility. The latter is a programme between the European Union (EU) and South Africa (SA) facilitated the implementation of priority aspects of the SA-EU Trade, Development and Cooperation Agreement (TDCA) and the Strategic Partnership Joint Action Plan (SP-JAP). The programme raises awareness of the special relationship between the EU and SA. The Black Management Forum (BMF) and the Department of Trade and Industry (the dti) are project sponsors.

The overarching objective of the project is to facilitate a meaningful and collaborative dialogue between the Department of Trade and Industry (the dti), the BMF and the EU for mutual benefit. As project sponsors, the dti and BMF are interested in economic transformation, employment creation, skills development, de-racialising equity ownership and opening up the supply chains of EU investor companies primarily to black business. Further, both partners of the EU in this study are interested in fostering inclusive growth and broader transformation targets as set out in relevant South African policies and legislation.

2. FRAMEWORK

2.1. Inclusive Growth in South Africa – defined in context.

“Inclusive growth” as a holistic approach towards addressing South Africa’s triple challenges of poverty, inequality and unemployment has formed part of government policy discourse and development plans, such as the National Development Plan (NDP). Inclusive growth as a concept has been difficult to define with scholars not reaching consensus on a definitive definition.

For the purpose of this research, the definitions by Fourie (2014) and Ranieri and Ramos (2013) have been adopted and used to guide the research questions. Fourie (2014) says that inclusive growth “combines the increased participation of poor and marginalized people in growing economic processes (via employment) with increased sharing in the benefits of growth (via rising incomes as well as increased benefits from social expenditure, including human capacity building).” Thus, as indicated by Ramos et al. (2013), analysing inclusive growth can be divided into two dimensions: benefit-sharing (poverty and inequality) and participation (employment). Anand, Mishra and Peiris (2013) argue that inclusive growth combines the increased participation of poor and marginalised people in growing economic processes (via employment) with increased sharing in the benefits of growth (via rising incomes as well as increased benefits from social expenditure, including human capacity building)4.

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For the purpose of this research and given the information being assessed, the aspect of economic participation via employment has become a key focus.

Furthermore, in the South African context, inclusive growth also necessitates broad-based transformation. National Treasury has linked the twin objectives of inclusive growth and economic transformation in this manner:

“To realise the vision of the Constitution, South Africa needs transformation that opens a path to inclusive economic growth and development. Growth without transformation would only reinforce the inequitable patterns of wealth inherited from the past. Transformation without economic growth would be narrow and unsustainable. Government’s objective is not merely to transfer ownership of assets or opportunities to contract with the state: it is to change the structure of the economy. Broad-based transformation should promote growth, mobilise investment, create jobs and empower citizens. It must create new resources to support social change, including assets and livelihoods for the majority, and strengthen South Africa’s constitutional foundations.”

Ranieri and Ramos (2013) discuss a wide variety of definitions related to inclusive growth. They consider the presence (or absence) of key indicators such as poverty, inequality, growth, productive employment, and gender equality. In the South African context, a discussion on “inclusive growth” immediately points to the 6.1 million South Africans willing but out of work and the 15.7 million South Africans (as per the StatsSA Q2/2018 employment statistics) who are economically inactive.

2.2. The problem setting

Many studies confirm that although in the post-apartheid period South Africa has recorded the longest periods of positive economic growth rates, the country remains plagued with poverty, high levels of income inequality and unemployment rates.

According to Gumede (2014), for instance, for an income poverty line of R51.78 per person per month, 46% of people were living in poverty in 2009, a period of economic growth. Bhorat & van der Westhuizen (2012) show that over the period 1995 to 2005 the economy’s Gini coefficient increased from 0.64 in 1995 to 0.69 in 2005.

Many studies confirm that although in the post-apartheid period South Africa has recorded the longest periods of positive economic growth rates, the country remains plagued with poverty, high levels of income inequality and unemployment rates, see for instance Gumede (2014) and Bhorat and van der Westhuizen (2012). In the South African context, a discussion on ‘inclusive growth’ therefore should center around the 6.1 million South Africans willing to work but unable to find a job and the 15.7 million South Africans (as per the StatsSA Q2/2018 employment statistics) who are economically inactive.

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The graphs below illustrate this phenomenon. The significantly higher unemployment rate of women is particularly notable.

![Graphs showing unemployment rates](image)

**Figure 1** Labour market in the second quarter 2018 (source: StatsSA)

### 2.3. Aim and objectives

In accordance with the overall objectives of the EU–SA dialogue facility, this project sought to facilitate a meaningful dialogue between SA and EU partners. The aim of the project was to undertake an exploratory study on the contribution of EU investment to inclusive growth and broad-based transformation in SA. The specific objectives were to:

a) Determine the nature and structure of the EU FDI in SA.
b) Assess the contribution of the EU FDI to economic participation (via employment) in SA.
c) Examine the contribution of EU FDI companies towards broad-based transformation in SA.

The assumption was that evidence-based information will support future policy and partnership discussions between SA and EU.

### 2.4. Research outputs

The outputs from the implementation of this research are:

1. **Company Profiles/Raw Data:** Who Owns Who (WOW) was contracted to provide a sample of 1,100 qualified and profiled EU companies. The criteria for the sample included any registered companies domiciled or operating in South Africa and which have a 50%+ effective shareholding by a European Union domiciled shareholder (including the United Kingdom). All EU companies that met this criterion are hereafter referred to as “Qualifying Companies”. The final sample of qualifying and fully profiled companies amounted to 1,611.
2. **Executive Raw Data Summary Report.** This was a data analysis report presenting an examination of raw data on the sampled EU companies. This report included analysis of EU Companies’ country of origin, geographic and economic activity spread in South Africa, Employment data from Employment Equity Reports, and the B-BBEE scorecard components in accordance with the revised BEE legislation. The report highlighted commonalities, deviations and other salient aspects for further exploration and agenda setting for the “Deep Dive workshops”.

3. **Deep Dive Workshops.** Based on the insights gained from the Executive Raw Data Summary Report, four full-day multi-stakeholder workshops were conducted in July and August 2018. The venues were Midrand (20 July and 6 August 2018), Cape Town (25 July 2018) and Durban (8 August 2018). A total of 52 people from the private sector, business associations, government and diplomacy sectors registered for attendance (with an attendance rate of roundabout 70%).

4. **Foundation Report.** The Foundation Report considered the findings and insights from both the “Executive Raw Data Summary Report” and “Deep Dive Workshops”, combining both quantitative (data analysis) and qualitative data (multi-stakeholder views) into a single report.

5. **Conference Dialogue.** The BMF Annual Conference on 11 October 2018 at Gallagher Convention Centre, Midrand, served as the platform to present and share the final “Foundation Report” with key stakeholders for a concluding public policy dialogue. A dedicated session in the programme featured a panel of senior government, BMF and EU private sector representatives.

6. **Conference Dialogue Report.** Following the Conference Dialogue, the final report from the conference dialogue will be published. This report will include presentations/speeches from the BMF Annual Conference of 2018 as well as a summary of the Foundation Report.

2.5. **Governance**

The project governance was established on three levels:

1) The Project Steering Committee (“PSC”) comprised representatives of the BMF Working Group (as defined below), the dti as the endorsing South African government department, the EU Delegation in Pretoria as well representatives of the Programme Management Unit (“PMU”) of the Dialogue Facility. Its role was focused on general governance issues, such as budget and resource allocation.

2) The BMF Working Group comprised a select group of BMF members, including the Chairman of the BMF in Gauteng. Its role was to provide strategic guidance on project deliverables and act as a sounding board to the Non-Key Experts.

3) Three Non-Key Experts were allocated to this project and carried out the actual implementation of the project.

The BMF Working Group and the Non-Key Experts comprised the “project team”.

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10 Five workshops were planned initially, but due to a very low number of registrations, the workshop in East London was cancelled and participants were offered to attend the next workshop in Midrand.
2.6. Methodology

The nature of the project study was exploratory, in that it sought, firstly, to investigate an area of interest that had not been extensively researched in South Africa. Secondly, its focus was to gain insights in order to start the conversation and ask more questions rather than to provide conclusive findings and figures.11

As such, the report had to be seen as a tool to facilitate a dialogue into the structure and social outcomes facilitated by investments of European Union firms in South Africa, especially those outcomes driving inclusive growth. An inductive research approach has been adopted throughout the project.12

2.6.1. Data collection

Who Owns Whom (Pty) Ltd. (WOW) was contracted as the service provider to undertake the raw data collection for this research study. WOW regularly conducts company and industry research in South Africa, which is often used by the economic cluster at central and provincial government level as well as government agencies, state corporations and the private sector working largely in the procurement space.

2.6.2. Qualifying Companies

WOW identified 1,627 companies13 which originated or were controlled from the EU. Raw Data research commenced on 15 February 2018 and concluded on 14 June 2018. The process included the identification and profiling of these companies.

A Qualifying Company has been characterised by the following conditions:

a) Only directly and indirectly held companies in South Africa with a 50%+ effective shareholding by an EU-domiciled shareholder (including the United Kingdom, which at the time of approval of the Dialogue Facility project was still a full member of the EU) were eligible. This included corporates, in which the ultimate shareholder is based in the EU and the South African subsidiary was controlled by a regional “intermediary entity”, e.g. a company was based in Australia. It also comprises cases with a direct shareholding where the South African subsidiary was reporting into an EU-based entity, which again reported into an ultimate parent outside the EU, e.g. based in the US or Japan.

b) Joint Ventures with a 50:50 shareholdings were not considered.

c) South African entities had to be registered in South Africa (unregistered representative branch offices were not considered).

11 Representatives of three EU Member States have indicated the existence of lists containing companies with investments in SA, which top the number of companies the project team identified during the initial research phase. Those lists will serve a future update of the database of companies of this project but could not be included as they would have biased the data of those other 24 Member States, who keep no such lists.

12 Bernard (2011) explains an inductive research to involve the search for pattern from observation and the development of explanations-theories—for those patterns through a series of hypotheses. Basically, inductive research is what you do when you’re in the exploratory and discovery phase of any research project, whether your data are words or numbers. See, Bernard, H.R. (2011) Research Methods in Anthropology: Qualitative and Quantitative Approaches. 5th edition, AltaMira Press, p.7

13 Out of the 1,627 companies, only 1,611 were fully profiled due to time constraints.
The Project Team undertook an internal consultative process to determine whether holding companies should be kept along with subsidiaries. The data was then sifted focus on only those companies, which have had the direct capacity to employ and contribute to inclusive economic growth in South Africa.

The Project Team acknowledged the fact that the stringent criteria applied to the data resulted in the inclusion of companies such as Anglo America ABSA Barclays, Old Mutual, and AB InBev. At the time of the data analysis, both ABSA Barclays (now ABSA) and Old Mutual had not finalised their respective restructuring and re-listing as pure South African-owned and based companies. For this reason, they were included in the sample.

2.6.3. Profiling of Qualifying Companies
WOW profiled 1,611 Qualifying Companies\textsuperscript{14} by a way of directly contacting companies with the use of a structured questionnaire. Where possible, the research was supplemented by extracting information from reliable, publicly available information sources, such as annual reports. The Project Team agreed with WOW on a set of data fields to be included in the questionnaire and, accordingly, the data collection process (refer to Appendix A) in line with the research methodology.

2.6.4. Data analysis
Based on WOW’s data, the Project Team analysed the data in line with the parameters of inclusive growth as defined for this project and contextualised for South Africa. During the data analysis, the following three key questions were focused on:

a) **What is the nature and structure of EU FDI in SA?**
The data analysis describes the sectoral, size classification and geographical spread of EU companies in SA\textsuperscript{15}.

b) **What is the contribution of the EU to employment in SA?**
The data analysis determined the contribution of EU companies to employment creation, i.e. economic participation, as a key characteristic of inclusive growth in SA.

c) **What is the performance of EU companies in economic transformation in SA?**
The data analysis examined EU companies performance based on their B-BBEE scorecard aspects of equity ownership by black people, management control and employment equity, skills development, enterprise and supplier development, and socio-economic development\textsuperscript{16}.

\textsuperscript{14} For the count of the companies by EU origin country, we used 1,627 companies including 16 companies, which were not completely profiled.

\textsuperscript{15} Amongst others, it applied the size classification as prescribed by the National Small Business Act (refer to Appendix C) and also used the full SIC Code list (level 1 and 2) as per Statistics South Africa.

2.6.5. Deep Dive Workshops

To make sense of the raw data and further provide insights on gaps and best practices hiding behind the indicative figures and any contributions which may have incorrectly reflected in their scorecards, four “Deep Dive Workshops” were conducted. The following were the objectives of the workshops:

a. To identify and discuss potential development opportunities for EU companies in the existing policy framework, and where they face impediments, i.e.
   - Ownership – Redistributing of equity assets to foster economic inclusion and participation;
   - Identifying and developing managers – Management Control and Employment Equity;
   - Developing and transferring skills – Fostering and funding the skills development of and skills transfer to black employees and entrepreneurs; and
   - Development of black enterprises – Assisting and supporting black companies, especially to be able to export to EU, and positioning them successfully in local, regional and international supply chains;

b. To identify and discuss regulatory impact on the performance of EU companies to economic transformation in South Africa, i.e. current investment protection and incentive frameworks; and;

c. Identify and discuss the degree of policy cohesion and effectiveness of current investment incentives by the South African government.

All three angles informed a structured agenda for the workshops, which allowed participants from different parts of the economy to openly and constructively engage in discussions and to debate the topics.

To invite participants into the workshops, all workshops were widely advertised on social media and email invitations were shared with EU corporates present in the data sample. In addition, representatives of EU diplomatic missions, business associations, unions, as well as representatives from several government departments, in particular from the dti and Department of Labour, were invited in order to attract a wide range of stakeholder views.

All workshops were conducted under Chatham House Rules, which ensured that the discussions were not shared on social media, in order to create an open space for all perspectives to be voiced. Frank statements by participants were actively encouraged. A scribe was present to summarise the discussions during each workshop and all comments were noted anonymously.

2.7. Limitation of the methodology

All research methodologies present some limitations since decisions and tradeoffs always have to be made in the context of limited resources. Given the exploratory nature of the study and its inductive approach, the project team considered the data as indicators and prompts for further discussions, instead of providing absolute empirical findings.

The limitations, as further outline below, were predominately addressed by:

a) Offering complete transparency on the approach and sharing the results free of charge and publicly;

b) Conducting the Deep Dive Workshops to expose the data to a broad group of stakeholders, as well as gauge their insights on the data presented; and

c) Actively gaining an understanding from the workshop participants on the accuracy and fair representation of the data.

2.7.1. Limitations on a data collection level

WOW’s initial challenge was to identify Qualifying Companies for the study. In the absence of reliable databases, an “opportunistic” or convenience sampling approach was chosen. As a consequence, smaller companies, some potentially without (local) websites, albeit eligible in terms of the definition of Qualifying Companies, may not have been profiled as often as their real percentage amongst EU investors suggests. However, the feedback received during the Deep Dive Workshops suggested that small and medium-sized EU companies (“SMEs”) typically do not invest in SA. This confirmed the general observation of the data.
The significantly lower numbers of Qualifying Companies in Limpopo and North-West in comparison to other provinces was seen by the project team as another potential limitation in the data analysis and was, therefore also interrogated during the Deep Dive Workshops. Regarding this topic, workshop participants also confirmed the trend in the data sample, that the EU investment was significantly lower in these identified areas.

The quantity of the 1,611 Qualifying Companies sampled was seen as another potential limitation as the sample may have not adequately reflected the population of EU companies in South Africa. The population size is estimated to be larger based on feedback received during the Deep Dive Workshops. However, in the absence of any existing comprehensive and normalized benchmarks this sample size is regarded as significant judging from the anecdotal evidence referring to a total of about 2,000 EU-controlled companies in South Africa.

### 2.7.2. Limitations on the data analysis level

The data analysis examined Qualifying Companies against the B-BBEE Scorecard (Codes of Good Practice) and the Employment Equity Report 2017. There were several challenges inherent to the application of the B-BBEE Scorecard as a means to compare data.

Firstly, in defining company size, revenue figures were in most cases not available to determine whether a company could be classified as an Exempted Micro Enterprises (EME), Qualifying Small Entities (QSE) and Large Enterprises (LE or Generics). The overwhelming number of companies were not willing to disclose revenue figures. The project team therefore opted for employee headcount to determine company size. It is important to note that the size of the company was aimed at determining the nature of the business, rather than the size definitions provided and rankings applied by the B-BBEE Scorecard.

Secondly, the multitude of sector-specific variations, such as different thresholds for Qualifying Small Entities, bonus points for certain elements, or distinct weightings of elements within the overall target score, did not allow a comparison across and even within sectors on an absolute points basis. To compensate, the percentage of fulfilment of targets set in a specific sector was applied to "normalise" the data. However, the actual sector targets may differ from each other in terms of targets' ambition and other criteria, such as maturity of the respective sector. For example, the achievement of ownership target score of 50% relative to the set target may have different meanings based on the respective sector. For instance, the amended Property Sector Code sets a black ownership target of 27% for property-owning companies, while the latest Mining Charter aims for 30% in the mining sector.

Lastly, the significant limitation to the project was the nature of the B-BEEE Scorecard itself. Although widely acknowledged and rightly deemed as the most adequate benchmark available for the project study, it has its limitations. The effectiveness of legislation and its requirement for compliance works through government procurement and subsequent cascades in supply chains across the private sector, rather than through outright regulatory enforcement. In other words, the policy unfolds through private sector verification companies rather than through government enforcement agencies which may enforce punitive measures.

Therefore, complying with the Scorecard is, ignoring the recently gazetted Youth Employment Service regulations, which is neither truly an incentive or a legal obligation ("stick"). For instance, in mining, compliance with the B-BBEE Scorecard and the corresponding sector charter is only compulsory insofar as it is linked to granting a mining right by the Department of Minerals. “The Act provides a legislative framework for the promotion of BEE”\(^\text{17}\) rather than its enforcement. The data highlights many companies that are not verified, verified but not rated or have chosen to not disclose their Scorecard as was shared in the Deep Dive Workshops. The report addresses this issue in Chapter 3.

3. **CONCLUDING OBSERVATIONS FROM THE DATA ANALYSIS**

The observations reflected below are conducted based on 1,611 Qualifying Companies, which were sampled and profiled for the study. Some key observations and corresponding questions for the Deep Dive Workshops are listed below:

a) The top four countries of origin, i.e. UK, Germany, the Netherlands and France, accounted for 78% of all EU companies researched.

b) More than 100 companies were headquartered in Luxembourg and Malta. Eastern Europe and South-east Europe are not significantly represented, similarly, like the Baltic States.

c) 868 companies disclosed their employment figures, which total 468,474 jobs, of which 95% are permanent jobs.

d) The overwhelming majority (86%) of Qualifying Companies were based in Gauteng, Western Cape and KwaZulu-Natal.

e) Over half of the Qualifying Companies were active in manufacturing, as well as financial and business services sectors.

f) The data sample contained mostly large and medium enterprises as measured by employee headcount.

g) Employment Equity data showed a clear bias overall towards male employees (66%). Overall, African employees were the majority of employees (61%), whilst only 2% were foreign nationals.

h) Semi-skilled and discretionary decision-making employees made up the majority of employment in EU companies. The second largest employment segment by EU companies comprised skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents.

i) Considering the racial segmentation by occupational level, almost half of the upper management positions were occupied by white males followed at some distance by white females (15% and 16% respectively) and foreign male nationals. This picture started changing at the level of skilled technical and academically qualified employees with African male holding 30%.

j) 66% of all Qualifying Companies were not rated or have not disclosed their B-BBEE rating. Of those with a rating, Socio-Economic Development and Skills Development stood out in terms of target achievements amongst the respective Scorecard elements.

k) Preferential procurement appeared to receive relatively high attention.

l) Black Ownership was almost non-existent, it was also not clear as to what extent had the Equity Equivalent Programme been used to mitigate the observed low levels of Black Ownership.

3.1. **General statements made during the Deep Dive Workshops**

The project team introduced each Deep Dive Workshop by explaining the motivation behind BMF’s proposal to conduct this study. The need to continue the current transformative policy instruments, such as B-BBEE and Employment Equity, while attending to the economic realities with a view to grow the economy, was widely acknowledged by all workshop attendees. Agreement was achieved that economic growth and transformation may often be interchangeably used as terms of reference but are, in fact, intertwined and depend on each other. Participants welcomed the intent to unpack the current situation and look at evidence to assist future policies and identify gap in current policy-making. Hence, efforts to detail the often-abstract notion of the EU as a significant player with the South African economy, were supported.
3.2. The nature and structure of EU FDI in South Africa

The EU presence in the South African economy is widely publicised and acknowledged. Its importance had, however, not been explored in detail, such as the origin countries of Qualifying Companies as well as their geographic and sectoral spread in South Africa. Therefore, identifying the respective entities in the first place was a key priority as would for any evidence-based, subsequent policy dialogue.

Each workshop followed the same approach in terms of slides presented and introductory questions asked. For this part of the study, Deep Dive Workshops were guided by the following questions:

a) What are the particular contextual factors, which contributed to this geographic concentration? What role did local, regional and national investment policies and incentives play, if any? Which lessons and best practices can be identified for replication in other provinces?

b) In light of contemplated re-industrialisation, what policy imperatives can be derived from the dominance of Financial Services and manufacturing? What best practices can be replicated for other sectors?

c) Is South Africa more attractive to specific sectors, and if so, why?

d) What role does South Africa’s policy framework play in attracting foreign small enterprises?

e) Why do we observe such a high number of unrated enterprises amongst those in the medium and large enterprises segment?

3.2.1. Geographic spread of EU investments

The project team first looked at the countries of origin. According to the sample data, the top four countries in terms of companies in operation in SA are United Kingdom, Germany, Netherlands and France, which together constituted 78% of all Qualifying Companies. Germany and the United Kingdom together constituted nearly half.

As the majority of the investment came from the United Kingdom due to the data being pre-Brexit, the implications of Brexit, including those on the study, especially in respect of conclusions and recommendations, were not clear. The data also showed that Eastern European, Southeast European, Baltic States are not significantly represented. Workshop attendees confirmed the representation in principle, albeit stating that the presented figures are understating the actual figures they are aware of, which applies to the largest EU investor states as well as the smallest.

Furthermore, the remarkably high number of more than 100 EU investors being “headquartered” according to the data in Luxembourg and Malta, according to the data, was attributed to the nature of these two countries as being offshore locations.

Accordingly, workshop attendees suspected that neither management nor funding decisions are taken in those locations. They simply served as legal domiciles but had no operational authority. The research data does not allow any tracing of management control beyond those legal domiciles.

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For example, in the State of the Nation Address 2016, former President Jacob Zuma spoke of the “EU being our largest trading partner and foreign investor” and “over 2,000 EU companies operate within South Africa, creating over 350,000 jobs”.

According to the data, Qualifying Companies are highly concentrated in Gauteng, followed by the Western Cape, KwaZulu-Natal, and then the Eastern Cape. Provinces like Limpopo and the Free State are not represented in the current sample at all.

During the workshops, participants recognised the necessity to differentiate between companies which are legally (or even physically with an administrative office) domiciled in Gauteng but most of their investment is located elsewhere in South Africa. Examples include e.g. the automotive sector with its investments in the Eastern Cape or the renewable sector in the Northern Cape.

Participants suggested that the difference between Western Cape and KwaZulu-Natal (24% vs. 7% of all Qualifying Companies) was not fully reflective of the real economic terms of both provinces. Furthermore, the suggestion was made to overlay the data relating to geographical spread; and those relating to enterprise size, and the nature of the businesses to ascertain economic impact. Considering the number of companies in isolation, as opposed to in relation to economic impact (size, activity, and number of jobs created), was seen to be potentially misleading in terms of policies derived from those figures.

Overall, workshop participants confirmed the importance of Gauteng, the Western Cape and KwaZulu-Natal due to their social and economic infrastructure, available educational institutions and access to basic infrastructure, such as transport hubs, energy and water.

Several participants also pointed out that lifestyle aspects of life outside of the major urban centres (Johannesburg, Pretoria and Durban) were not attractive for most investors and professionals – both European and South African.

Echoing the sentiments expressed by some in the group with respect to access to and proximity to raw materials, participants explained that many of the investors present in other provinces or outside of urban hubs, were typically only there, for example, due to the presence of mines in those areas. One participant explained that the company routinely found it extremely difficult to find engineers willing to work in the Brits area, for example. Over and above this, relocating people to those areas comes at additional costs (40% more than the average market rate was mentioned for Brits). According to the participant, many employees often still live in Gauteng and commute to Brits.

It was noted in one of the workshops that global companies increasingly preferred to open offices close to international airports with direct connections to other major global economic hubs, to allow them to easily move their key executives around. This trend would accelerate what one participant called the “headquartering” effect. Referring to companies in the maritime and trade sectors, he indicated that the ports of Durban and Richards Bay were responsible for almost 80% of exports out of South Africa. He added that some of these contributed to 60% of exports in certain areas of manufacturing. However, most of these companies had their headquarters in Gauteng.
3.2.2. Nature of EU investments

The economic activities of EU companies, reflected in the sample data, are representative of all major industrial classifications. However, investments are not evenly distributed. Most companies operate in the manufacturing industry, financial and business services, and trades.

The fact that London-listed Financial Services entities, such as Old Mutual and ABSA Barclays are included in the data sample, overstates the importance of this sector overall.

Agriculture showed the least number of companies. The data was neither surprising for the Project Team, nor the workshop attendees as it reflects the overall transformation of South Africa’s economy from the primary, extractive sectors (agriculture and mining) towards service sectors (Financial Services and Business Services).

Workshop participants expressed surprise regarding the investment profile of the EU in relation to renewable energy, which they had expected to have been far greater. This could be partially attributed to the fact that renewable companies may also be classified as construction, manufacturing or financial services companies according to their role in the supply chain.

3.2.3. Size of EU corporates

Considering the size of companies, the majority of the EU companies operating in SA are large and medium enterprises according to the current data sample.

Given the dominance of small and medium enterprises in the European private sector footprint, workshop attendees, one would expect a different outcome. In the workshop discussions, two different dynamics were identified.

In the present study, size was based on dti’s classification system as outlined in Appendix C. It is based on headcount and turnover, albeit turnover supersedes headcount. For instance, a company may be “very small” in terms of headcount but is classified as “medium” or even “large”.

Referencing some of the information emerging from the Cape Town workshop, especially with reference to the renewable energy sector, one participant spoke of large project entities in terms of Rand value, which are operated only by a handful of people and are ultimately classified as “medium enterprise”.

The second issue worth highlighting with respect to reference to size, was South Africa’s intent to promote and attract SMES, both domestically, and from an FDI perspective; with the rationale being that they are by nature those entities fostering job creation and innovation. SMES are regarded as the “backbone” of the EU economies.19

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19 “Small and medium-sized enterprises (SMEs) are the backbone of Europe’s economy. They represent 99% of all businesses in the EU. In the past five years, they have created around 85% of new jobs and provided two-thirds of the total private sector employment in the EU. The European Commission considers SMEs and entrepreneurship as key to ensuring economic growth, innovation, job creation, and social integration in the EU.” Quoted from: https://ec.europa.eu/growth/smes_en [21 September 2018]
However, this study suggests that South Africa is failing to attract investment from EU SMEs. Workshop participants highlighted the challenges faced by SMEs FDI investors include complex administrative and regulatory regimes and policy uncertainties, which are difficult to assess and mitigate (export and investment guarantees), as well the adoption of the B-BBEE legislation.

Perception plays a major role, in particular amongst SMEs and some of the following aspects may partially explain why EU SMEs are less interested in investing in South Africa:

- **Family ownership**: many mid-sized EU companies are family owned, and will typically not be able to give up any equity within the context of BBBEE;

- **The land expropriation debate**: the present debate on land expropriation, albeit not necessarily applicable to SME investors, and the media reporting on it in countries abroad, has lent to perceptions of uncertainty in the South African economy;

- **The termination of Bilateral Investment Treaties**: the fact that there will be no bilateral investment treaties in the future has also been identified as a factor which has played a significant part in their decisions to invest in South Africa, as investors have to rely on local courts and arbitration procedures, which are potentially unknown to incoming investors, and may pose additional investment risks (e.g. costs for extensive local legal advice; uncertainty regarding procedural variables and higher costs for export credit insurance).

In the wider context of the discussion regarding investor sentiment, participants explored whether labour laws, strikes and labour action would influence the preference of a specific location in South Africa and investments in South Africa in general.

Several participants expressed the opinion that, despite the viewpoint sometimes expressed to the effect that South African labour laws are a deterrent to investment, this was not necessarily the case. Several workshop participants agreed that labour laws were not (in and of themselves) a deterrent to EU investment into South Africa. One of them expressed that, of all investor groups, EU companies were amongst the most cognisant of labour rights and would be accustomed to industrial action and strikes – which were common in most parts of Europe. Giving the experience of Western Europe as a comparison, another participant agreed that seasonal strikes were not a uniquely South African phenomenon. The agreement among participants was that the issues and concerns laid in:

- the way in which the country implemented labour laws, and the guidelines accompanying those laws; and

- the volatility element which sometimes accompanied strike action in South Africa, and which in turn occasionally resulted in damage to property and infrastructure, or even sabotage in cases.

Only the latter was a particular concern to investors.

In the sample data, large enterprises mostly operated in the mining, manufacturing, agriculture and construction sectors.

However, due to the classification challenges no concrete policy recommendation could be derived from this statistic.
3.2.4. Conclusions and recommendations

The sample data set provides a relevant basis for discussion. However, the lack of correlation of headcount to turnover offers no potential additional insights on economic impact. The challenges related to the classification of an investor can only be handled at a sector-specific level and should thus be continued by the respective industry and trade associations or regulatory bodies.

In terms of increasing the attractiveness of South Africa and individual provinces as an investment destination, some workshop participants pointed out that skills migration to major cities was not out of the ordinary (or that the phenomenon was unique to South Africa). It was recommended to think creatively and broadly, and to “reimagine” city competitiveness and city attractiveness. Representatives of InvestSA agreed with other participants on the importance of quality of life and competitiveness at the city level. They pointed out that the current trend globally was towards companies investing in cities (rather than in whole countries). They added that, even among competitiveness metrics, the trend was now towards defining investment attractiveness at the city region level (with cities competing against each other).

Some participants suggested by way of possible solutions that provinces could fashion themselves into skills hubs, and work with universities and industry in attaining that positioning. Another recommendation focused on each province and the need to think strategically about what exactly each province had to offer, and creating that unique offer being at the core of their drives to attract and promote investment. The participant gave the examples of iron ore, minerals, and agriculture, as well as points for Limpopo and the Northern Cape, respectively. Participants highlighted the important role of Provincial Investment Agencies (in parallel to that played by InvestSA).

The geographic distribution and its linkage into the dti’s effort to access rural sites for industrialisation had been critically reviewed and prioritised in the context of the expectations raised from an international investment perspective.

As an extension of the discussion on the geographic spread of investment in South Africa, there was some discussion among participants around the rationale for the placement of South Africa’s Special Economic Development Zones (SEZs). Participants were, in general, of the view that SEZs and IDZs were not working optimally. While considering factors that would contribute to making them work better, participants emphasised that the success of policies and legislation underpinning SEZs and Industrial Development Zones (IDZs) lay in the practicalities of their implementation (rather than in their potential or in the “concept”). This would include the need for transport networks and roads to already be in place operational, and for good information and ICT connectivity to be in place.

One participant pointed out that this was what would (practically) attract quality investments, such as those of a long-term “anchor” quality. He stressed the importance of a good anchor investment for, in turn, attracting further long-term investment into those SEZs and IDZs.

Participants contrasted “quality investment” with “assembly-type”, “containerised”, “easily mobile” investment, which they described as chasing cheap labour, and short term in quality.

Government representatives noted the inputs from, and concerns raised by, participants, but also pointed out that not all SEZs or IDZs had been designed to be export leaning. As a result, many of them have no particular need to be close to a port. Citing the three examples of SEZs, which had not been designed as export zones – a logistics hub, and agro-processing hub, and an ICT hub – a representative explained that every SEZ/IDZ had a different priority focus. She also pointed to the existence of an SEZ fund that has been allocated towards developing the SEZs and making them work better.

Participants noted this, with some acknowledging that that government incentives can only go so far in attracting investment. Other factors they identified were:

- investment is market-seeking: and
- investment is resource-seeking.
Participants asked about how many SEZ and IDZs South Africa could realistically develop and maintain in parallel? A first step to tap into the vast know how pool of the private sector in that regard is to strengthen the visibility of current and future infrastructure projects inside and outside of the current dominant industrial regions in Gauteng, the Western Cape and KwaZulu-Natal and engage in a deeper dialogue with potential investors regarding the relevance and location of certain infrastructure investments.

Finally, the participants recommended a reassurance of SMEs about their ability to effectively access market opportunities in the initial period of doing business in South Africa. From a regulatory and economic transformation perspective, it was suggested that business registration and/or licensing be granted under an investment probation period without an immediate requirement to fulfill B-BBEE requirements in the first three years on condition that an investor commits to employment and a certain minimum FDI amount with incremental annual investments.

3.3. Contribution of EU FDI to employment in South Africa

With reference to the literature about inclusive growth, the study identified two elements that had stood out, which were:

1) **Creation of Jobs.** The argument for economic participation states that for growth to be deemed inclusive, it must necessarily create jobs.

2) **Benefits Sharing.** This means that people must be able to share in the benefits of the economy in terms of wealth, asset or income accumulation.

The Workplace and Employment Equity Report 2017 was analysed as a means to measure the degree of representation and skills proficiency of all population groups. The study obtained data for only 427 companies based on the Employment Equity Report 2017, the latest available version, since not all companies were required to submit Employment Equity Reports. Those 427 companies represent about half the employment number from the sample.

This was achieved in a twofold manner:

a) Employment in EU companies by economic activity; and,

b) Through analysis of employment equity reports sourced directly from Department of Labour based on the reports of the EU Qualifying Companies in the sample data.

It must be noted that the Employment Equity did not represent the full sample of companies in the study as not every Qualifying Company submits Employment Equity Reports. The observations were as follows:

868 Qualifying Companies, who volunteered to disclose their headcount figures in the context of our WOW’s Scorecard analysis, indicated employment of 468,474 people. Compared to the smaller number of Qualifying Companies (427) represented in the sample captured by the Employment Equity Report, the figure related to the B-BBEE Scorecard analysis appeared to be credible, if one extrapolated the actual headcount data provided in the Employment Equity Reports.

This is a significant finding, since not all Qualifying Companies have reported staff headcounts and, the figure is very close to the previous assumption of roundabout 500,000 directly and indirect created jobs.

Other observations included:

- High rate of employment absorption was found in financial and business services, followed by the manufacturing sector
- Most employment relationships in EU corporates were permanent (95%).
- Employees were mostly male (66%).
- Top and senior management levels were occupied by white males and females, as well as foreign nationals.
- African males and females made up the majority of semi and unskilled employees.

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20 Out of the sample, of 1,627, 427 Qualifying Companies were identified, who by law had to submit an Employment Equity Report, totaling of 270,023 jobs.
Therefore, in terms of employment as a measure of economic inclusion and inclusive growth, EU companies appeared to make a meaningful impact on the South African economy. The following questions were compiled to guide the discussion on this aspect during the Deep Dive workshops:

1. What is the relevance of available skills versus labour capacity, in principle, when it comes to selecting the investment destination?
2. What role is played by vocational and tertiary education entities near the investment destination?
3. What influences the permeability of the system to achieve a higher rate of black top managers?

3.3.1. Employment by economic activity and type

The highest number of employees by Qualifying Companies was found in the financial and business services sector, followed by manufacturing, and mining and quarrying industries, trades and logistics. EU companies operating in the utilities sector, agriculture, personal services and construction have the lowest share of employees.

The picture, which the data presented in relation to gender split, mirrored the overall statistics in corporate South Africa according to workshop participants. Considering data from the Employment Equity Report 2017, 95% of EU jobs were permanent.
3.3.2. Employment by gender and race

The Employment Equity data showed a clear bias overall towards male employees (66%). Looking at the African population group in isolation, one still found the gender imbalance in terms of number of people in employment, or number of people getting promoted.

Workshop participants noted that white women were also a designated group (as with Africans, Indians, and Coloureds). Hence, from an employment equity perspective, an increase in the representation of white women in the higher occupational levels had to be regarded as positive albeit it to this one population group.

Furthermore, with reference to the disaggregation by population groups, based on the Employment Equity Reports analysed, it couldn’t be argued, for instance, that EU investors brought their own labour (force) into South Africa.

Overall, African employees made up the majority of employees (61%), whilst only 2% were foreign nationals. However, this picture changed, depending on the specific occupational levels. A participant indicated that moving from top management of 46% white male to mid-management of 32% white male was also a good sign in that it reflected growth in the other groups (both race and gender) in the middle management category. Workshop participants indicated the importance of reflecting the fact that those middle managers were set to succeed to senior and top management. They added that it was only a question of time before one could see further shifts happening in terms of demographics, because the pipeline was evident.

One workshop participant was interested to know more about the sectors or industries those 427 companies operated in, as it was considered relevant to better understanding the data. With reference to recent trends and discussions in relation to the Fourth Industrial Revolution, it was speculated whether the current situation might change materially.
The “Occupational levels” connoted levels in terms of skills or job responsibilities that persons employed were at, by percentage. The majority of employees of EU corporates were classified as semi-skilled with discretionary decision-making.

The second largest employment segment by EU companies comprised skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents. Only 1% were classified as top management. With reference to the classification categories, these were identical to those used in the Employment Equity Reports.

Considering the racial segmentation by occupational level, almost half of the upper management positions were occupied by white males followed by some distance by white females (15% and 16% respectively) and foreign male nationals. This picture started changing at the level of skilled technical and academically qualified employees with African male holding 30%.

Interestingly, foreign national females were not represented amongst semi-skilled and unskilled employees, while Indian females did not feature amongst unskilled employees.

The sample data mirrored national statistics overall, although the performance of EU corporates with respect to employment equity deviated from the national average. According to the most recently released government Employment Equity Report 2018, the national average for white males in top management in the private sector was 66% compared to 46% in EU corporates.

A general statement made by many participants was that although the country faces a substantive job crisis, companies struggled to fill vacancies with local black talent at higher occupational levels and, if successful, struggled to retain them. Although most EU multinationals had a diversity policy in place, management resources were assessed in the context of the global talent pool.

Several participants believed that another challenge companies faced with respect to finding and retaining black talent in South Africa was the fact that private sector actually competes with the government for the pool of available skilled black individuals. One participant explained that, in their observation, from a career attractiveness perspective, government was, often more attractive than the private sector. They noted that many individuals move from the private sector into government positions (unlike in other parts of the world).
Participants expressed their opinion that municipalities and state-owned enterprises (SOEs) were seen to offer higher salaries relative to the market rates in the private sector and at similar levels of requisite experience (compared to other parts of the world).

This observation requires further investigation and actual figures to test the argument and further understand potential reasons for those workers to leave the private sector.

**Figure 12** Racial segmentation by occupational level - top and senior management (basis: 427 companies)

**Figure 13** Racial segmentation by occupational level - professionally qualified and skilled employees (basis: 427 companies)
The relevance of dissecting the data according to occupational levels, race and gender is relevant to scrutinising the sustainability of transformative initiatives within the workforce, as one must distinguish between the employment of previously disadvantaged people and their empowerment by providing opportunities to take on additional responsibilities and to acquire additional skills. In this regard, the percentage of African males and females in professionally qualified and technically skilled jobs provided a foundation to build on, according to several workshop participants.

Participants were in general agreement that the availability of skills (at the outset of an investment) was an important consideration in the decision-making process towards an investment destination. This aspect was seen by some workshop participants as a reason why South Africa tended to be a difficult “sale” as a destination. While participants highlighted that EU investors (and EU companies, in general) are culturally inclined towards training and upskilling their staff, the consensus was that investors needed a certain level of (base) skills to be available from workers at the outset.

Participants expressed their concerns about the lack of a robust educational structure for vocational training, which they regarded as much more impactful as the current debate related to free tertiary education, highlighting that EU corporates’ success has been largely based on vocational skills.

The lack of those vocational skills impacts the cost structure of infrastructure development projects negatively, as there was a significant lack of basic business and technical skills to set up a business. “Training people from the start of the operation” was seen as problematic, in particular in the context of SMEs entering South Africa, overall financially and in terms of project timelines. Having a skilled (or semi-skilled) labour force is quite critical to return on investment, and a key consideration in deciding where to locate their investments in the first place (whether in South Africa or on the rest of the continent).

Questions were raised about the impact of EU-funded development projects and their impact on the overall skills development situation, given the donor-funded projects and initiatives. One participant was interested in understanding monitoring and evaluation processes for those development projects and how they align with the needs of the private sector in South Africa.
3.3.4. Conclusions and recommendations

An observation which was widely shared by workshop participants across all the workshops was that the youth component had not been adequately accounted for in the sample data. One workshop participant, in particular, stressed the importance of this in light of the high unemployment rate amongst youth in South Africa.

To address this matter, Tashmia Ismail-Saville, CEO of the Youth Employment Service, was invited to two workshops to present and engage on aspects of youth employment, the corresponding programmes under the YES initiative and its linkages into B-BBEE regulations. A critical, but constructive, dialogue emerged which focused on the programmes’ differences compared to “traditional” learnerships.

As the YES initiative had only commenced at a time when the project team was concluding the sample data, it was resolved that in case of a future iteration of the study, this aspect should be incorporated.

The perception that many skills development initiatives had been funded by the EU, but had no impact on the talent pool from a private sector perspective, indicates a critical aspect in future skills development policies. In light of the current SMME Development project, funded by the EU and conducted by the Department of Small Business Development, participants indicated their interest in:

- Learning more about the objectives and conceptual frameworks in order to contribute and benefit from potential outcomes; and
- Availing themselves as “sound boards” and pilot implementation sites.

The workshop participants discussed the idea of a (three to five year) “skills development holiday”, during which companies would not be expected to comply with skills development requirements, but would have plans and strategies for this in place, without the requirement for implementation. Views were not unanimous as to the specific requirements for each sector. For instance, in the manufacturing sector, certain skills would be needed to enable production (without which, production cannot commence at all). Other sectors, such as the Business Process Outsourcing (BPO) sector, could train staff within a matter of weeks. In that context, the challenges in obtaining the necessary work permits and visas from the Department of Home Affairs to at temporarily transfer managers and specialists to South Africa were labelled as highly critical and quite negative for the investment destination of South Africa.

Many participants reminded the group and emphasised that there were a number of “softer issues” which were harder to measure, to succession planning and transformation of the workplace. These were the ones which Scorecards could not measure, nor any law or policy necessarily prescribe; but which could complicate the process of transformation. Participants indicated a need to address them more efficiently. One participant added that companies could also proactively adopt transformative cultures; irrespective of whether this relates to Scorecard points.

Examples of transformation challenges included:

- Underacknowledged challenges relating to cultural nuances, and interpersonal and people management aspects of younger people finding themselves having to manage older people.
- Intangible issues such as “global corporate culture”, which may be resistant to transformation because of its “colour blindness”.
- Transformation as a socially complex challenge.

Finally, in several of the interventions, participants expressed the opinion that fast-tracking skills transformation (with a view towards increasing management control) still required both patience and time. Some added that one could only fast-track skills transformation to a point and, also, that any fast-tracking should remain substantive. Experience could only be fast-tracked or compressed to a point. Participants also agreed that substantive transformation also meant that anyone who had been fast-tracked in South Africa, particularly in a multinational context, should be able to be globally competitive and suited to a similar role anywhere in the world.
Participants indicated that many companies have fast-tracking and mentoring initiatives in place. One participant pointed out that their multinational has a global training programme in operation, through which they send South Africans abroad for training. However, it was also acknowledged that skills and people must be developed much faster and that companies need to respond to the local context rather than only what is required for global standards.

3.4. The performance of EU companies in terms of economic transformation in SA

The third part of the study examined the contribution of EU companies to broad-based transformation against the B-BBEE Scorecard aspects:

a) Ownership;
b) Management control;
c) Skills development;
d) Enterprise and supplier development;
e) Socio-economic development.

The study investigated each pillar (in percentage of set target achieved) in relation to economic activity to find out whether some sectors are more oriented towards transformation than others. The sample size comprised 1,580 companies instead of 1,611 since the B-BBEE rating for 31 companies was not finalised by the time of this publication.

Notable observations included:

- The high number of “not rated” and “not disclosed” companies
- Socio-Economic Development and Skills Development standing out in terms of target achievements amongst the respective Scorecard elements.
- Preferential procurement appears to receive relatively high attention.

The workshop sessions were guided by the following questions:

- Do elements other than Socio-Economic Development (SED) and Supplier Development (SD) more comprehensively or better reflect the real contribution to transformation? Which obstacles exist, if any, to meet agreed sector targets?
- What kind of initiatives are being undertaken, and are they meaningful?
- Which current policy mechanisms are regarded as supportive of preferential procurement, and which are yet to be implemented?

3.4.1. B-BBEE Scorecard levels

29% of the Qualifying Companies are not rated and another 37% did not disclose information on their rating. In addition, 4% were non-compliant or didn’t complete their verification process. 4% of companies were non-compliant. 7% were rated at Level 8.

The other significant percentages were within levels 4 and 2, which have representations of, respectively 7% and 6% from the companies surveyed.

Companies rated at Level 1 stood at only 1%.
With respect to the “not rated” and “not disclosed” companies, a few participants observed that 66% was rather high. Regarding possible explanations for companies being unrated, the following suggestions were presented in the workshops:

- The direct and indirect costs of the verification process, i.e. the audit fee and the internal resources made available, were labelled as “prohibitive” for SMEs, in particular once the corporate becomes a QSE.
- Some participants indicated that certain companies were amongst the “not disclosed” group who did not want to openly declare their current rating or declare they had not been rated at all. The former may be driven, as some participants explained, by the current 80/20 respectively 90/10 formula in line with the preferential procurement regulations. If one knows the B-BBEE level of a competitor in a public tender under the assumption of ceteris paribus, the competitor’s pricing proposal can be calculated.
- Finally, some companies may not have disclosed the information to the researcher, WoW, but have disclosed it to other institutions, such as the B-BBEE Commission. Hence, this percentage may be negatively influenced by the data collection approach.

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<th>Agriculture, Hunting, Forestry and Fishing</th>
<th>Community, Social and Personal Services</th>
<th>Construction</th>
<th>Electricity, Gas and Water Supply</th>
<th>Financial Intermediation, Insurance, Real Estate and Business Services</th>
<th>Manufacturing</th>
<th>Mining and Quarrying</th>
<th>Transport, Storage and Communication</th>
<th>Trade, catering and accommodation</th>
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<td>3%</td>
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<tr>
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<td>0%</td>
<td>2%</td>
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<td>13%</td>
<td>4%</td>
<td>1%</td>
<td>10%</td>
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<tr>
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<td>0%</td>
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<td>7%</td>
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<td>37%</td>
<td>36%</td>
<td>47%</td>
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<td>20%</td>
<td>35%</td>
<td>29%</td>
<td>21%</td>
<td>43%</td>
<td>26%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Figure 16 Qualifying Companies by rating and economic activity
Across most of the economic activities, there were no companies (0%) rated at Level 1.

The exceptions, which were represented at 2%, 1%, and 2%, respectively, were:

- Financial Intermediation, Insurance, Real Estate and Business Services
- Transport, Storage and Communication
- Trade, catering and accommodation

For level 2, the highest score was again in financial services, which stands at 10%. Under level 4, the highest scores were in construction, and in transport, storage, and communication; at 12% and 16%, respectively.

The data, on its own, does not offer any additional insights, except for the lack of reported B-BBEE data across all sectors. It was puzzling for the project team to realise that companies would go through the effort of hiring and paying verification agencies and obtaining a score, only to not report or disclose this score in the end.

### 3.4.2. Ownership

17% of EU companies score between 51 and 100%, whilst 12% of EU companies have no black ownership at all.

With respect to the ownership element of the Scorecard, Ownership can refer to several dimensions, namely:

- Direct ownership by black people;
- Indirect ownership by black people;
- Ownership by women, specifically.
- Over, and above that, it looks at economic interest.
- Lastly, it looks at voting and voting rights.

The workshop participants discussed the fact that the equity equivalents programme option was not being taken up by EU companies as it is perceived to be not feasible in relation to its direct costs and indirect costs, e.g. the application and subsequent project management costs. During the workshops, EU corporates indicated difficulties understanding the general framework of B-BBEE regulations and specific aspects, such as the Equity Equivalent programme. One participant expressed that Western European companies were very concerned with legal compliance and were happy to follow the laws of a host country. However, legislative changes and amendments in South Africa were not communicated in such a way that they could be easily understood or sometimes appeared to be ad hoc.
Black ownership for most of the EU companies operating in agricultural, personal services, constructing, utilities, and mining activities is either not disclosed or the companies had not been rated.

Manufacturing and logistics had the highest number of EU companies with no black ownership.

Financial and business services have highest number of companies with scores between 51-100% for black ownership.

Participants speculated that those companies who do business with government feel more compulsion to ensure compliance. Observations were shared that many of them would probably fall in the financial and business services sector. In contrast, those who do not provide services to government or do not wish to apply for government tenders felt, comparatively, less of a need to be rated (that is, to be B-BBEE compliant). Even where companies might de facto or potentially be compliant, companies do still feel less compelled to be audited, given some of the challenges identified by participants about B-BBEE audits.

3.4.3. Management Control

For more than half of EU companies, management control by black managers was either not disclosed or the companies had not been rated. 18% of EU companies score between 1-50% for black management control. 13% of EU companies score between 51 - 100% for black management control.

Linking it back to the employment equity numbers, the figures mirrored the low representation of black top management.

3.4.4. Skills Development

Skills Development scores for more than half of EU companies were either not disclosed or the companies had not been rated. 22% of EU companies score between 51-100% for skills development.

6% of EU companies scored between 1 and 50% for skills development.

Participants referred to some fairly expansive skills development programmes, e.g. in the automotive and petrochemicals sectors, including periodical transfers of employees to overseas locations for training and apprenticeships.
3.4.5. Enterprise and Supplier Development

Skills Development scores for most of the EU companies operating in agricultural, personal services, constructing, utilities and mining activities were either not disclosed or the companies had not been rated.

Manufacturing, logistics, trades, and financial and businesses services had the highest number of EU companies with high scores for skills development.

Construction had the most number of companies with exempted elements.

Enterprise and Supplier Development scores for more than half of EU companies were either not disclosed or the companies had not been rated.

23% of EU companies scored between 51-100% for enterprise and supplier development.

5% of EU companies scored between 1-50% for enterprise and supplier development.

Enterprise and Supplier Development, along with Ownership, and Skills Development were deemed priority elements. This means that companies that focus activities around the three elements become eligible to receive bonus points (scoring has a multiplication factor), which may see them exceed 100% of the target score.

Enterprise and Supplier Development scores for most of the EU companies operating in agricultural, personal services, constructing, utilities and mining activities were either not disclosed or the companies were not rated.
3.4.6. Socio-Economic Development

This element was mostly seen as classic corporate social responsibility (CSR). It was within a local company’s discretion to decide what to do under this element. Often times, it was taken as a “donation” or “cheque writing” exercise, without the need for any structured activities or any clear outcomes as participants explain.

Socio-economic development was not a priority element; which meant that no bonus points were available under this category.

Socio-Economic Development scores for more than half of EU companies were either not disclosed or the companies had no rating.

27% of EU companies scored between 51-100% for Socio-Economic Development with only 3% of EU companies scoring above 100%.

Socio-Economic Development scores for most of the EU companies operating in agricultural, personal services, constructing, utilities and mining activities were either not disclosed, or the companies had no rating.
3.4.7. Conclusions and recommendations

Several insights emerged from the sample data related to the B-BBEEE Scorecard and which provide input for further discussions.

Overall, participants in all four workshops agreed to keeping the B-BBEE regulations as a reference system. Nonetheless, some expressed the urgent need for a more targeted form of B-BBEEE, which incentivises practical steps towards transformation. A few participants suggested that the Scorecard, in its iterations thus far and including the present one, tended to be random and occasionally incentivising the wrong behaviour, which could be mitigated by a more evidence-based implementation approach. Participants referred to a perceived gap between inherently positive concepts and their implementation or actionability.

Participants suggested that it would be important for the BMF and government to separately look at similar (empowerment) programmes globally, and how different countries have designed, implemented, and managed them. This would also assist in efforts to demystify B-BBEE within the investment and business communities. Examples proposed for consideration included Indonesia, Brazil, Malaysia and Hong Kong.

The perception of B-BBEEE being “random” appears to also be a reflection of certain pre-kept views and a lack of clarity regarding the current B-BBEE policies in general. Many participants agreed that there was also a need to demystify B-BBEE; particularly with respect to the ownership element. Observations were shared that many potential investors believe that B-BBEE makes it conditional for them to seek a black South African business partner before even establishing the business in South Africa, which is sometimes regarded as a disincentive. International potential investors who were not fully au fait with B-BBEE were generally concerned about giving up equity and working with a partner whom they do not know. With respect to an option such as the Equity Equivalents programme, a number of participants reiterated the view that there was not enough information that was easily available on this.

Ownership will always play a critical role, but some participants were of the view that its weighting should be adjusted in favour of a job creation element which could be built into the remaining pillars.

For instance, some of the skills incentives programmes, introduced by government, literally “promoted” lower salaries and de-incentivised upskilling in some cases. Reference was made to one of dti’s incentives programmes, which only supports monthly salaries under R60,000; motivating investors and employers to not employ higher-skilled people. Furthermore, the 6% skills levy was mentioned, which could be used to direct a percentage of that levy towards the recently-adopted free tertiary education policy, supporting the “right” students. Alternatively, the company could be incentivised, by getting back a small percentage of its spend for contributing to the fee-free education fund. Funds from ED and SED spent could be directed to teachers and principals in high schools, and positively contribute much needed basic education.

Both, Socio-Economic Development and Skills Development stand out in terms of target achievements amongst the respective Scorecard elements. It is not immediately apparent whether EU companies find these elements the easiest to meet, or whether they feel that those can create the most impact.

Noteworthy, workshop participants confirmed several times that those two elements were a natural reflection of their corporate values as family or foundation-owned businesses and any activity in that space would take place in any event, with or without a Scorecard.

Preferential procurement appears to receive relatively high attention. While some participants confirmed that procurement was (as the data suggested) an “easy” element on the Scorecard, others expressed concern regarding difficulties in sourcing or incorporating Exempt Micro Enterprises (EMEs) into their procurement and general supply chain processes (with “procurement volume being too high to give it to small companies”). Overwhelmingly participants (including those who found the element easy to meet, overall) agreed that there were challenges around EMEs. The issue, in the assessment of one participant, came down to the value of services required, as some of the services in his industry could easily amount to R10 million.

Other participants pointed out that EMEs were generally quite hard to find, with many agreeing that there were no good databases or repositories where one could find details or lists of “vetted and bankable” EMEs.
In terms of government procurement, some participants pointed out that there were also inconsistent applications of B-BBEE requirements across government entities. One noted that some SOEs were unconcerned about what rating a company was; if a company was not 100% black-owned, it was precluded from participation in some of their tenders. Another noted that an SOE, whom they have always done business with, had also recently requested them to consider their ownership.

Entrepreneur Mentorship Programmes could be a potential solution to the EME gap. Some participants highlighted the importance of business mentorship initiatives, citing these examples:

- An enterprise mentoring initiative and an entrepreneur development (exchange) programme, which were run by the South African Netherlands Chamber;
- A “senior expatriate experts service”, where highly experienced and seasoned persons from Europe could be placed in a business to assist with, inter alia, business optimisation, business readiness, and export readiness.

Finally, workshop participants pointed out that B-BBEE is exacting. This is due to

- Audit costs (separate from financial and other audits); and
- The sets of required documentation, which is a cumbersome process.

During the discussion, the matter regarding the high levels of inconsistency amongst B-BBEE verification agencies, and the impact of this on the veracity of ratings, also came up. Citing their own company as an example, one participant explained that they had, in one year, decided to test this out by hiring three different agencies to rate them. He went on to report that they had, on the same set of information, received three completely different ratings from these agencies.

4. CONCLUSION AND WAY FORWARD

This report summarises the inputs and contributions gathered from the desktop research and the Deep Dive Workshops. Following the BMF Annual Conference 2018, a dedicated session to reflect on this report would be required, from which a concluding document should be drafted to reflect the transcripts of the conference and be shared with the broader public for further debate.

This process to engage in a deeper policy dialogue around pressing issues and missed opportunities to access the supply chain of EU companies (the ENE gap), a lack of recognition of meaningful contribution to transformation and reduction of red tape for SMEs, etc., could use this study as a baseline to drive a sharper and more investor group or sector focused policy advocacy.
## Appendix A: Glossary of data fields

<table>
<thead>
<tr>
<th>Data Field</th>
<th>Description/Remark</th>
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<tbody>
<tr>
<td>WorkpointID</td>
<td>Who Owns Whom's Unique Company Identifier</td>
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<td>Company as Registered on CIPC</td>
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<tr>
<td>Registration_Number</td>
<td>Registration as per CIPC</td>
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<td>RegisteredProvince</td>
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<tr>
<td>RegisteredCountry</td>
<td>Country where company is Registered (Registered Address)</td>
</tr>
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<td>JSE Code</td>
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<tr>
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<td>Province of Postal Address of Company</td>
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### Appendix A: Glossary of data fields (Continued)

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Appendix A: Glossary of data fields (Continued)

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<td>- BEE Employment Equity was merged with Management and Control, and</td>
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<tr>
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<td>- BEE Preferential Procurement and BEE Enterprise Development Enterprise was combined into Enterprise and Supplier Development.</td>
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<td>BEEEmploymentEquity</td>
<td>In order to draw comparisons, WOW provides a calculated field which determines the newly introduced Management Control (MC) and Enterprise and Supplier Development (ESD) fields as follows:</td>
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### Appendix A: Glossary of data fields (Continued)

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<td>ToDate</td>
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<tr>
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<td>WOWs Unique Certificate identifier</td>
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<td>Empowerment Stake as per BEE Scorecard or as determined by WOW</td>
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<td>If the certificate has expired (yes/no). Please note that even if the certificate has expired, it may be the latest one available</td>
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<td>Size of Company as per WOW classification</td>
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<td>Black Female Ownership Range</td>
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</tr>
<tr>
<td>Empowerment Stake Range</td>
<td>Empowerment Stake Range</td>
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Appendix B: B-BBEE Scorecard

<table>
<thead>
<tr>
<th>Element</th>
<th>Code series</th>
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<tr>
<td>Ownership</td>
<td>100</td>
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</tr>
<tr>
<td>Management Control (MC)</td>
<td>200</td>
<td>15 points</td>
</tr>
<tr>
<td>Skills Development (SD)</td>
<td>300</td>
<td>20 points</td>
</tr>
<tr>
<td>Enterprise &amp; Supplier Development (ESD)</td>
<td>400</td>
<td>40 points</td>
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<tr>
<td>Socio-economic development (SED)</td>
<td>500</td>
<td>5 points</td>
</tr>
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<td><strong>TOTAL</strong></td>
<td><strong>105 POINTS</strong></td>
<td></td>
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</tbody>
</table>

Source:
### Appendix C: Methodology on size classification

<table>
<thead>
<tr>
<th>SECTOR / SUB-SECTOR</th>
<th>SICC</th>
<th>CATEGORY</th>
<th>EMPLOYEES* (greater than or equal to)</th>
<th>TURNOVER (Rm) (greater than or equal to)</th>
</tr>
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<td>6</td>
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<tr>
<td></td>
<td></td>
<td>Micro</td>
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<td>0.1m</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>2</td>
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<td></td>
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<td>0.2m</td>
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<td></td>
<td></td>
<td>Micro</td>
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<td>0.1m</td>
</tr>
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<td>Manufacturing</td>
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<td></td>
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<td>Electricity, Gas, &amp; Water</td>
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<tr>
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<td>6</td>
<td>0.2m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Micro</td>
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</tr>
<tr>
<td>Construction</td>
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<td>Very Small</td>
<td>6</td>
<td>0.2m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Micro</td>
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<tr>
<td>Wholesale Trade, Commercial Agents &amp; Allied</td>
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<td>Large</td>
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<td>64.0m</td>
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<tr>
<td>Services</td>
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<td>6</td>
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<td></td>
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<td>Micro</td>
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<td>0.1m</td>
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<tr>
<td>Retail &amp; Motor Trade &amp; Repairs</td>
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<td>201</td>
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<td></td>
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<td>6</td>
<td>0.2m</td>
</tr>
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<td></td>
<td></td>
<td>Micro</td>
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<td>0.1m</td>
</tr>
<tr>
<td>Catering, Accommodation &amp; Other Trade</td>
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<td>201</td>
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<tr>
<td></td>
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<td></td>
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<tr>
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<td>Very Small</td>
<td>6</td>
<td>0.2m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Micro</td>
<td>1</td>
<td>0.1m</td>
</tr>
<tr>
<td>Transport, Storage, Communication</td>
<td>7</td>
<td>Large</td>
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<td>26.0m</td>
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<tr>
<td></td>
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<td>0.2m</td>
</tr>
<tr>
<td></td>
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<tr>
<td>Insurance, Pension Funding, Financial</td>
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<td>Intermediation &amp; Auxiliary Services</td>
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<td>Real Estate &amp; Other Business Services</td>
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<td>3.0m</td>
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<td></td>
<td>Very Small</td>
<td>6</td>
<td>0.2m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Micro</td>
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</tr>
<tr>
<td>Community, Social &amp; Personal Services</td>
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<tr>
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<td>21</td>
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<td>Very Small</td>
<td>6</td>
<td>0.2m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Micro</td>
<td>1</td>
<td>0.1m</td>
</tr>
</tbody>
</table>

Sources: Schedule 1 of the National Small Business Act (as revised), adjusted by StatsSA Quarterly financial statistics (Dec 2016).

The methodology used by Who Owns Whom categories enterprises according to three criteria, namely: standard industrial classification, number of employees, and annual turnover. This methodology is based upon the thresholds provided by the National Small Business Act (as amended) then revised to make provision for inflation and sub-sector disaggregation, where appropriate.

1) Turnover supersedes Headcount where both figures disclosed for an enterprise.
Appendix D: Level 2 sector breakdown

**Mining and Quarrying**
- Mining of Metal Ores: 53%
- Other Mining & Quarrying: 19%
- Mining of Coal & Lignite: 13%
- Mining of Gold & Uranium Ore: 9%
- Extraction of Crude Petroleum & Natural Gas: 3%
- Service Activities Incidental to Mining of Minerals: 3%

**Agriculture, Hunting, Forestry and Fishing**
- Growing of Fruit, Nuts, Beverage and Spice Crops: 80%
- Growing of Vegetables, Horticultural Specialities and Nursery Products: 20%
Appendix D: Level 2 Sector Breakdown (Continued)

Manufacturing

- Basic Metals, Fabricated Metal
- Coke, Refined Petroleum Products, & Chemicals
- Food Products & Beverages
- Transportation Equipment
- Wood & Wood Products, Paper, Printing And Publishing
- Radio, Television & Communication Equipment; Medical, Precision & Optical Instruments; Watches & Clocks
- Textiles, Clothing & Leather
- Electrical Machinery & Apparatus
- Furniture & Manufacturing NEC

Electricity, Gas and Water

- Electricity, Gas, Steam & Hot Water Supply
- Collection, Purification & Distribution of Water
Appendix D: Level 2 Sector Breakdown (Continued)

Construction
- Building of Complete Constructions or Parts Thereof; Civil Engineering
- Other Building Installation n.e.c.
- Renting of Construction or Demolition Equipment With Operators
- Other Building Completion n.e.c.
- Electrical Contracting

Trade, Catering and Accommodation
- Wholesale & Commission Trade
- Retail Trade
- Hotels & Restaurants
- Sale, Maintenance & Repair Of Motor Vehicles And Motor Cycles; Retail Trade In Automotive Fuel
Appendix D: Level 2 Sector Breakdown (Continued)

Financial Intermediation, Insurance, Real Estate and Business Services

- Financial Intermediation
- Business Activities
- Real Estate Activities
- Computer & Related Activities
- Insurance And Pension Funding, Except Compulsory Social Security
- Activities Auxiliary To Financial Intermediation
- Renting Of Machinery & Equipment, Without Operator, & Of Personal & Household Goods
- Research and Development
Contribution of EU investments to Inclusive Growth in South Africa

Report on Panel Discussion
Black Management Forum Annual Policy Conference
11 October, Gallagher Convention Centre, Midrand
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*This project is funded by the European Union.*

The authors take full responsibility for the contents of this report. The opinions, findings and conclusions in this document are those of the authors alone and do not necessarily reflect the views, policies and opinions of the Government of the Republic of South Africa and the European Union.
EXECUTIVE SUMMARY

This report is part of the “Contribution of European Union Investments to Inclusive Growth in South Africa” policy dialogue project. The project is a collaborative dialogue between the Department of Trade and Industry (the dti), the Black Management Forum (BMF), and the European Union (EU), within the framework of the overall SA-EU Strategic Partnership.

Project Summary

The “Contribution of EU Investments to Inclusive Growth in South Africa” policy dialogue project, is a project that is embedded in the EU-SA Dialogue Facility. Its objective is to foster more collaborative dialogue between the dti, the BMF and the EU, for the mutual benefit of the partners. It is sponsored by the BMF and supported and endorsed by the dti. The dti and the BMF, as project sponsors, are interested in economic transformation, employment creation and skills development, as well as increasing the participation of black entrepreneurs in the supply chains of EU investor companies. Further, both the South Africa and EU partners are interested in fostering inclusive growth and the broader transformation targets set out in South African policies and legislation.

The exploratory study underpinning the dialogue project had four broad components: data aggregation and corresponding analysis based on 1,611 fully profiled EU companies; four policy dialogue deep dive workshops; a foundation report, which was discoursed at the Annual Policy Conference of the BMF; and a final conference dialogue report.

This report is the conference dialogue report. During a panel session at the Annual Policy Conference of the BMF, which took place on Thursday, 11 October 2018, the key findings from study and the foundation report (which had been shared with the panellists prior to the conference) were presented to BMF members as a printed copy in their conference pack and discoursed by a panel in the format of a facilitated discussion. This was followed by a question and answer session with conference participants. This report is a record of those proceedings.
ORGANISATION OF THIS REPORT

The report is structured chronologically as per the format of the panel discussions. It is organised into four parts.

PART I OF THE REPORT:
OPENING OF THE PANEL SESSION

Part I of the report records the opening of the panel. The panel was opened by panel facilitator, Ms Gugulethu Mfuphi, followed by opening remarks by the European Union Ambassador to South Africa, Dr Marcus Cornaro, and Mr Sipho Zikode, the Deputy Director General (DDG) for Special Economic Zones and Economic Transformation, at the Department of Trade and Industry (the dti).

PART II OF THE REPORT:
PRESENTATION OF KEY FINDINGS AND HIGHLIGHTS FROM THE STUDY

Part II of the report is a record of the of the presentation by Dr Sibongile Vilakazi, outgoing Head of Policy at BMF Gauteng and current Chairperson of the BMF Sandton Branch, who was a member of the project’s BMF Working Group. Her presentation focused on the highlights from and key findings of the study, as synthesised in the Foundation Report.

PART III OF THE REPORT:
FACILITATED PANEL DISCUSSION

Part III of the report is a record of the inputs of the session panellists, and the facilitated discussion which accompanied it.

PART IV OF THE REPORT:
QUESTIONS AND ANSWER SESSION

Part IV of the report is a record of the question and answer session which concluded the session.
Session Opening by Ms Gugu Mfuphi

Ms Mfuphi opened the session and welcomed all those present. She began her opening by drawing the link between the theme for the session and those of the preceding two conference sessions on, respectively, land reform, and ethical leadership.

She highlighted their link insofar as the respective discussions were critical components to the overall discussion on inclusive growth. With regard to the present panel session, she pointed to the fact that Foreign Direct Investment (FDI) has often been identified a key enabler for unlocking economic growth and unleashing national economic potential and overall economic development.

She explained that assessing FDI’s contribution to sustainable development had been at the core of what the project (study) was about. She concluded her opening by explaining the reasons why EU investment had been the focus of the study. First and foremost, it was well documented in economic circles that the European Union is South Africa’s largest trade and investment partner, and a key contributor to FDI in South Africa. She explained that it was therefore apt to want to understand the impact and contribution of that investment to inclusive growth and sustainable development in South Africa.
Panel Opening Remarks by Dr Marcus Cornaro, Ambassador of European Union Delegation to the Republic of South Africa

Ambassador Cornaro commenced his opening remarks highlighting the importance of the economic relationship between South Africa and the European Union. Pointing out that 75% of FDI into South Africa was of EU origin, he remarked that the figures spoke for themselves in revealing the significance of the relationship.

He noted, however, that it was important to, within the conversation, also speak to issues around the quality of investments, also giving context of South Africa’s unfinished business with respect to transformation. Ambassador Cornaro explained that this had been one of the motivations for the “Contribution of EU Investments to Inclusive Growth in South Africa” study.

Making reference to discussions at the recent Jobs Summit and the upcoming Investment Conference, and to points for discussion for the upcoming EU-South Africa Summit in November 2918, Ambassador Cornaro considered this discussion to be very timely. He pointed out that the future EU contribution to inclusive growth in the context of South Africa was to be a topic of discussion at the summit. He emphasised the importance of a transformed and prosperous African continent, stressing that the EU saw its own prosperity as inextricably linked to that of Africa.

Ambassador Cornaro went on to thank the BMF for conducting the study. He highlighted that the study had entailed wide-ranging engagements with EU companies over a number of consultative workshops. He noted that the workshops had highlighted the variety of EU investments in South Africa; and also, its transformative role (by sector) across a wide sector spread. He made specific reference in that regard to the automotive, manufacturing, equipment, civil engineering, and services sectors.

Ambassador Cornaro then took the opportunity to thank Deputy Director-General Zikode for the support of the Department of Trade and Industry for the study. He expressed his content that the two partners enjoyed a good working relationship and cooperated closely on a range of other economic issues. He made specific reference to trade aspects of the relationship, i.e. a job-focussed trade and the Economic Partnership Agreement (EPA). Moreover, he acknowledged the close cooperation with the Department of Agriculture in work relating to unlocking the agricultural business potential of South Africa in the context of the EPA.

In conclusion, Ambassador Cornaro anticipated that the project findings would be followed up by further research, as it had been expressed in the foundation report. He told conference delegates that he would leave them with two thoughts concerning the study as well as some accompanying policy-related suggestions.

- Firstly: He pointed out that the ownership element appeared to remain a challenge. He posed the suggestion that, perhaps, consideration be given to giving investments (particularly greenfield) some “breathing space” at the outset of their investments and allow them to fully comply to the requirements as their businesses mature and grow. He went on to suggest that this approach would attract a lot more additional investment. He made reference to the fact that much of the potential investment is from small and medium-sized investors, who significantly contribute to innovative elements in business. Ambassador Cornaro added the EU did believe that here was more room to make B-BBEE work better, and to leverage the EU’s propensity for seeing fledgling small and medium enterprises grow and increase their share in the economy.

- Secondly: With reference to localisation, Ambassador Cornaro suggested that, for sustainable job creation, it would be worthwhile to consider it at the level of sectors and value chains within sectors – rather than at an aggregate level. Using the renewable energy value-chain (he referred to wind and solar) and automotive sectors as examples, he noted that localisation in these sectors held enormous potential and significant opportunities for cooperation between the EU and South Africa. He added that those considerations would be accompanied by medium and long-term prospects for procurement.
Ambassador Cornaro then went on making the following additional remarks:

- Referencing some earlier participant comments on the digital economy and “Industry 4.0”, he indicated that the EU was happy to share the thinking underpinning its current digitisation drive. He explained that the EU was of the view that there was a positive correlation between digitalisation, innovation, and job-led growth. The EU’s current digitisation drive was similar to the EU initiative in relation to renewable energy and sustainable, job-led, and clean growth.

- The Ambassador referenced a recent meeting with Minister of Economic Development, Mr Ebrahim Patel – at which they had reflected on the broad economic relationship between the two partners. Explicitly referencing the role of trade, he expressed happiness with the aggregate trade figures and noted that the trade deficit was narrowing in favour of South Africa. He suggested a study similar to the present one, to be undertaken on the correlation and impact of two-way trade on job creation.

In closing, Ambassador Cornaro repeated that the EU was positive and upbeat about South Africa and the mutual relationship between the two partners.

Remarks by Mr Sipho Zikode, Deputy Director General: Special Economic Zones and Economic Transformation, Department of Trade and Industry

Mr Zikode commenced his remarks by commenting on the significance of the bilateral relationship between the European Union and South Africa, as well as the progress that has been made within the overall relationship (particularly in trade) between the EU and SADC. With reference to a number of current examples, he told participants that the EU and South Africa cooperated closely on several issues. He explained that trade was high on the agenda, closely accompanied by investment. He noted that the levels of investment in South Africa from the EU were high. He referenced examples of automotive manufacturing and the entire automotive value-chain to illustrate some of the successes.

Speaking to global developments, Mr Zikode talked about the rise in economic nationalism. Referring to developments with respect to Brexit, and in aspects of trade relations with the United States, he explained that South Africa was adjusting its engagements. With reference to the United Kingdom, Mr Zikode mentioned that South Africa would be looking to entering into negotiations with the United Kingdom bilaterally. In the case of the United States, he mentioned that they had been discussing issues relating to specific South African exports and security.
PART II: HIGHLIGHTS FROM THE “CONTRIBUTION OF EU INVESTMENTS TO INCLUSIVE GROWTH IN SOUTH AFRICA” EXPLORATORY STUDY

Presentation by Dr Sibongile Vilakazi

Dr Vilakazi began her presentation by stating that a lot of work had gone into the project, and that the BMF was proud of the product that had emerged out of the process. She mentioned lots of efforts which were invested behind the scenes; from conceptualisation to ultimate design, through to the substantive parts of the study, and then to the ultimate product. She made express mention of Mr Langalethu Manqele (outgoing BMF Gauteng Chairperson) to whom she gave appreciation for his efforts in bringing the project to light and his role in its journey to the present launch at the BMF annual policy conference.

Background

In terms of background, Dr Vilakazi explained that that project had been conducted in collaboration with the dti (who had endorsed the project) and the SA-EU Dialogue Facility (who had funded it). She continued explaining that the project reflected “what the BMF was about” and “who the BMF was” in terms of socio-economic advancement and the role BMF plays in ensuring that the study is results-based and reflective of tangible outcomes.

High Level Objectives of the Study

She then went on to state that the project was, effectively, about inclusive growth. She explained that the project team firstly had to look closely at their definition of “inclusive growth”. She pointed out that there were a number of definitions, adding that even among scholars no agreement on the definition existed. However, in the context of South Africa, the project team had deemed it to entail:

- on the one hand, economic participation (in terms of employment and employment creation); and benefits sharing (including skills); and
- on the other hand, overall performance in terms of the broad-based black economic empowerment (the BBBEE scorecard). She mentioned that the BBBEE scorecard had presented a few limitations; but also pointed out that it had also been all that they could reliably use.

She emphasised that the idea behind the project was to foment a dialogue that is data-backed respectively evidence-driven (emerging from and supported by solid numbers and figures), and not informed by assumptions or hearsay. She reminded conference delegates that the project was the first of its kind, adding that not much, if any research had been done prior to the study. This, she pointed out, also explained why it was exploratory in nature. Related to that, she continued, the findings were not intended to be conclusive; but added they provided some insight on the state of play with respect to EU investment in South Africa and its impact. She stated that the study was intended to spark the conversation (“let’s start the conversation”).

Project Scope and Methodology

With respect to the overall scope of the project, Dr Vilakazi told participants that they had, at the start, to distil it into something that would be manageable. It had, therefore, pertained to three questions:

- Firstly, what is the nature and structure of EU investments in South Africa? This, she explained covered categories such as source countries of the investment, and the geographic spread of the investments within the country.
- Secondly, what is the contribution of that investment to employment? She explained that this element looked at issues relating to employment creation. More specifically, it looked at how much employment EU FDI is creating in the country and at what occupational levels.
- Thirdly; What is the performance of that investment with respect to transformation in South Africa? For this aspect, she explained, the study had reviewed and assessed EU companies’ performance under the BBBEE scorecard and scorecard elements.

With respect to the criteria for determining origin, she explained that the selection criteria for qualifying companies had been:

- Only directly and indirectly held companies registered in South Africa with a 50%+ effective shareholding by an EU-domiciled shareholder.
- 50/50 joint ventures were not included.
- Lastly, qualifying companies had to be registered in South Africa.

Data collection and management. Dr Vilakazi told participants that, for the core data, the project team had approached “Who Owns Whom” (WOW) – an independent provider of corporate information and a corresponding database. Even with WOW’s expertise and experience, she reported, the study had faced a few challenges with cleaning up that data and filling in gaps in certain areas. This was in particularly so, given that what the study sought was very specific and not necessarily available in WOW’s existing database. WOW, therefore, had had to supplement the data with phone calls and questionnaires. Following this process, WOW and the project team analysed and organised the data and produced a raw data report.

In terms of the process and components in the lead up to the foundation report, Dr Vilakazi explained that the data aggregation and data analysis was followed and complemented by a series of policy dialogue “deep dive workshops”. She explained that the workshops were intended to give meaning to some of the trends observed from the data, fill in the gaps, and answer any questions which arose from the data collection and analysis. The workshops also sought to provide insights on companies’ and investors’ lived experiences, and any limitations they faced with respect to compliance in certain areas.

Highlights
Using accompanying PowerPoint slides, Dr Vilakazi went on to report on the key substantive findings and highlights from the study (as presented in the foundation report). She summarised the following:

• The sample had been 1,611 companies. She pointed out that this was a good sample, as they had aimed for 1,100.

• 76% of companies in the sample represented only three sectors / sector groups: namely financial intermediaries, insurance, real estate, and business services; manufacturing; and trades, catering and accommodation. She noted that this had been an interesting finding; but added that it was consistent with South African statistics.

• In terms of (direct) jobs created by European Union investment in South Africa, the data collated showed a total of 468,474 jobs. Dr Vilakazi remarked that this figure could be higher, as some headcount statistics were not available or disclosed by the companies.

• Of the surveyed companies, 66% were either not rated or had not disclosed their B-BBEE status. She indicated that this figure had startled the project team.

• In terms of geographic spread, the study found that most companies were located in Gauteng, Western Cape and KwaZulu Natal. Limpopo and the Free State were not well represented. It found that there is a set of common factors that are important to investors, which in significant part, determined the geographic location of investment in South Africa. Examples of these included; lifestyle, infrastructure, and educational factors.

• As noted, the figures also showed that the majority of EU investment is in financial services; which Dr Vilakazi added, is also consistent with the patterns in the South African economy overall. Agriculture, utilities, and construction, on the other hand, were the least represented.

• Dr Vilakazi observed that, in the South African context, this was a challenge, as the latter were sectors which generally create the majority of jobs (particularly in the unskilled and semi-skilled categories). She added that South Africa was, essentially, creating jobs for skilled persons.

• Dr Vilakazi then pointed out that SMMEs were not highly represented among EU investor companies in South Africa. She stated that some of the reasons for this, which emerged from the study, were B-BBEE constraints and confusion over B-BBEE.

• With respect to the employment created, the data showed that 95% of the employment was permanent.

• The data had also shown that the highest number of employed persons were males. Dr Vilakazi stated that the most represented were African males, in particular in the semi-skilled and technical skills occupational levels.
She pointed out, however, that the higher up the occupa-
tional levels one went (senior management and top management), the higher the representation of white males. These were followed, by some distance, by white females. In general, the representation of all the other population groups is low in these categories. She noted, also, some representation of foreign white males in the top management category.

Dr Vilakazi then went on to make some comments regarding the 66% unrated or not-disclosed companies. She explained that some of the nuances emerging from the consultations were that:

- The ratings process was onerous for some companies.
- Changes in BBBEE, or inconsistent application of it, affected a lot of companies.
- Some companies operated in a survivalist mode and had to make a choice between profitability and being formally audited.
- She added that it had also emerged that companies who deal with government are the ones that were inclined to be BBBEE rated (compliant). The study also found that the contrary was true; that is, companies who do not do business with the government did not have significant incentives to get audited and/or rated.
- She added, however, one of the findings from the study had been that this did not necessarily mean that the companies in question were not (informally) complying with BBBEE, in the sense of being involved in Scorecard-related activities.

Before concluding, Dr Vilakazi went on to make some remarks regarding some of the data challenges that the project team had encountered.

- Firstly, she told participants that it was striking how little data existed (in general) in relation to BBBEE.

  - She added that it was of some concern that we have a policy that is in place and being implemented but without, she observed, proper mechanisms in place to monitor it.
  
  - She explained that even identifying companies for the sample, to start with, had been a challenge. She explained further that it had emerged, within the course of the workshops, that there were a lot more companies out there than than those the project team had found.

- Secondly, revenue figures were, for a variety of reasons, not available for most of the companies in the sample. The project team had, in the end, settled on determining size by employee headcount and in accordance with the dti methodology.

- There had also been some significant challenges in the clustering of sector groups ("like for like"), especially in view of the BBBEE sector variations.
PART III: FACILITATED PANEL DISCUSSION

Remarks by Panel Facilitator

Ms Mfuphi thanked the BMF for their involvement in this study. She also made specific mention of Mr Langalethu Manqele, and gave specific thanks to DDG Zikode and the dti for their endorsement of the study. She strongly encouraged participants to read the foundation report in its detail, and to even take the opportunity to contribute to formulating some of its conclusions and to ensuing policy discourse.

She then introduced participants to the panel discussion. She opened the panel by noting that there is a correlation between FDI and impact on sustainable development and inclusive growth. With reference to measuring impact, however, Ms Mfuphi talked about the issue of economic sectors. Referencing the findings of the study in relation to sector spread and employment figures, she asked Mr de Luca, next speaker in the panel, for his views on new industries and new sectors to look for development. She spoke particularly in relation to those which may have a larger and more long-term multiplier effect and asked him for his views on what sort of discussion was required in that regard.

Mr Massimo de Luca, EU Delegation to South Africa

Mr de Luca began his presentation by acknowledging the contributions of Mr Langalethu Manqele and the dti, in particular DDG Zikode and the Chief Director for BBBEE policy, Mr Liso Steto, to the study. He also acknowledged the participation of EU businesses in the project, in particular in the policy deep dive workshops. Mr de Luca stated that the workshops across the country had not only been well attended but had also created a good dynamic discussion on the topic of transformation and the linkage between transformation and FDI.

Mr de Luca then made some observations on the findings from the study. He expressed that the scope of the impact of EU FDI was, firstly, resembled by the fact that EU investment represented 73% of FDI in South Africa. He noted that it was noteworthy that, from the companies sampled, over 468,000 jobs had been created. He pointed out, also, that this headcount related to a sample of 1,611 companies, a figure, which was not a full representation of all EU companies invested in South Africa. He added that it was good to note that those jobs were mostly permanent (95%). Mr de Luca also found it worth noting that there was a good representation of jobs in the middle to upper occupational levels. He stated that this also reflected the role that EU investment plays in terms of skills development and upskilling.

Mr de Luca continued talking about the upcoming investment conference (which was scheduled for the following week), at which he expected EU investors to be present. He made reference, also, to the upcoming EU-SA Summit (the first special summit in five years), which President Ramaphosa would be attending in November 2018. Making reference to the panel facilitator’s earlier question on the discussion around new sectors, he explained that a lot of the discussions at both these forums would indeed be around which sectors to focus in order to improve on inter alia localisation in South Africa.

Angelica Mkok, Amadeus IT Group

Ms Mkok began by commenting that there were a lot of good insights that had emerged from the report. She commented, however, that there was even more in terms of opportunities and the different ways in which companies can contribute to inclusive growth. She explained, in that regard, that there was a need to look beyond internal and individual operations, and to view the impact of companies in terms how they interact with, for example, local business and the community.

Using the example of Amadeus IT Group, she explained that it was a technology company whose technology was behind the bulk of bookings and reservations across the travel and tourism sector. She went on to state that if one looks at it from that perspective, one observes that this is a company that sits at the heart of the travel industry. She went on to mention that the company was not large in size by global standards, but that its contribution in terms of impact, had considerable global reach.

She mentioned that Amadeus operated in 190 markets. She expressed her view that broader economic impact is multiplied both through the businesses who use their technology and the individuals who use their services. Further than that, because Amadeus is digital and technology driven, they have been behind the upskilling of travel professionals in several countries.
She stated that in South Africa alone, outside of their core team, they train up to 1,000 professionals per year. Ms Mkok informed participants that there were further opportunities in the sector. Travel and tourism is one of the fastest growing industries in the world. To illustrate the magnitude of the potential, she cited statistics from the United Nations World Tourism Organisation, which show that in the last year alone, there were 1.3 billion global travellers. The question, she posed to the audience was; “how do we position the economy to tap into that growth for sustainable and inclusive growth?”.

Ms Mkok went on to caution that transformation was not automatically happening, nor can sustainable development be delivered through individual companies, or by the private sector alone, or the public sector alone. She emphasised that the public and private sectors needed to work together. She told participants that they had been asking themselves what they as Amadeus, the company, could do to further contribute to inclusive growth and, in particular to the National Tourism Strategy. She explained, in that regard, that two years prior, they had started a conversation with the Department of Tourism about how they could work together to achieve transformation and identify potential challenges ahead. In closing, she pointed to an initiative, which was the first of its kind in the sector, in which they were convening all stakeholders, including SMMES, disadvantaged communities, and typically excluded communities. Through the initiative, she explained, small rural businesses, community businesses, and a host of other businesses that would normally not be exposed to tourism markets or travellers were now being tapped into.

Guided Discussion: Questions by Panel Facilitator

To set off the question and answer, and discussion sessions, Ms Mfuphi asked panellists some directed questions.

She asked Mr Zikode to comment on how the dti interprets issues around priority sectors, given the findings from the study with respect to sectors. She pointed to the fact that the dti appears to focus considerably on manufacturing and was keen to find out how the findings impacted on their views on the issue of other (including new) sectors.

- In response, Mr Zikode made the following remarks:
  - He stated that FDI was good for any economy.
  - He stated that how government interacted with investors, within that, was critical to ensuring the benefits of that investment were accrued by society as a whole.
  - He went on to talk about South Africa’s emphasis on the developmental state and what that meant in the context of FDI.
  - He stated, firstly, that there was a need for trained, skilled, capable, and ethical officials.
  - Secondly, he repeated that benefits had to accrue to society. He mentioned, in that regard, that investment was only valuable in so far as it contributed to sustainable and long-term development.
  - Thirdly, he indicated that FDI / investors must comply with South African laws.

As a follow-on question, Ms Mfuphi wanted to know whether South Africa (government) was in fact measuring impact.

- Mr Zikode confirmed that the government was indeed measuring impact. However, he acknowledged given that in its inception phases, it had simply been a guideline, compliance with B-BBEE had initially been low. He explained that this had been one of the reasons why the B-BBEE Commission was set up, as a mechanism to monitor and measure impact.

Ms Mfuphi then asked Dr Vilakazi for what, in her view, South African entrepreneurs should take from the report.

- Dr Vilakazi stated that the key takeaways to highlight from the study and the report were that:
  - South African businesses needed to lead by example in the discussion on B-BBEE and transformation. She expressed that it was problematic that some South African businesses have not implemented B-BBEE. She posed the question that if South African businesses themselves did not implement BBBEE, then how it could be expected from EU investors.
  - Secondly, she highlighted that, from a policy design and implementation perspective, there was a need to simplify the process. She added that the study had revealed that many companies do, in fact, want to comply. She further added the project team had found some activities that were not being recorded on the current Scorecard.
PART IV: QUESTION AND ANSWER SESSION

The final session of the panel was opened to audience questions.

Questions from Conference Delegates

Conference delegates asked the following questions:

Related to B-BBEE Compliance

- Ms Nosizwe Songezi noted that from the data presented there appeared to be a high degree of non-compliance. She asked what the project team had found in the course of their engagements and consultations, with regard to whether there was a willingness to comply with B-BBEE and employment equity.
- An entrepreneur, who is a BMF member from the North West province, expressed his shock at the finding that 66% of companies were non-compliant. Using the following specific questions, he queried why this was the case:
  - Is B-BBEE compliance not controlled?
  - Is South Africa only looking to attracting investment, with no regard for compliance?
  - Related to the forgoing, does South Africa not care about B-BBEE compliance?

The Economy and Migration Issues

- Ms Portia Ndhlovu was interested in Mr de Luca’s views on migration. For context, she made reference to a recent announcement by the President of the International Monetary Fund (IMF), on very poor growth prospects for emerging market economies. Taken in that context, she asked Mr de Luca what the European Union’s views were on how to deal with the migration challenge.
- Mr Zikode agreed that there was a need for governments to implement policy interventions through developing under-developed regions – including domestically. He made reference, in that regard, to government’s initiatives around industrial parks and SEZs.
- Ms Mkok added that it was important for governments and the private sector to work together on making citizens and individuals feel that they had something to lose where they were. She added that this was why a sector such as tourism, which had broad-based benefits, was a crucial sector within which to work towards this objective.

Answers from Panellists

The panellists provided the following answers to the questions from the floor:

B-BBEE Compliance

- Dr Vilakazi explained that 66% did not necessarily connote that the companies in question were not complaint. She clarified that the figure included both companies that were not rated and those that were rated, but that had for some reason or other, chosen to not disclose their B-BBEE status.
- She went back to the issue, she had talked to in her presentation, on the fact that there were not many incentives to disclose, nor were there many tangible ways through which to enforce disclosure.
- She repeated the finding from the consultations that many companies did in fact want to comply or be audited.
- Mr Zikode stated that businesses needed to comply with South African laws, without the necessary need for government to “chase” after them. In that regard, he encouraged businesses to be corporate citizens.

Migration

- Mr de Luca mentioned that the migration issue had become a proxy for various anxieties. He expressed the view that there was a need for a vision for growth for the entire continent. He went on stating that it was also important for the continent to not wait for solutions from the outside, but to develop them on the the continent.
- Mr Zikode agreed that there was a need for governments to implement policy interventions through developing under-developed regions – including domestically. He made reference, in that regard, to government’s initiatives around industrial parks and SEZs.

Entrepreneurship Culture

- As an extension to the discussion on the issue of B-BBEE implementation, Ms Mkok commented that it was important for black South Africans to look beyond just being employees and towards starting their own businesses. She added that, as entrepreneurs, they should push government to set the right policy and regulatory conditions. She stressed that the entrepreneurs themselves needed to play their part. She explained that, in her view, government can only catalyse. She concluded by stating that the whole economy needed to play its part.
Notes
Notes
Contribution of EU investments to Inclusive Growth in South Africa
SA-EU Strategic Partnership

South Africa has enjoyed a successful, productive and mutually beneficial relationship since the European Commission’s Special Programme for Victims of Apartheid was created in 1985, and subsequently with the advent of the first democratically elected Government in 1994. South Africa and the EU signed a Trade, Development and Cooperation Agreement (TDCA) in 1999, which came into force in 2004 and was amended in 2009.

In 2007 SA and the EU established a Strategic Partnership (SP), and following the acceptance of a Joint Action Plan (JAP) in 2007, that facilitates co-operation between South Africa and the EU. South Africa has become one of the European Union’s 10 Strategic Partners and the only one in Africa. The JAP promotes a programme of “dialogues” by means of which experience is shared in areas of common interest and strategies are developed to overcome shared challenges across a wide range of fields (social, economic, cultural, etc.).

The Dialogue Facility project is an instrument supporting the Strategic Partnership by giving it a human face through people-to-people dialogues and other related interventions, including communication, visibility and awareness-raising activities.

The Dialogue Facility (DF) has since 2011 to date, facilitated more than 56 dialogues in sectors such as: trade, economics, education, health, science and technology culture, etc.

The Dialogue Facility will provide support such as technical assistance, logistics (conferences, workshops, seminars, and events), support to study tours, research, mentoring, Twinning, etc.

The Dialogue Facility is strategically guided in a partnership between European Union and the government of South Africa. A Programme Management Unit deals with day-to-day administration.

For further information refer to www.dialoguefacility.org

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