RESEARCH REPORT August 2018

intellidex

Researching Capital Markets & Financial Services

UNDERSTANDING **EMPOWERMENT ENDOWMENTS**

in partnership with

TSHIKULULU SOCIAL INVESTMENTS

ABOUT THIS REPORT

Understanding Empowerment Endowments is a report by Intellidex, funded by Tshikululu Social Investments. Intellidex is solely responsible for the research and content of the report. Tshikululu's funding was not contingent on any of the findings contained in this report.

The report is based on a six-month research exercise into the charitable and community components of the 100 largest JSE companies' empowerment deals implemented since 2002, when community schemes started to be included in BEE deals. It follows an earlier research report, *The Empowerment Endowment*, which undertook research into the scale of BEE foundations. The sources for this research include the published documents of the companies and the foundations, but also extensive interviews and other engagements with various company and foundation executives to obtain information.

About Tshikululu Social Investments

Founded in 1998, Tshikululu Social Investments is South Africa's most experienced manager and advisor of corporate foundations and development trusts. Working with clients, developmental agencies and other collaborative partners, Tshikululu's core purpose is to achieve deep and sustainable change for a greater good that results in positive social impact. This is done through bespoke strategy design, hands-on programme management and tailored social investment solutions, enabling social investors to realise their goals in ways that benefit them and South Africa as a whole.

Acknowledgements

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Disclaimer

This report is based on information believed to be reliable, but Intellidex makes no guarantees as to its accuracy. Intellidex cannot be held responsible for the consequences of relying on any content in this report.

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1. Key Numbers

25

Trusts examined in detail in this report

80%

Do not have an investment policy statement, indicating that they do not have an explicit financial investment strategy

R37bn

In endowments held by these trusts

4

Different operating models

R3.3bn

Spent to date on public benefit projects

64%

Are older than 10 years

CONTENTS

2. Executive Summary

This report covers 25 trusts created by some of the 100 largest companies on the JSE. While 35 of those companies created trusts, 10 of those trusts are not covered in this research project.

Among the 25 studied, we identified **four operating models**:

- **Merged** (trust management operations are conducted by the sponsor company staff),
- **Nested** (trust personnel are embedded in the sponsor company but have a dedicated focus),
- **Outsourced** (key functions of trust are outsourced to a third party), and
- **Semi-autonomous** (trust has own staff, largely runs its own operations, and does not rely on the sponsor company).

We examine the trusts in the context of these four different operating models to draw out the differences in governance, management, asset management, fund disbursement and beneficiary strategies. Our key finding is that the operating model is material to the performance of trusts in each of these aspects.

Governance

- **More than half of the foundations were registered between 2003 and 2005 with more than a third being registered in 2005 alone.** Only one trust, Discovery Foundation, was launched before the BBBEE Act of 2003.
- **Seventy six percent are perpetual trusts – thus will continue operating as long as they are able to generate income from their assets.** Six out of the 25 trusts have a fixed life span.
- **The sizes of boards varied considerably.** The average number of board members was six, with lowest being two and the highest 11.
- **None of the trusts are fully operationally independent** from their sponsor companies – even those whose deals have matured and are not restricted from selling their shares.

Trust Management

- **Trusts are managed according to one of four models** based on whether they have dedicated staff; the staff are co-located with sponsor company staff; they outsource key operations of the trust; and whether they have their own or shared office space.
- **The largest salary bill, 67% of the total salary bill of all trusts in this study, is in the Semi-autonomous group with five trusts spending R26m a year.**
- **The combined operating budgets for day-to-day activities totals R152.7m.**

Asset Management

- **The net asset value of R37bn reflects like-for-like growth of about 31% from the value estimated at the time of *The Empowerment Endowment* report,** published in June 2017. During the research for that report, most resource companies were under pressure due to low commodity prices and a subsequent recovery has helped the asset value of some trusts.
- **Most of the BEE foundations in this report do not have appropriate policies and procedures for asset management.** Out of the 25 trusts, only three have developed an investment policy statement and have an investment or finance committee that oversees risk management, governance and compliance.
- **Most of the foundations hold investment portfolios that consist only of their sponsoring company's shares, largely because they are still restricted from selling.** This represents a highly inefficient investment strategy as it means the endowment is subject to the performance of just a single company where sound investment principles advocate diversification.
- **Dividends are the life blood of all perpetual foundations.** All the foundations studied were entitled to receive a portion of dividends – called a "trickle dividend" – accruing to their shareholding even before they have fully settled the debt obligations.

Fund disbursement

- **The 25 trusts have collectively committed almost R4.5bn to funding projects to benefit their beneficiaries**. By far the largest commitment has come from the trusts in the Semi-autonomous group at R2.7bn or 60% of the total. This group also accounts for R2.3bn of committed funds spent or 68% of the total funds spent by all trusts in this study.
- **Disbursement budgets have grown by 44% in 2018 from 2017.** In 2018 the Merged group will spend R139.5m, the Nested group expects to spend R200m, the Outsourced group will spend R269.4m and the Semi-autonomous group will spend R382.7m.

Beneficiaries

- **Trusts are focused on spending their endowments on disadvantaged groups in South Africa.** Nearly all trusts state explicitly that their beneficiaries are previously disadvantaged individuals with either a geographic demarcation as the sponsor company's operating area, or a community of interest demarcation, for example, education for employees or students interested in the company's industry.
- **Sixty seven percent of the spending was directed at a variety of education initiatives.** This expenditure is spread across many dimensions of education including education funding for employees and their families; community organisations or students directly involved in early childhood education, secondary and tertiary education; and providing infrastructure in schools such as building libraries.

3. Background

a) Context

Intellidex has produced several research reports on black economic empowerment (BEE), undertaking primary research to understand the financial features of BEE deals. The first of these, *The Value of BEE Deals (2015)*[1], undertook an assessment of BEE deals across the 100 largest JSE-listed companies in SA. This determined that, as at the end of 2014, R317bn of value had been created for black beneficiaries. This value was shared between strategic investment partners (R196bn or 62%), broad-based community schemes (R69bn or 22%) and staff schemes (R52bn or 16%).

The second report, *The Empowerment Endowment (2017)*[2], assessed in more detail the value created specifically for broad-based community schemes. The report focused on the BEE deals of the top 100 JSE listed companies since 2002, when community schemes started to be included in BEE deals. The findings showed that R32.6bn of assets had been endowed with foundations that were set up as part of BEE deals. A further R19bn had been contributed to public benefit beneficiaries.

This report, *Understanding the Empowerment Endowment*, interrogates these endowments in much more detail. The research project explores most of the 27 foundations identified in *The Empowerment Endowment (2017)* report. This report does not repeat the initial insights but extends the ideas and themes from that report.

The report comes at a time when the national discourse has shifted to fundamental questions about the ethics of BEE deals. The Department of Trade and Industry's BEE Commission has become vocal in its criticism of fronting, in which companies window-dress the true nature of their deals to improve their BEE scorecards. Often, shadow intermediaries such as trusts are used as part of elaborate fronting efforts[3]. Fin24 reported late in 2017 that the Commission was investigating 25 complaints of trusts being used as fronts. It is not the objective of this report to investigate claims of fronting or find evidence to the contrary. Rather, this report delves into the operations of the trusts and brings to light examples of excellence as well as serious challenges faced by trusts.

[1] This report is available to download at www.intellidex.co.za/bee

[2] This report is available to download at www.intellidex.co.za/empowermentendowment

[3] Staff Reporter. 2017. BEE has entered a new phase. Now industrialists must 'find deep roots. City Press. https://city-press.news24.com/Business/bee-has-entered-a-new-phase-now-industrialists-must-find-deep-roots-20171018

b) Scope of this research

There are many more BEE trusts operating in South Africa than are covered in this report. At the outset, our researchers contacted the 27 foundations mentioned in the previous report, but not all of them provided information to our researchers. In the end, this report covers 25 foundations. The overlap between the two reports is not exact since some trusts were added to this study and not previously covered, while some trusts from the previous report did not cooperate in this one. Consequently, monetary values between the two reports should be compared with caution.

This report uses the generic term "trusts" in anticipation that the most common legal form of organisation is as a trust, though other legal forms may also be in use. Often the term "foundation" is used, which has no particular standing in South African law, but has become a generic term for the entities established through BEE deals.

c) Approach and structure

Intellidex has developed a methodology for reviewing the BEE trusts that considers each trust along five dimensions which make up the sections of this report. Each of these dimensions illuminates, in our view, an important aspect of the functioning of a trust. The report is structured along these themes. In addition, a case study was chosen in each section that exemplifies the particular theme.

1) **Governance.** Case studies: *Imperial & Ukhamba Community Development Trust, Siyakha Trust* (Resilient and Fortress), *Imithi Investments* (Aspen Pharmacare)
2) **Trust management**. Case study: *Tiger Brands Foundation*
3) **Asset management**. Case study: *Sishen Iron Ore Company (SIOC) Community Development Trust*
4) **Fund disbursement**. Case study: *The Standard Bank Tutuwa Community Foundation*
5) **Beneficiary strategy**. Case study: *SAB Foundation*

d) Data collection

The following research process was undertaken in two phases:

Phase 1: Our research team obtained the trust deeds and related documents for analysis to determine beneficiary classes and any other mandated focus area for funding. In some cases, the legal person for the foundation may not be a trust (for example a non-profit company, and so on), in which case the governing documents were obtained as an alternative. Further legal status may apply, particularly registration as a non-profit organisation (NPO Act), and registration with the South African Revenue Service (SARS) as a public benefit organisation (PBO) in terms of the Income Tax Act (part 1, 9th schedule).

Phase 2: Researchers interviewed representatives of each trust.

e) Trusts in this study

The table below lists, in alphabetical order, the trusts covered in this report.

Trust	Sponsor Company	Sector	Endowment value from 2017 report	Endowment value, current	Measure-ment date	Growth	Spend to date
AECI Community Education & Development Trust	AECI	*Chemicals*	*R0*	R0	15 Mar 2018		33,000,000
African Rainbow Trust[6]	African Rainbow Minerals	*Mining*	*R370,000,000*				*
Alexander Forbes Community Trust	Alexander Forbes Group	*Financial Services*	*R31,000,000*	R40,429,371	28 Feb 2018	30%	*
Fricker Road Trust and Bokamoso Trust	Assore	*Mining*	*R5,435,983,758*	R9,000,000,000	1 Jan 2018	66%	14,721,000
Discovery Foundation	Discovery	*Insurance*		R976,000,000	25 Jan 2018		177,000,000
Distell Development Trust	Distell	*Food & beverages*	*R371,272,440*	R393,548,846	30 Jun 2018	6%	16,700,000
FirstRand Empowerment Foundation	FirstRand	*Banks*	*R5,673,196,758*	R7,700,000,000	1 Feb 2018	36%	231,800,000
Siyakha Education Trust[6]	Fortress and Resilient Property Fund	*Real Estate*	*R2,800,000,000*				*
Impala Bafokeng Trust	Impala Platinum	*Mining*	*R169,404,456*	R0	17 Apr 2018	-100%	189,517,480
Imperial & Ukhamba Community Development Trust	Imperial Holdings	*Industrial transportation*	*R21,284,185*	R137,000,000	30 Jun 2018	544%	85,000,000
Humulani Empowerment Trust	Invicta	*Industrial engineering*	*R0*	R4,750,000	31 Mar 2018		39,322,026.87
Italtile Foundation Trust	Italtile	*General retail*	*R273,196,800*	R291,000,000		7%	*
JSE Empowerment Fund	JSE	*Financial Services*	*R349,558,945*	R400,000,000	23 Jan 2018	14%	31,630,000
Sishen Iron Ore Company (SIOC) Community Development Trust	Kumba Iron Ore	*Mining*	*R2,506,787,960*	R5,058,448,000	31 Dec 2017	102%	1,700,000,000
Liberty Community Trust	Liberty	*Insurance*	*R459,861,042*	R511,043,108	17 Apr 2018	11%	1,000,000
Khanyisa Trust	Murray & Roberts	*Construction & materials*	*R0*	R0	30 Jan 2018		35,000,000
Sizwe Trust	Murray & Roberts	*Construction & materials*	*R0*	R0	30 Jan 2018		99,400,00
Eyethu Community Trust	Nedbank	*Banks*	*R402,000,000*	R405,000,000		1%	211,000,000
Physician's Partnership Trust	Netcare	*Healthcare*	*R2,520,298,266*	R2,200,000,000	30 Sep 2018	-13%	27,000,000
Old Mutual Black Distributors Trust, Mutual & Federal Black Broker Trust, Old Mutual Education Trust, The Mutual & Federal Community Trust	Old Mutual Plc	*Financial services*	*R1,200,000,000*				*
Pioneer Community and Education Trust	Pioneer Foods	*Food & beverages*	*R817,926,476*	R8,698,603	30 Sep 2017	-99%	20,000,000
Community Trust, Industry[6] *Association Fund, Education Trust*	PPC	*Construction & materials*	*R138,980,019*				*
Redefine Empowerment Trust[6]	Redefine Properties	*Real estate*	*R0*	R0	23 Mar 2018		*
SAB Foundation	SABMiller	*Food & beverages*	*R2,100,000,000*	R2,200,000,000		5%	151,716,530
Sanlam Ubuntu Botho Community Development Trust and Sanlam Foundation Trust	Sanlam[2]	*Financial Services*	*R3,795,114,142*			-100%	84,938
Inzalo Foundation	Sasol	*Chemicals*	*R0*	R3,780,000,000	9 Feb 2018		550,000,000
The Standard Bank Tutuwa Community Foundation NPC	Standard Bank	*Banks*	*R932,275,000*	R1,800,000,000	25 Jan 2018	93%	8,000,000
Thusani Trust	Tiger Brands	*Food & beverages*	*R2,241,163,288*	R779,000,000	28 Feb 2018	-2%	32,438,680
The Tiger Brands Foundation	Tiger Brands	*Food & beverages*		R1,426,752,302	28 Feb 2018		53,900,000
			R32,609,303,534	R37,111,670,230			

** No data was received from the trust on this item.*

[4] Discovery Foundation was not included in The Empowerment Endowment Report (2017)
[5] The Empowerment Endowment report (2017) included a different Netcare trust, hence the difference in figures listed.
[6] These trusts did not participate in this study.
[7] Only Sanlam Foundation Trust responded to our questionnaire but did not provide the net asset value of its assets

4. Governance

Governance of BEE trusts in its basic form involves three key stakeholders: the founding company, trust management and the board of trustees.

- As founders of BEE trusts, sponsor companies are involved in the establishment of the basic governance structures and procedures of trusts.
- The board of trustees' main responsibilities include establishing and supporting the institution's vision and mission, acting as the legal owner of the organisation, ensuring the organisation is sustainable, evaluating performance, supporting staff and reviewing and creating policies.
- The trust management team's main role is to implement the resolutions of the board.

i. Year of establishment and first funding

Only one trust, Discovery Foundation, was launched before the BBBEE Act of 2003. However, it became fully operational only in 2005 when Discovery launched its BEE deal.

More than half of the foundations were registered between 2003 and 2005 with more than a third being registered in 2005 alone. Notably, 10 out of the 18 trusts which were registered during that period were related to financial services companies. The financial services sector came up with its own transformation Charter in 2004 which contributed to the spike in the number of deals in 2005. Fewer trusts were established during and post the economic crisis of 2008/2009. Only five trusts were established after 2009.

On average, foundations began to receive some funding for activities a year after establishment.

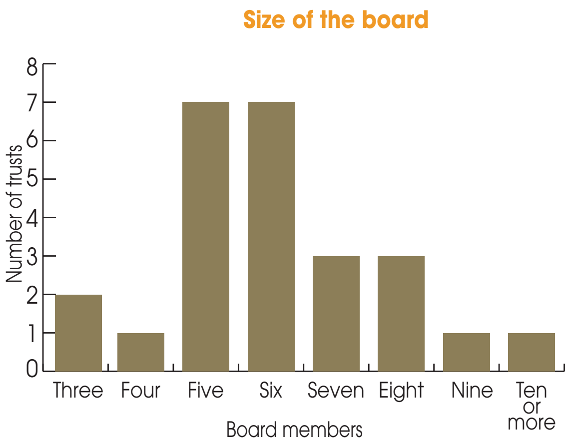
ii. Life span of foundations

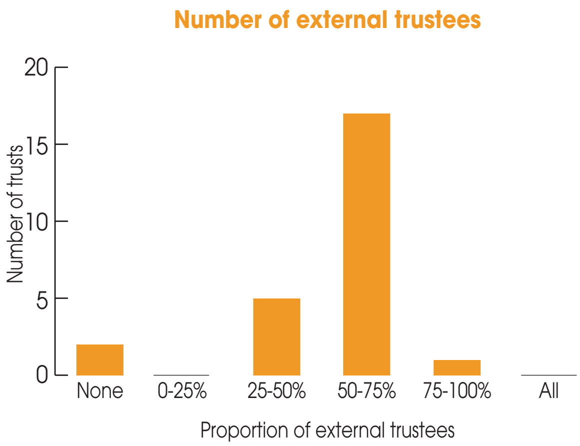
All 25 foundations studied were designed to survive beyond the lock-in periods of the BEE deals that created them. In this group, 19 are perpetual trusts – thus will continue operating as long as they are able to generate an income from their assets. Only six have a fixed life span – three have a fixed life of 100 years, one terminates once the beneficiaries graduate from programmes and the other two have specific termination dates.

iii. Board compositions and procedures

Appointment procedures

- Most trust deeds have clear policies relating to the selection, replacement and termination of board members. We found the following different approaches in our research:
- The sponsor company has the discretion to select all the trustees of the first board.
- A closed process is undertaken with vacancies filled by invitation.
- Selections are done to balance the skills of board members, seeking expertise in areas they lack.
- Nominations are done by management but the final decision is made by the board.
- Founder is chair of the board and there is a system for identifying board members.
- Selections are based on the needs of the board such as managing money and people from the sectors served by the foundation.
- The sponsor company requests nominations from external entities but the board has the final say.





Frequency of board meetings

The stipulated frequency of board meetings varies from once a year to quarterly, with the majority meeting on a quarterly basis. Only one board is supposed to meet once a year.

Terms of trustees

Nature of trustee terms	
No limits	22
Limits	3
Fixed terms	8
Indefinite terms	14

Powers of trustees

Trustees are accorded a wide range of powers. Below are some of the most common:

- Generally, most trustees have the power to appoint the management team of the foundation and determine their remuneration. However, only a few which have their own employees are able to exercise such powers.
- Power to establish rules, procedures and guidelines which the trustees will follow in exercising the powers contained in the deeds.
- Power to vote on behalf of the trust at sponsor company meetings.
- Most have no right to sell the shares in the sponsor company without permission from the sponsor.
- Appointment of auditors: most are not yet exercising this because they use the same auditor as the sponsor company.
- The right to register the trust as a non-profit organisation or public benefit organisation.
- Some decisions such as allocations to beneficiaries, raising debt, capital investment, disposal of assets, approval of annual budget and changing trustees' fees require a super majority or unanimous agreement.

1 case study

Governance at Imperial & Ukhamba Community Development Trust

This trust is an example of how a dedicated, hands-on manager leads to a well-run, efficient process.

The Imperial & Ukhamba Community Development Trust, founded by Bill Lynch and Hafiz Mohammed, assists selected schools in providing learners with a well-balanced education. This, it believes, empowers them to reach their potential while nurturing their self-confidence. The trust is primarily involved in establishing school libraries as well as classroom intervention, curriculum development, management training, extracurricular events, co-curricular activities, volunteer programmes and technical training projects. Librarians are trained and focus on helping to teach children to read.

Unlike the majority of others covered in this research project, the trust has its own offices and staff and manages its own affairs, although the sponsor company, Imperial, does provide some support services such as HR. Other functions such as IT are outsourced by the trust.

The trust has no debt. That is because its structure is somewhat unique in that the shares in Imperial were donated, rather than bought with a loan. No repayments are required. This gives the trust financial independence, while its operational autonomy was achieved through sound management practices.

The trust is registered as a non-profit organisation (NPO) but not a public benefit organisation. Its six trustees (two independent, including the chairperson) meet three times a year and have an open-ended term. They have no day-to-day involvement in trust operations, although executive manager Shayda Arbee and one other trustee serve on the trust's management team. They report regularly to trustees to request approvals on beneficiary projects and processes. While there is no investment or finance committee, Arbee says most of the trustees are chartered accountants and they make decisions related to risk management, governance and compliance.

While its assets are unencumbered, the trust still receives dividends from its shares and it is in a healthy financial position, increasing the likelihood of achieving its goal of operating into perpetuity. It holds total assets worth R141m and is one of the few to have diversified those assets. That diversification comes via an asset manager (selected after assessing proposals from four asset managers) that manages investments worth about R89m, while separately, the trust has about R6.3m invested in "smaller listed or other companies".

The library and outside play area at Heerengract, one of the trust's beneficiary schools.

2 case study

When governance fails: Siyakha Trust of the Resilient and Fortress property group and Aspen Pharmacare's Imithi Investments

The purpose of this research is to gain a better understanding of how trusts are operating and examine models and processes that result in maximum delivery for beneficiaries. For that reason, we have focused on the successful ones. However, a few have become dysfunctional.

Some are so merely because they are under water, in that the value of the shares they own are worth less than when the deal was structured and are thus unable to repay loans to the sponsor company. Such trusts have no financial resources to support operations.

Others have become dysfunctional for other reasons, including allegedly dubious practices by the sponsor company or misleading actions of the intended beneficiaries or intermediaries. We highlight two such cases, one where problems allegedly emanate from the sponsoring company and the second where beneficiary intermediaries are allegedly the cause.

The Siyakha Trust of the Resilient and Fortress property companies is the subject of numerous allegations. Two research reports, by 36One Asset Management and Arqaam Capital, surfaced in the media questioning why the Resilient Group had such high premiums to net asset values. 36One said: "…our findings show that the premium valuation of each of the group companies did not arise from normal market activity, but from deliberate (and frequently concealed) actions by some of the influential owners and key management of the group."[1]

While the company faces various allegations, in terms of the Siyakha Education Trust, it is alleged that Resilient and Fortress derived a portion of their income from interest received from the trust, stemming from the loans the trust took out to buy the shares at prime plus 2%. This is notional though – it is capitalised by the trust and not actually paid to Resilient.

This story is still unfolding but the alleged absence of independence for the board of trustees, along with other alleged dubious governance procedures, can serve as a clear red alert.

Aspen Pharmacare's Imithi Investments was an investment vehicle put together by Oupa Isaac Shongwe and his business partner Derek Thomas, in conjunction with the Chemical, Energy, Paper, Printing, Wood and Allied Workers Union (Ceppwawu).

There was a complicated series of transactions[2] and registrations of the various entities. Initially, Shongwe registered Ceppwawu Investments (Pty) Ltd to his and Thomas' names. He then entered into a deal with Aspen. After then being reregistered under a different name, the result was that the fund legally had no investment in Aspen but had merely advanced a loan to Ceppwawu Investments. Shongwe had also appointed his consultancy, Letsema Investments (Pty) Ltd, as the advisors for the trust's investments at a 27.5% management fee.

The union through the trust regained control of their investment vehicles, but appear to remain stuck with Shongwe's Letsema Group as managers of their investments at the structured 27.5% fee.

The Imithi scheme expired two years ago and the trust has been dissipated. The company now sits with many black shareholders who cannot sell until the issue is finally resolved legally.

[1] Thompson, W and Mahlaka, R. 2018. "What is the Resilient stable accused of?" MoneyWeb. Available at: https://www.money-web.co.za/in-depth/investigations/what-is-the-resilient-stable-accused-of/ (accessed 30 April 2018).

[2] **uSpiked Investigative Team. 2016 "**Union's Dirty Hands on Pension: the mega plunder of pension funds" *Uspiked*. Available at:https://uspiked.com/justice/governance/2016/02/08/union%E2%80%99s-dirty-hands-on-pension/ (accessed 30 April 2018)

5. Trust Management

This section of the report delves into the practical aspects of managing and operating BEE trusts. Elements such as the physical location of the trust in relation to the parent company, the number of staff and their independence from the parent company are of particular interest. This dimension shows the extent to which the trust has been set up for success with adequate physical and human resources – financial resources are discussed in the next section.

We identify four different operating models among the trusts studied: Merged, Nested, Outsourced and Semi-autonomous. The allocation of the trusts into these groups is not an exact science. Rather, where a particular trust met most of the criteria for the group, it was placed there. Certainly there is notable and significant variation among the trusts even in the same group. This analytical separation does aid in the understanding of the trusts and has merit as the following discussion illustrates.

The clear overlaps in operating structure identified belie a large variation even within each of the groups identified. Differences are apparent in the operating budgets, staff salaries and other details.

	Merged	Nested	Outsourced	Semi-autonomous
Trusts (and Company)	Fricker Road Trust and Bokamoso Trust (Assore), Liberty Community Trust, Khanyisa Trust (Murray & Roberts), Sizwe Trust (Murray & Roberts), Italtile Foundation Trust, Eyethu Community Trust (Nedbank), Physician's Partnership Trust (Netcare), Redefine Empowerment Trust, Alexander Forbes Community Trust	Distell Development Trust, AECI Community Education & Development Trust, Sanlam Foundation Trust, SAB Foundation, Impala Bafokeng Trust	Humulani Empowerment Trust (Invicta), Discovery Foundation, JSE Empowerment Fund, FirstRand Empowerment Foundation, Thusani Trust (Tiger Brands), Pioneer Community and Education Trust	Sishen Iron Ore Company (SIOC) Community Development Trust (Kumba Iron Ore), Imperial & Ukhamba Community Development Trust, The Tiger Brands Foundation, Inzalo Foundation, The Standard Bank Tutuwa Community Foundation NPC
Physical presence	Trust works from sponsor company-owned premises	Trust works from sponsor company-owned premises	Trust is domiciled at company premises but may have dispersed operations	Mix of own and company offices
Staff size	No dedicated staff	2 to 5	No dedicated staff	4 to 76
Job functions	Support the application processes and administration, day-to-day functions and operations of the trusts	Vary between executive management, management, administration and practitioners	Support shared between internal staff and service providers	Full organisational job roles including executive management, management, administration and practitioners
Support functions	Infrastructure and support services provided by sponsor company such as legal, finance, HR, IT	Infrastructure and support services provided by sponsor company such as legal, finance, HR, IT	Provided by company and service providers	Self-provided
Salary bill in R (group total)	1,205,310[8]	11,235,958[9]	289,000[10]	26,070,729
Group's share of the total salary bill for all trusts	3%	29%	1%	67%
Salary bill in R (range)	0 to 600,000	240,000 to 3.5 m	0 to 289,000	R1.8 to R10.7 m
Operating budgets in R (group total)	17,051,427[11]	18,700,000[12]	19,665,256	141,081,594
Group's share of all trusts' operating budgets	11%	12%	4%	73%
Operating budgets in R (range)	zero to 16m	1.6 to R10m	180,000 to 13.7m	12 to 58.2m

*Unless otherwise indicated figures are for the most recent financial year.

[8] Fricker Road Trust and Bokamoso Trust (Assore), Khanyisa Trust (Murray & Roberts), Sizwe Trust (Murray & Roberts), Eyethu Community Trust (Nedbank), Redefine Empowerment Trust and Alexander Forbes Community Trust indicated that they do not have a salary bill.

[9] AECI Community Education and Development Trust did not report a salary bill.

[10] Pioneer Community and Education Trust is the only trust in this group that reported a salary bill.

[11] Fricker Road Trust and Bokamoso Trust (Assore), Liberty Community Trust, Khanyisa Trust (Murray & Roberts), Sizwe Trust (Murray & Roberts) and Redefine Empowerment Trust did not report operating budgets.

[12] Sanlam Foundation Trust and AECI Community Education and Development Trust did not report an operating budget.

i. Merged Group

Nine trusts have **no dedicated staff members and rely on the sponsor company for services and facilities**. The day-to-day work of the trusts is done by the corporate social investment (CSI) teams as a shared resource from the sponsoring company. These company staff members are not exclusively dedicated to the trust and do other CSI work for the company. The trusts also source in specialist skills from the sponsoring company, and sometimes fees are paid for these services. Sponsor company staff are operationally involved in the trusts and support the application processes and administration, day-to-day functions and operations of the trusts. Funding decision-making is a shared activity with staff helping with the identification, filtering and selection of potential beneficiaries. Ultimately trustees make the final decisions on behalf of the trusts. Trusts in this group tend not have **salary bills**, but do make funds available for trustees' fees and expenses, at R250,000 per year on average, or use consultants on an ad hoc basis. As a result, the total annual salary bill for this group is R1.2m. Furthermore, the trusts benefit from all **the infrastructure and support services** inside the sponsor company such as legal, finance, HR, IT. This enables them to run lean operations and focus on their core activities. Trusts in this group tend to have lower **operating costs** which can run from zero to R16m. Some trusts do not incur operating costs because these are borne by the sponsor company. They can dedicate their funding entirely to grant-making.

ii. Nested Group

A second group of five trusts has company staff with a **dedicated focus on the trust but are Nested in the sponsor company and rely on the sponsor company for facilities and support functions.** Impala Bafokeng Trust (2 employees), AECI Community Education and Development Trust (2), Distell Development Trust (2), SAB Foundation (5), and Sanlam Foundation Trust (7) are examples of this model. They have between two and seven staff members. Here staff have a range of functions focused on executive management, management, administration and practitioners involved in the trusts' projects. Overall **salary bills** range from R240,000 to R3.5m, and total R11.2m for the group. In this group, the trusts also benefit from the support functions provided by the sponsor company. The operating budgets – the funds that trusts use to run their operations – range from R1.6m to R10m per annum.

iii. Outsourced Group

The next group of six trusts combines **shared staff with sourced in specialist skills** for different functions in their beneficiary sourcing, filtering and monitoring. Trusts in this group have generally sought specialist operational capability, fund management, investment or transaction services – or have opted to outsource the day-to-day running of the trust and all the associated administrative functions. FirstRand Empowerment Foundation and The Discovery Foundation use Tshikululu Social Investments[13] to run their social investment activity; Invicta's Humulani Empowerment Trust uses SEED; while the JSE Empowerment Fund, Thusani Trust (Tiger Brands) and Pioneer Community and Education Trusts all use CareerWise. FirstRand has contracted sponsor company resources for general support functions such as finance and legal. The trust pays annual fees for some of these services. For Humulani, finance and legal (to a degree) is provided by the sponsor company, with general administration, support services, project management, beneficiary liaison and some reporting done by SEED. The Discovery Foundation operates on a minimal overhead structure. Support is provided by Discovery CSI staff and certain functions are outsourced to Tshikululu. The trusts in this group report almost no salary bills because staff are integrated with the sponsor company and the outsourced service provider. For the group, reported salaries totalled R289,000 for the year. Their **operating budgets** range between R180,000 and R13.7m.

iv. Semi-autonomous Group

The fourth group is made up of five trusts that are mostly **independent, have dedicated and permanent personnel and their own support facilities.** The independence of some of these trusts tends to be underscored by them providing their own **support functions** that span the full range including IT, finance, HR, and telephone infrastructure. Depending on the trust's strategy, even procurement systems are self-provided where this is core to the trust, but not part of the sponsor company's ordinary operations. This group of trusts has **operating budgets** ranging between R12m and R58.2m.

[13] Tshikululu Social Investments is the funder of this research report.

Trust management at Tiger Brands Foundation

The Tiger Brands Foundation (TBF) was established in 2005 as part of Tiger Brands' BEE phase I empowerment initiative. It received additional shares in the group's second BEE deal in 2009. However, the foundation became fully functional only in 2011.

While TBF is young compared with some trusts covered in this report, it appeals to us as a well-organised, well-run, and carefully structured foundation. It has four permanent staffers: director, Eugene Absolom, national coordinator, Karl Muller and two support staff. To keep administration costs at a minimum, the foundation also rents offices and other administrative functions from Tiger Brands and pays management fees.

This foundation exhibits several impressive traits:

Strong collaborations: The foundation has interesting partnerships with several private sector entities. In the Northern Cape it partners with Sishen Solar Facility which supports four schools. In North West province, it has a partnership with Nungu Distribution. The logistics and distribution company has adopted a special school and agreed to carry the running costs of the programme for five years.

Strong monitoring and evaluation and impact assessment structures: The in-school breakfast feeding model ensures that each phase of the programme is planned and implemented with precision and that checks and balances are in place to monitor and evaluate programme performance. Ongoing research studies on the value, impact and methodology of the in-school breakfast feeding programme are done continuously.

Excellent delivery model: The TBF is focused on delivering social impact. It therefore doesn't just focus on the narrow mandate of providing breakfast to learners but invests across the value chain. The foundation undertakes infrastructure development at its schools. New kitchens are provided and existing facilities are upgraded. For the food handlers, the foundation provides training in nutrition education, food preparation, storage and hygiene. This equips food handlers with entrepreneurial skills which also enables them to start their own catering business. It also empowers small enterprises through food procurement and delivery contracts while job creation is also addressed as food handlers and monitors from local communities are employed on the programme.

6. Asset Management

This section outlines how BEE foundations are managing their assets. The aim was to assess if they have developed necessary policies and procedures to safeguard and grow their endowments. This section contains data from 25 trusts that were interviewed.

a) Overview and value of endowments

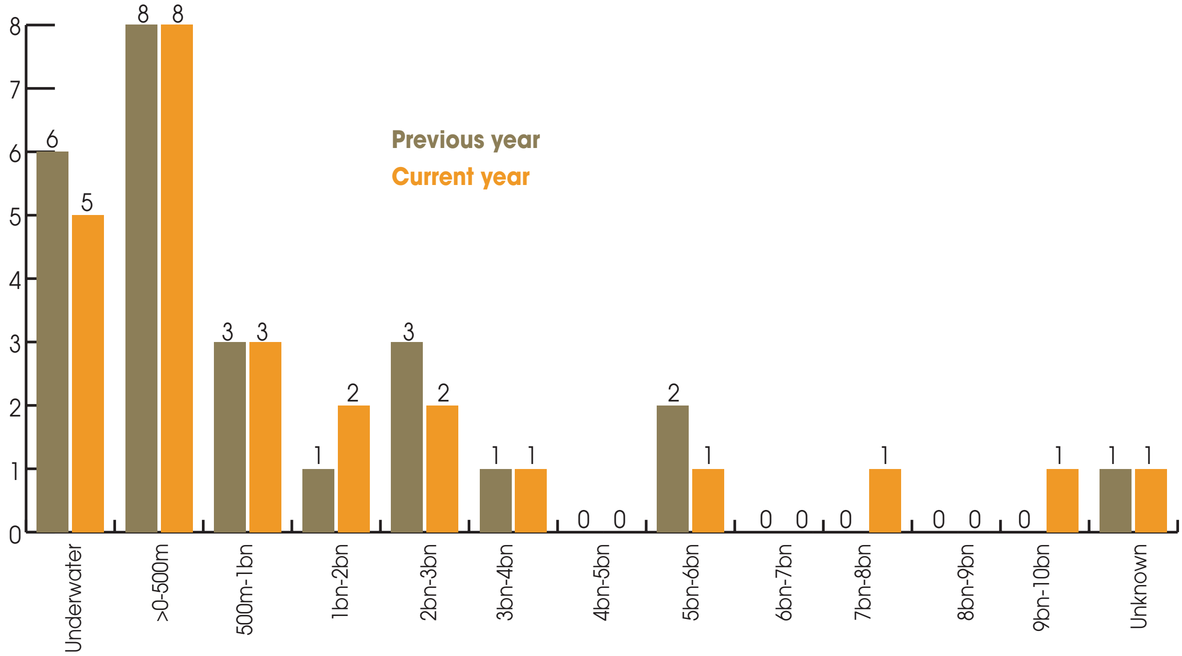
We estimate the total value of endowments to be around R37bn, distributed as shown in the graph below. The net asset value of R37bn reflects growth of about 31% from the value estimated at the time of *The Empowerment Endowment* report, published in July 2017. The reports are not comparable on a like-for-like basis as not all the same trusts were researched in the two projects. However, it is still useful to make some comparisons where we can. The full list of trusts and their values is included in the table at the start of this report.

During the research for the 2017 report, most resource companies were under pressure due to low commodity prices. The recovery in commodity prices has seen an increase in the value of those companies' trusts. Assore's Fricker Road & Boleng Trust and the Sishen Iron Ore Community Development Trust were among the biggest gainers. Sasol Inzalo, which was under water in 2016, has also recovered and is now worth R3.78bn. The food companies' foundations – Pioneer Education & Community Trust and The Tiger Brands Foundation and Thusani Trusts – have lost some value. That is mainly because their sponsor companies were affected by the drought in 2014 and have not fully recovered to their pre-drought levels. Tiger Brands also shed a lot of value following the discovery of the listeriosis bacteria at one of its factories.

Endowment value is the net asset value (NAV) and is calculated as the market value of shares held by the trust less the market value of its debt. Inevitably, these two variables fluctuate, thus affecting the NAV figure. In addition, some trusts may have sold their shares and made cash distributions to beneficiaries or paid off debt.

The NAV largely tracks the performance of the sponsor company's share price.

Distribution of assets of endowments (Rands, like-for-like)



b) Asset management policies and procedures

Prudent asset management is critical for the long-term sustainability of foundations. Well-managed foundations can provide economic benefits to beneficiaries into perpetuity. Typically, perpetual foundations rely on dividends and interest generated from their invested capital to fund their day-to-day operations. Some foundations may end up sourcing donations, but dividends will remain a reliable and sustainable source of income. The overarching goal of the foundation investment managers should be to preserve capital – protect capital at an absolute level as well as from erosion due to the adverse effects of inflation.

Most of the BEE foundations examined for this report do not have proper policies and procedures for asset management. Out of the 25 trusts, only four have developed an investment policy statement (IPS) and have an investment or finance committee that oversees risk management, governance and compliance. Nineteen do not have an IPS while two indicated that they are in process of developing one. The foundations without investment committees mostly make use of the sponsor company's own risk management, governance and compliance structures. The company risk, governance and compliance committees typically provide such services.

c) Level of diversification

Most of the foundations hold investment portfolios that consist only of the sponsoring company's shares largely because most are still restricted from selling. Only four – the SAB Foundation, Imperial & Ukhamba Community Development Trust, Sishen Iron Ore Community Development Trust and the FirstRand Empowerment Foundation – have achieved some level of diversification from the sponsoring company.

From an investment management point of view, this represents a highly inefficient investment strategy as it means the endowment is subject to the performance of just a single company. That will inevitably result in a more volatile returns profile than a diversified portfolio, increasing risks to the sustainability of the foundations. A good example of the perils of concentration risk is the Sasol Inzalo Foundation.

d) Reasons for lack of diversification

Unlike traditional philanthropic foundations created by families or individuals, BEE foundations usually do not get their assets for free. Sponsor companies typically issue a quantity of shares representing a certain percentage of the company to the foundation. To pay for this, a small cash payment (usually 1% to 5%) is usually made, financed from a donation, but the majority of the payment is set up as either notional or actual debt. This can be issued by the BEE partners and paid for by the vendor company, injecting cash into the vehicle that buys the shares. Alternatively, a notional scheme is structured such that at the end of the life of the scheme, the vendor company will take back shares issued equivalent to the notional cost of debt during the lifetime of the scheme.

During the debt period the trust has both voting and economic rights but is restricted from selling its shares. Most sponsors retain the right to approve any changes to the foundations' investment strategies even after the deal matures. This is to ensure that the sponsors can retain the trusts as qualifying BEE shareholders into the future. Over time, the debt accumulates interest (actual or notional) which is reduced by dividend flows that are received from the shares. At termination, if the share value is higher than the outstanding debt, the BEE partners keep their shares and pay off the outstanding debt, or surrender sufficient shares to pay off the debt. If lower, the BEE partners also surrender their shares, but walk away from the debt. Technically the BEE partner owns a European call option on the shares with the strike price being the level of debt.

We found that 61% of the foundations have shares which are unencumbered. Fourteen are still encumbered and trustees have minimal involvement in the asset management side. As a result, they are unlikely to have much say in the management of their assets. A significant number of those which are still unencumbered had their deals restructured due to poor financial performance of the sponsor companies, which might have halted dividend payments. As BEE deals approached maturity, some were under water, in that the value of their debt was higher than the value of their assets.

e) Source of income

Dividends are the life blood of all perpetual foundations. Most BEE deals were structured mindful of this. All the foundations studied were entitled to receive a portion of dividends – called a trickle dividend – accruing to their shareholding even before they have fully settled the debt obligations. More than half of the foundations were entitled to receive all the dividends from their allocated shares. Only two foundations had a variable trickle dividend.

A notable exception is the Imperial & Ukhamba Community Development Trust, to which Imperial donated rather than financed the acquisition of shares. Thus, the trust has no repayment obligations and no debt.

4 case study

Asset Management at Sishen Iron Ore Company Community Development Trust (SOIC-cdt)

Despite having a portfolio which is still heavily concentrated in its sponsor company, SIOC-cdt has made significant strides in diversifying its portfolio.

SIOC-cdt's board of 11 trustees is led by an independent chairman and is actively involved in shaping the strategic direction of the trust. The board of trustees meets four times a year to discuss, in the main, the business strategy and to agree on the spending plans for forthcoming years as well as the delivery of projects to be funded by the trust. It has an investment review committee which provides technical support to management in reviewing potential investments and areas for potential investment by the trust and to make the relevant recommendations to the board in line with the approved investment strategy. It is the only BEE trust with such a committee.

Importantly, SIOC-cdt is one the few which has an investment policy statement (IPS). This policy, which was developed by the board of trustees together with the investment review committee, summarises the investment strategy and sets out the decision-making responsibilities relating to the trust's assets, among other things.

The trust established a division whose sole purpose is to source and manage its investments. The figure below shows the group's structure following the establishment "InvestCo", a division responsible for investments which operates distinct from "Opsco", which looks after funded projects.

The two divisions have their own management teams. InvestCo is a registered company with its own CEO, CFO and company secretary. It was given a mandate to diversify revenue streams by investing in assets that provide social and economic returns in the communities in which Kumba operates. InvestCo is guided by the IPS which stipulates return targets, diversification policy, liquidity constraints, volatility targets and acceptable risks. The investment policy allows the group to outsource some investment management services to asset managers. Since being established, InvestCo has acquired shares in Continental Coal, SA Airlink, Hotel Kathu and Basil Read. That portfolio is now worth more than R600m, accounting for close to 15% of the SIOC-cdt's portfolio. SIOC-cdt's portfolio of assets including its stake in the Sishen Iron Ore Company was worth R5.1bn as at end-December 2017.

The trust also has a dedicated treasury and cash management function. In terms of the approved investment policy, best-practice methods are employed to ensure optimal working capital levels are maintained for the short-term requirements of the trust. This includes term deposits and money market investments to ensure liquidity when needed. The IPS specifies that the financial institutions selected for this purpose must be highly rated by reputable credit rating agencies. The ratings and their outlooks should also be monitored periodically by the treasury team.

7. Fund disbursement

Public interest in fund disbursement is understandably high because this is the primary resource that the trusts deploy in support of their missions. This section develops an analysis of the 25 trusts along the operating model segmentation previously described. The four groups are analysed for their public commitment to date; spend to date; funding budget for the current year and the previous year; funding requirements, ranges and time horizons; commitment timeframes; and decision processes.

Spending by trusts on public benefit causes				
	Merged	**Nested**	**Outsourced**	**Semi-autonomous**
Public benefit commitment to date	R479,5m[14]	R294,5m	R1,03b	R2,7b
Group's share of total public benefit commitment	11%	7%	23%	60%
Public benefit spend to date	R388m[15]	R201,5m	R532m	R2,4b
Group's share of total benefit spend to date	11%	6%	15%	68%
Proportion of commitment spent by the group	81%	68%	52%	89%
2018 funding budget	R139,5m[16]	R200m	R269,4m	R382,7m
Proportion of total annual funding budget	14%	20%	27%	39%
Spend in last budget year 2017	R86m[17]	R173,9m	R203,9m	R222,4m
Group's share of total spend in 2017	13%	25%	30%	32%
Change in budget value	R53,4m	R25,9m	R65,5m	R160m
Proportion of change in budget value	62%	15%	32%	72%
Funding range	R1,000 to R100 million	R10,000 to R16 million	R25,000 to R135 million	R12,000 to R12 million
Time frames of commitment	**Varies from once-off to 10 years**	**Single year, or up to 3 and 5 years**	**Single and multi-year**	**Varies from once-off to perpetual**

[14] Liberty Community Trust, Italtile Foundation Trust, Redefine Empowerment Trust and Alexander Forbes Community Trust did not provide data on the value of their public benefit commitment.

[15] Italtile Foundation Trust, Redefine Empowerment Trust and Alexander Forbes Community did not provide data on their public benefit spend to date.

[16] Murray & Roberts Khanyisa Trust and Redefine Empowerment Trust had no budget for the current year.

[17] Redefine Empowerment Trust indicates that it had no spend in the previous financial year.

a) Merged group

This group of trusts has collectively **committed** R479.5m to their projects to date and spent R388m or 81% of that. These figures reflect commitments from when the trusts started and, as outlined in the governance section, their years of commencement differ. Their **2018 budget** is R139.5m and their **actual spend** last year totalled R86.1m. This represents growth in funds available for public projects of nearly 62%.

b) Nested group

With a total **public benefit commitment** to date of R294.4m and an actual spend of R201.5m or 68% of the total, this group is the smallest contributor overall. In the **last budget year** trust in this category spent R174m and have indicated **new budgets** will total R200m, signalling 15% growth.

c) Outsourced group

The six trusts in this group have together **committed** over a billion rand and **spent** 52% or R532m to date. **Last year**, they spent nearly R204m and plan to spend R269.4m in 2018, indicating a 32% increase in available funds.

d) Semi-autonomous group

Five trusts make up this group and they have collectively **committed** R2.7bn to public projects and have **spent** R2.4bn or 89% of that. In 2017 they spent R222.5m and plan to spend R382m in 2018, indicating 72% growth in budgets.

e) All groups

Across all four groups, the trusts have **collectively committed** almost R4.5bn to beneficiary projects. By far the largest commitment has come from the trusts in the Semi-autonomous group at 60% of the total. They also make up the bulk of expenditure to date at 68% of overall expenditure by all trusts.

The **latest budget and spending figures** for the past budget year seem to signal a change. The Semi-autonomous group contributes a slight majority of the value in both these categories. Growth trends are an important feature to watch. Budgets in the Merged group have grown by 62% between 2017 and 2018, while for the Semi-autonomous group, budgets have grown by 72%. More modest growth is visible in the Nested group at 15%, and a respectable 32% in the Outsourced group.

Reported figures signal 44% **growth in overall budgets for 2018**, driven by significant growth in the Merged and Semi-autonomous groups.

5 case study

Fund disbursement at The Standard Bank Tutuwa Community Foundation

Bonds4Jobs – a social impact bond

Social impact bonds address the pressing need for social upliftment programmes to succeed. They bring together private finance and social organisations to provide outsourced public services. The beauty of this private-public partnership is that it does not cost the taxpayer a cent if it does not succeed, and it brings in private sector and non-government organisational expertise to achieve outcomes that, far too often, governments themselves have proven incapable of achieving.

The essence of the concept is that the state and other funders grant or agree to donate on predetermined outcomes. In the case of Bonds4Jobs, a non-profit company and public benefit organisation, incubated by Yellowwoods and Harambee, the targeted outcome is to place 600 unemployed young people in skilled jobs in growth sectors within a 12-month period.

Funds are raised up front, with The Standard Bank Tutuwa Community Foundation, Hollard and The Legacy Fund (incorporating Old Mutual, Nedbank and the Brimstone Legacy Fund) funding year one of the pilot through Bonds4Jobs. Harambee, a non-profit company that sources, matches, trains and places unemployed youths in jobs, is the operator and ecosystem manager of the project. Bonds4Jobs also has "outcome funders" which grant or donate funding to Bond4Jobs on the delivery of outcomes. The Gauteng Provincial Government (via the Tshepo 1Million programme grant , which includes a partnership fund component to drive co-investment in job outcomes with the private sector) and the National Treasury Jobs Fund are two government outcomes funders, and private sector organisations Yellowwoods and the Allan Gray Orbis Foundation Endowment are others. This is the first year of a three-year pilot and more investors and outcomes funders will join as it scales up beyond the first year. The intention is to bring in other service providers and operators too.

"With so many roleplayers it's a complex process and takes time to set up, to ensure all parties are bound by their commitments, and the auditors are able to confirm the philanthropic outcomes," says foundation CEO Zanele Twala.

The process demands quality social outcomes, with evidence that funding has been efficiently utilised and public benefit outcomes achieved. Private sector rigour is introduced to achieve governmental priorities, in this case employing young people who otherwise would not have jobs and addressing skills scarcity at the entry level. That also meets a national interest need.

Such a process, says Twala, also cements relationships between the public and private sectors. Furthermore, it ensures that each roleplayer participates in its area of expertise, while being able to contribute in sectors outside of its core businesses. "Normally," she says, "a business would focus on its corporate social responsibility initiatives which are typically focused within the sectors in which they operate, close to their core business. With social impact bonds, it enables private sector players to move away from areas of self-interest to tackle pressing national social problems, for example."

In the case of the Bonds4Jobs pay-for-performance pilot, that means Harambee executes the operations in terms of placing people in jobs, while the other partners focus on what they do best to support the initiative. "We, as funders, have money and contribute to the funding. We don't have to try to find jobs, we have professionals to do that."

While funders are to be paid for their use of funds if successful, Twala emphasises that this is not a priority for Tutuwa. "We're not seeking a return but will reinvest any returns we receive into other social initiatives." That, she says, is another advantage: with grant-based funding, you contribute money to achieve a social outcome, there's no financial return on investment. With impact investing, funds are generated for further social investment. With Bonds4Jobs, the 600 jobs target in year one is merely the pilot phase. The goal is to continue, with 1,400 job placements targeted in year two.

This is a real-time solution to grow entry-level, non-tertiary human capital needed for growth sectors. There is also a "change the queue" element to it in that it distributes available opportunities to poor households where the salary will be transformative. While social impact bonds have quantified, predetermined outcomes, Twala says that for every young person placed in a job for the first time, the wider impact is immeasurable. Beneficiaries are drawn from poor households where there are no income earners or income earners are employed in the informal economy or in domestic work. "That job enables the young person to help feed families and help with siblings' education and so on." The experience gained in the workplace also improves the young person's prospects of finding a higher-paying job and contributing to the wider economy. The ripple effects are ever-widening.

How it works

Outcomes Funders have committed R38m to place 600 young people in jobs in year one. Should that target be met, Bonds4Jobs will receive a surplus of nearly R4.1m. Should only 570 jobs placements occur, the surplus will be R2.05m, and there is a sliding scale from there. The project moves into loss-making territory below 540 jobs. With only 510 placements, the social bond funders suffer a loss of about R2m, with the loss increasing as the number of job placements decrease. If no jobs placements are made, the full R33,9m is lost.

In the first year of the pilot, the public benefit funders have lent equal amounts to Bonds4Jobs but have taken differing levels of performance risk. The Standard Bank Tutuwa Community Foundation has agreed to be the first loss investor, so when underperformance goes beyond 10% of target, they begin to lose money. Hollard starts losing money when underperformance goes beyond 45% of the set target. The Legacy Fund has a capital guarantee from some of the outcomes funders.

8. Beneficiaries

The previous Intellidex report, *The Empowerment Endowment (2017)*, found that the most common beneficiary strategies were to support either their sponsor company's existing CSI strategy or strategies aligned to the National Development Plan. Both of these had education as a priority. Consequently, 67% of the value of the endowments were directed at a variety of education initiatives. There was already evidence that foundations sought to direct their spending to the education outcome in a variety of ways such as funding employees and their families, community organisations or even students directly in early childhood education and secondary and tertiary education. They sometimes also provide infrastructure in schools.

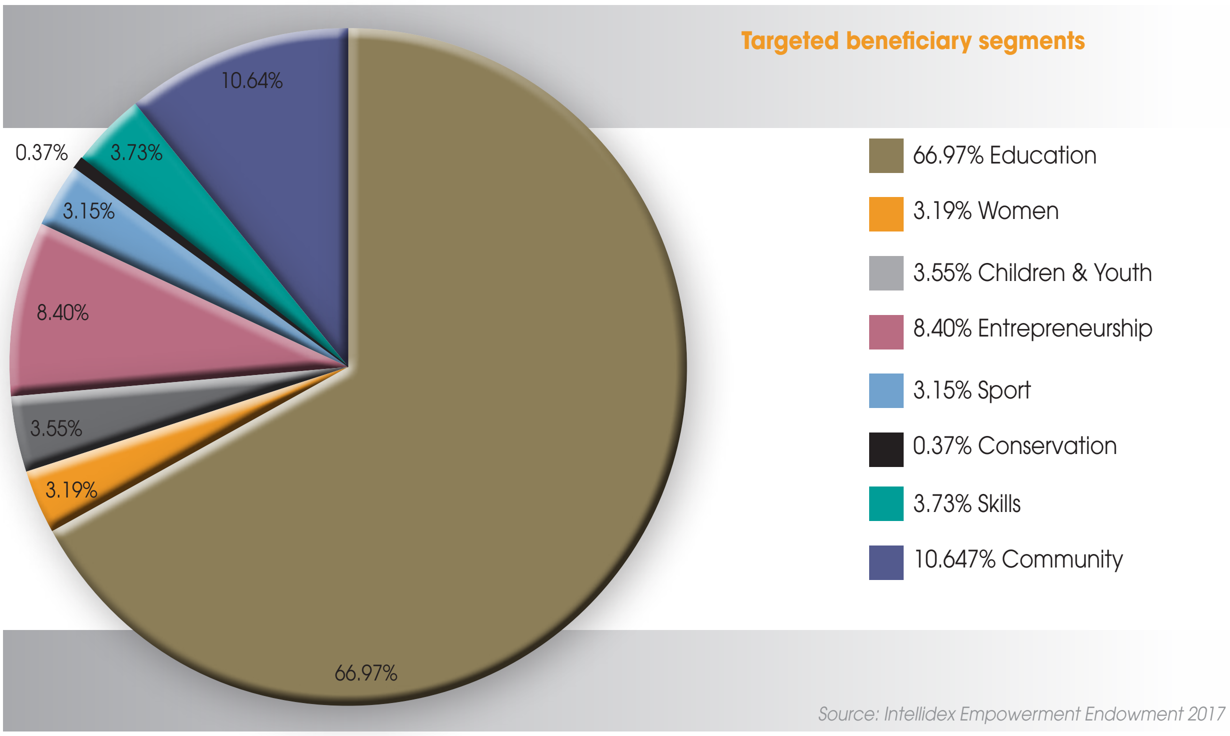


Figure 2: Foundation support priorities.

This report delves into each of the focus areas in more detail, through the perspective of the four operating models developed earlier. Nearly all trusts state explicitly that their beneficiaries are previously disadvantaged individuals with either a geographic demarcation (sponsor company's operating area), or beneficiary class such as employees or students interested in the company's industry. In this section, the objectives of the trusts in their areas of operation, their identified beneficiaries and the outcomes that they have achieved are detailed.

a) Merged group

The first group of trusts that have no dedicated staff split their focus on either education, health care, the environment or a combination of these. In total, trusts in this group have about R126m to dedicate to their projects in 2018. To date they have spent R388m.

Trusts in this group have a diverse range of approaches to identifying beneficiaries. They either identify needs in their target beneficiary groups themselves, solicit applications or work through third parties who propose potential beneficiaries. The trust management or administrators then put forward the potential recipients to the trustees to make the final funding decisions.

b) Nested group

The trusts in this group follow two distinct approaches to identifying potential beneficiaries that fit both the trust's and the sponsoring company's strategic objectives. The availability of funding is an important constraint in terms of the scale of the projects that the trust can undertake in any given year. This group has spent R201m on beneficiaries to date. AECI Community Education & Development Trust and the SAB Foundation both drive applications through managed processes, whereas Distell Development Trust and Impala Bafokeng Trust seek out potential beneficiaries to work with.

c) Outsourced group

Some of the trusts in this group rely on partners to drive the application processes from potential beneficiaries. JSE and Discovery work closely with tertiary institutions that are able to alert their students to funding opportunities. Invicta does not solicit any applications but gets proposals from potential beneficiaries seeking funding. Overall, the group has spent R532m on beneficiary projects to date.

d) Semi-autonomous group

Trusts in this group are a mix of grant and non-grant making entities which means they do not have an application process through which NGOs or PBOs can apply for funding. Instead they have a proactive approach to community engagement, directly identifying needs in their target communities and building projects around those. Consequently, all project dimensions such as staffing, delivery, monitoring and evaluation are done in-house. The exception is Inzalo, which funds students directly through a managed application process. Funds are paid to the institution the applicant attends. The trust then relies on its relationship with the funded university for monitoring and evaluation of the progress of the beneficiaries.

6 case study

Beneficiary strategy at SAB Foundation

The SAB Foundation was set up in 2010. It is an independent trust that focuses on entrepreneurs and social innovation, aiming to support women, youth, rural inhabitants and people with disabilities.

Funding is provided to small, medium and micro-sized enterprises to contribute to the economic and social empowerment of historically disadvantaged persons. The foundation's goal is to dramatically increase turnover, create as many jobs as possible and deliver genuine social and economic impact.

This is achieved through four programmes: Tholoana Enterprise Programme, Social Innovation Awards, Disability Empowerment and Rural Catalyst Programme.

Investment in entrepreneurs is done through the Tholoana Enterprise Programme. The support is through a structured, two-year business support programme, seed-funding and assistance with access to markets. Applications open once a year and about 60 of the most promising entrepreneurs are annually brought onto the programme.

Eligible businesses must be black-owned and managed, have been operating for six months to five years, are going concerns, commercially sustainable and viable. The applicant should be involved in the business' daily operations and management on a full-time basis and not be employed by any other organisation.

One beneficiary is Bukelwa Ngoqo, the founder of Sunkissed Fashion at East London Airport, whose turnover has grown almost 250% since she joined Tholoana in 2016.

Through the Social Innovation Awards, the foundation finds, supports and scales businesses that solve social problems. The 2017 winner, Livestock Wealth, through its GrassBeef platform, uses crowdfarming to assist communities to produce good quality calves and provides an off-take agreement, by which it purchases the communities' future production.

The Rural Catalyst Programme ensures that rural logistics channels are created for social innovation products through entrepreneurship. Small farming businesses are also set up in hard to reach rural areas. Through this programme 365 beneficiaries have been trained and set up in small agricultural businesses.

Foundation director Bridgit Evans says the project has met the expectations foreseen at the time the BEE deal was implemented. "We had very good results and saw good turnovers and job increases", Evans says. "The head of AB-INBEV Africa, Ricardo Tadeu, has a dream of creating 10 000 jobs in the next five years. SAB foundation is part of that dream."

Social Innovation Award winners Medical Diagnostech, left, which manufactures affordable rapid malaria tests and Muthi Futhi, right, is involved in the commercial cultivation of African indigenous medicinal plants. *Photos: ABInbev*

9. Conclusions

The 25 trusts and foundations studied were created and endowed as part of the sweeping transformation in South Africa under black economic empowerment policies. Their collective value is about R37bn – a substantial sum that, if managed well, will make an enormous contribution to the future of the country particularly in areas that are most deprived.

The five themes that were explored in this study bring a nuanced view of all the trusts, highlighting more clearly their commonalties, differences, achievements and myriad challenges.

On the theme of governance, the trusts are mostly expected to have perpetual life spans and will as a result tend to be more conservative in their spending. Drawing on the Independent Code of Governance for Non-Profit Organisations, the report outlines the extent to which there is evidence of good governance among the trusts studied. This point was further underscored using the Imperial & Ukhamba Community Development Trust as an exemplary case study of good governance. The Siyakha Trust of the Resilient and Fortress companies and Aspen Pharmacare's Imithi Investments were two shorter case studies were used as examples when governance fails, and the trusts end up defunct.

Foundations' management structures can be divided into four operating models. Details of their operating models, staffing structures, the use of company and external resources, and details of their salary and operating budgets show a range of similarities and differences between the trusts. The first model, represented by nine trusts, is one in which the trusts can be considered to be merged with the sponsor company. They have no dedicated staff members and rely on the sponsor company for services and facilities. The second group of five trusts has company staff with a dedicated focus on the trust, but they are nested in the sponsor company and rely on the sponsor company for facilities and support functions. The third group of six trusts has a mix of shared staff and sourced-in skills from specialist providers. The fourth group is, by comparison, largely independent, with dedicated and permanent personnel and their own support facilities. Tiger Brands Foundation, part of this fourth group, was discussed in a detailed case study to illustrate the operating and management structures of a highly functioning semi-autonomous trust.

The third theme explored in this report was asset management. Our research found that the net asset value of the endowments for the trusts included in this report stands at R37bn, reflecting growth of about 31% from the value estimated at the time of *The Empowerment Endowment* report in 2017 (although this is not like-for-like growth as not exactly the same trusts were studied in each project). An enduring challenge to the foundations emerged in this theme. The study found that most of the BEE foundations in South Africa do not have appropriate policies and procedures for asset management: 80% do not have an investment policy statement; and 80% do not have an investment or finance committee to review the spending policy on a regular basis to ensure that it is reasonable relative to the risk profile of the foundation. Furthermore, most of the foundations hold investment portfolios that consist only of the sponsoring company's shares largely because most are still restricted from selling their shares. They face a major concentration risk. In contrast, Sishen Iron Ore Company Community Development Trust (SIOC-cdt) has diversified its investments. This trust was discussed in some detail in the case study for this theme. The Imperial & Ukhamba Community Development Trust is another that has diversified.

Perhaps of broader public interest is fund disbursement. This section developed an analysis of the 25 trusts along the operating model segmentation. The four groups were analysed for their public commitment to date, their expenditure to date and their funding budget for the current and previous years. Collectively, the 25 trusts in this report have committed almost R3.9bn to projects to benefit their beneficiaries. By far the largest commitment has come from the five trusts in the Semi-autonomous group at 70% of the total. This section concluded with a case study of The Standard Bank Tutuwa Community Foundation NPC, which has developed a social impact bond. This case was chosen to demonstrate one of the innovative methods that trusts are creating to leverage the funds at their disposal to unlock greater social value.

At the heart of the entire effort sit the beneficiaries. The final theme in this report was dedicated to them as a way to bring the final view on how all the preceding efforts actually manifest in value for everyday South Africans. In line with *The Empowerment Endowment* (2017), trusts seek to direct their efforts primarily towards education initiatives. Under this umbrella term though, a variety of interventions were identified. Initiatives are either directly engaging individual beneficiaries or funding specialist intermediary organisations that can bring the foundations' missions to life. Projects fund employees or community organisations or students directly in various spheres of education. Others provide infrastructure in schools and train teachers, at times even employing them directly. Collectively, the foundations have already spent R3.3bn on their beneficiary projects.

This is the first report of its kind that delves into the detail of BEE foundations. We hope that this will serve as a platform for sharing knowledge between the BEE foundations, their sponsor companies, policy makers and other interested stakeholders. There is certainly a need for greater cooperation and knowledge sharing between these trusts and others as they examine the challenges highlighted in this report. If anything, the foundations have evolved as they have matured and become more responsive to the changing needs of the country's impoverished citizens. They are by no means the silver bullet to rid us of all social ills, but their track record shows that they have an important contribution to make.

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