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21

SOCIO-ECONOMIC CONTRIBUTION BY SOUTH AFRICAN AUTOMOTIVE INDUSTRY

naamsa
THE AUTOMOTIVE BUSINESS COUNCIL

Table of Contents

SOCIO-ECONOMIC CONTRIBUTION OF AUTOMOTIVE OEMs - CORPORATE SOCIAL INVESTMENT

SOCIO-ECONOMIC CONTRIBUTION OF AUTOMOTIVE OEMs - BLACK ECONOMIC EMPOWERMENT

PREFACE

naamsa| The Automotive Business Council commissioned an independent research project to determine the socio-economic contribution of the South African automotive industry to South Africa.

In addition to the automotive industry's extraordinary contribution to South Africa's economy, particularly with regard to international trade, employment, capital expenditure, compensation of employees, government (tax) revenue, trade/retail output, manufacturing output and gross domestic product (GDP) / gross value added (GVA), the industry also plays a vital role in the upliftment of its employees and the broader community.

This study gives an assessment of the **socio-economic contribution** of the seven automotive Original Equipment Manufacturers (OEMs) in South Africa. In order to establish the socio-economic impact, Econometrix conducted a survey to establish and quantify the contribution of the OEMs in terms of their Corporate Social Investment (CSI) programmes. The areas covered by the various programmes include training and skills development, education, healthcare, SMME and business development, conservation and environmental issues, social upliftment programmes, and sports and event sponsorships.

In addition, a survey of the contribution of the automotive OEMs to Broad-based Black Economic Empowerment in South Africa was also conducted, and the survey results are presented in the report.

SOCIO-ECONOMIC CONTRIBUTION OF AUTOMOTIVE OEMs –

CORPORATE SOCIAL INVESTMENT

BACKGROUND

Econometrix conducted research to measure and quantify corporate social investment (CSI) spending by the seven South African OEMs, namely BMW, Nissan, Ford, Volkswagen, Isuzu, Mercedes-Benz and Toyota.

In the face of South Africa's glaring problems of high-level poverty, inequality and lack of education, there is a high need for social investment spending beyond companies' profit maximisation cost structure. In addition to companies' direct contributions to employment, income and skills development for its staff members, and indirect contributions to jobs in the supply chain, the OEMs acknowledge their role as corporate citizens and allocate additional funds to community programmes.

CORPORATE SOCIAL INVESTMENT (CSI)

One can distinguish between a broad and a narrow definition of CSI. Contributions to charity outside companies' own operational goals fall under the **narrow definition** of CSI, while the inclusion of expenditure on internal affairs, like staff training and skills development, employee welfare and commitment to environmental ethics (at additional costs), represents the **broader definition** of CSI.

The following section investigates the socio-economic contribution of South Africa's OEMs on the basis of a quantitative investigation **(based on the broader definition of CSI)**. Econometrix has collected data for initiatives for 2015 to 2020 from the seven OEMs. The categories for CSI contributions were as follows:

- **Training and skills development:** training and skills development offered to employees, e.g. leadership training, apprenticeships, graduate development programmes, learnerships, technical training, graduate funding, bursaries, scholarships.
- **Education**: pre-primary, primary and high school initiatives.
- **Healthcare**, including HIV/AIDS prevention and treatment programmes, healthcare programmes offered to employees and/or provided to the community.
- **SMME and business development**: commitments to support business development, small business development, entrepreneurialism.
- **Conservation and environment** initiatives.
- **Social upliftment** (community support programmes): e.g. NGOs, NPOs, support for orphanages, people with disabilities, women and children, donations to soup kitchens and homeless shelters.
- **Sports and event sponsorship** (excluding sponsorships of any national sporting teams, provincial rugby teams, Premier League football teams, international polo and golf tournaments).

RESULTS OF THE CSI SURVEY

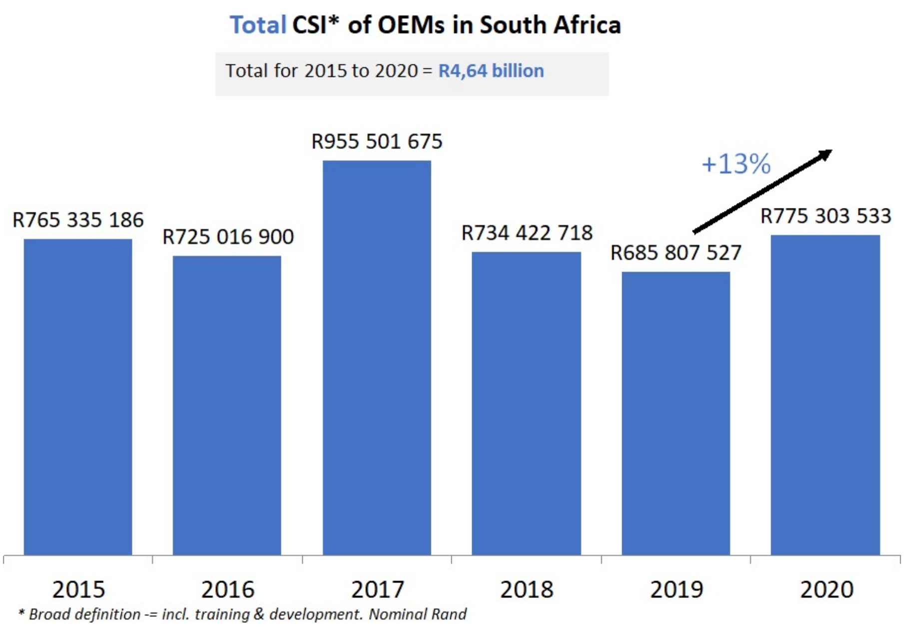
Total CSI contributions

The following chart shows the total CSI contributions of the South African OEMs for 2015 to 2020 in nominal terms. The total CSI of the South African automotive OEMs over the six years was **R4.64 billion.** Excluding training and development investment, the total CSI was **R1.94 billion** over the period.

Table 1: Total Corporate Social Investment of OEMs in South Africa

	2015	2016	2017	2018	2019	2020	Total 2015-2020
***Including* training & development (broader definition)**	**R765.3m**	**R725m**	**R955.5m**	**R734.4m**	**R685.8m**	**R775.3m**	**R4,64bn**
Excluding training & development	R269.9m	R311.3m	R346.2m	R342m	R300.6m	R357.75m	**R1,93bn**

Chart 1



The totals for the past six years are shown in the adjacent chart and table.Total CSI spending reached a high of R955.5 million in 2017, after which it slowed down in 2018 and 2019 (to R734.4 million and R685.8 million, respectively). The decrease during 2019 is in line with the slowdown in the overall economy. However, total CSI expenditure for the seven .

OEMs increased sharply by a substantial 13% to R775.3 million in 2020, despite the devastating impact of the COVID-19 pandemic on local automotive manufacturing and sales. Taking inflation into account, this means **real** growth of 9.7% in 2020 was still very positive and faster than the overall CPI inflation rate. The average nominal growth over the period 2016-2020 was 2.0%.

These numbers highlight the substantial contribution that the automotive OEMs make to corporate social investment in South Africa, and that despite the difficult economic environment that has faced OEMs, especially over the past two years, social investment has continued to grow.

CSI BY CATEGORY

Econometrix's survey has found that OEMs are going beyond general expenditure to focus on targeted investment with the greatest social impact; this is illustrated by looking at the three *largest* categories of CSI expenditure.

- CSI in training & skills development, which includes staff training (i.e. technical and managerial) and recruitment programmes (e.g. apprenticeships, graduate programs), accounted for R2.71 billion over the period 2015 - 2020, or 58.5% of total CSI over the survey period– see Table 2 and Chart 2.
- SMME and business development was the second-largest category with an R818.4 million investment over the survey period, contributing 17.6% to the total.
- The third-largest category in terms of investment volume over the period 2015-2020 was education, with approximately R371.5 million or 8.0% of the total.

CSI should go beyond general social support; the most significant impact is achieved when a virtuous cycle is created between investment and future benefit to all stakeholders.

Together these three categories show OEMs are not only improving the skill levels of employees, but also focusing on skills shortages throughout the value chain, in turn building a stronger and more inclusive industry.

Table 2: Corporate Social Investment of OEMs by category[1]

	2015	2016	2017	2018	2019	2020	Total (2015-2020)	*% share*
Training & skills development	R495.5m	R413.7m	R609.3m	R392.5m	R385.2m	R417.6m	R2713.8m	*58.5%*
Education	R63.8m	R58.7m	R72.5m	R49.5m	R58.4m	R68.6m	R371.5m	*8.0%*
Healthcare	R19.2m	R19.4m	R18.3m	R10.5m	R11.4m	R135.1m	R213.8m	*4.6%*
SMME & business development	R89.4m	R138.7m	R140m	R198.9m	R147.6m	R103.7m	R818.4m	*17.6%*
Conservation & environment	R13.1m	R16.2m	R17.8m	R2.4m	R3.5m	R3.7m	R56.7m	*1.2%*
Social upliftment	R34.8m	R41.9m	R41.9m	R38.1m	R35.2m	R37.2m	R229m	*4.9%*
Sports & event sponsorships	R49.6m	R36.4m	R55.8m	R42.6m	R44.5m	R9.3m	R238.3m	*5.1%*
Total	R765.3m	R725m	R955.5m	R734.4m	R685.8m	R775.3m	R4641.4m	*100.0%*

Source: Econometrix

[1] *These totals do not include preferential procurement contracts, which would have made the amount significantly higher.*

Chart 2

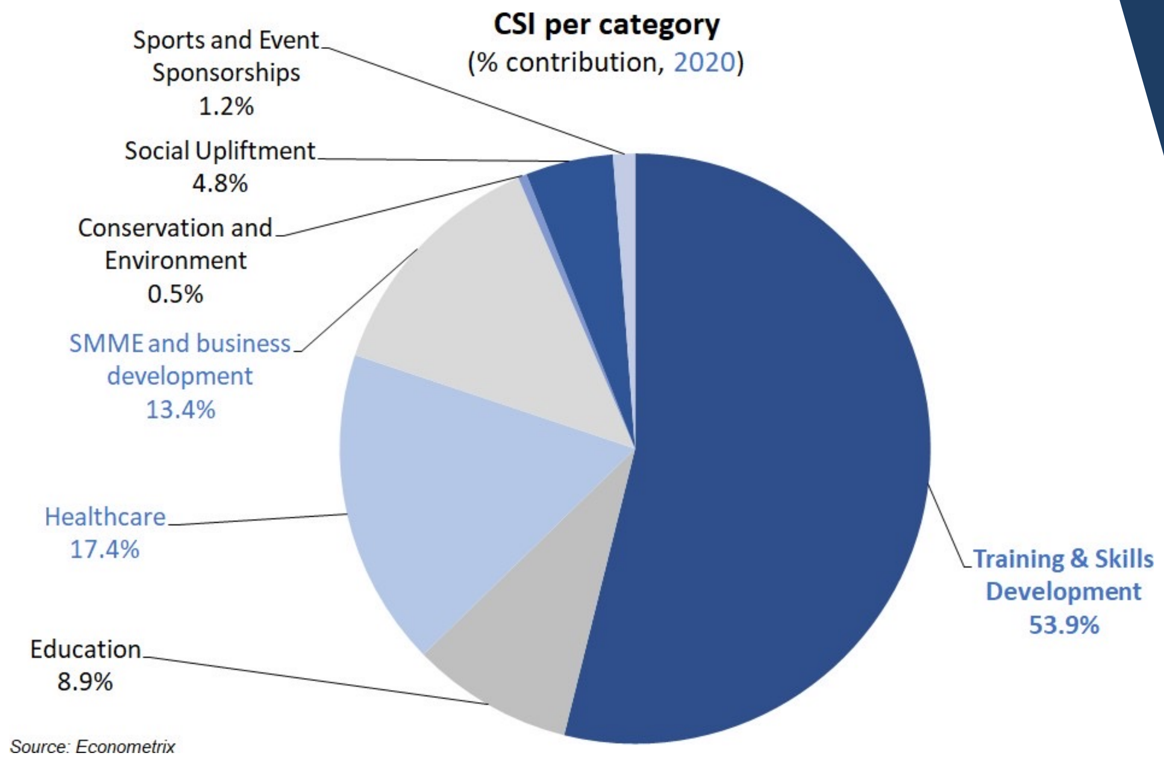
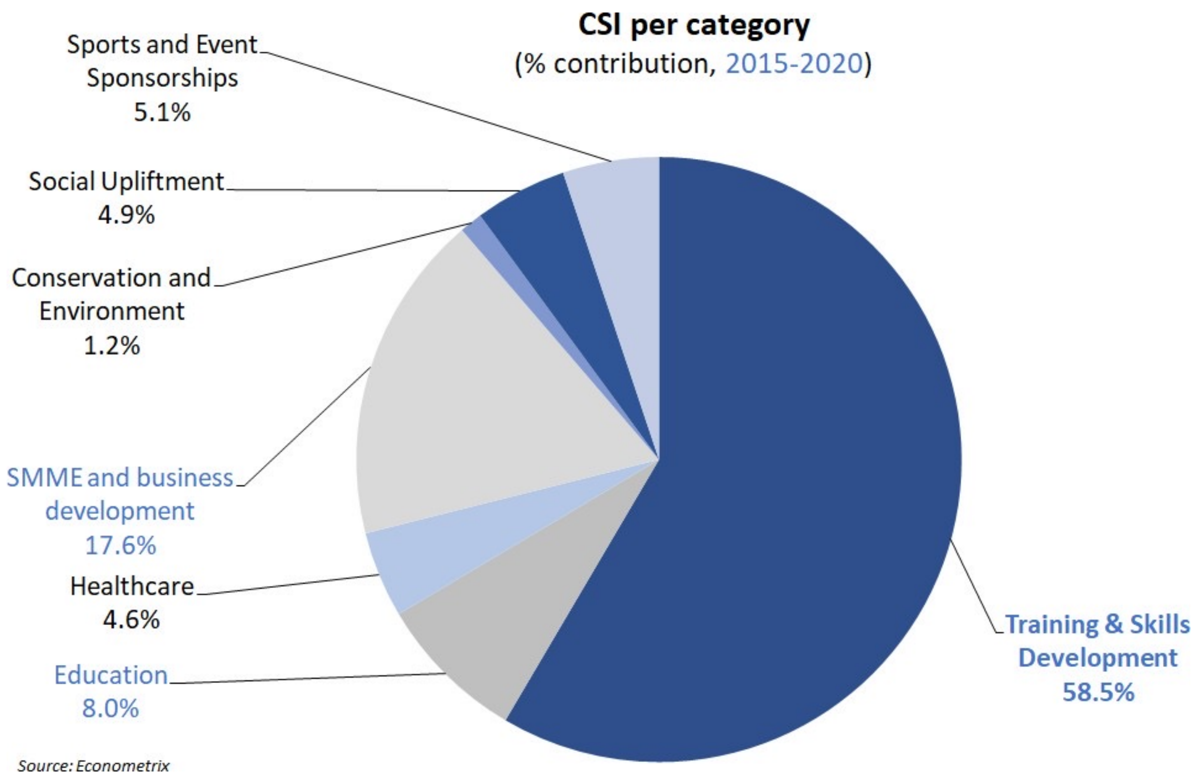
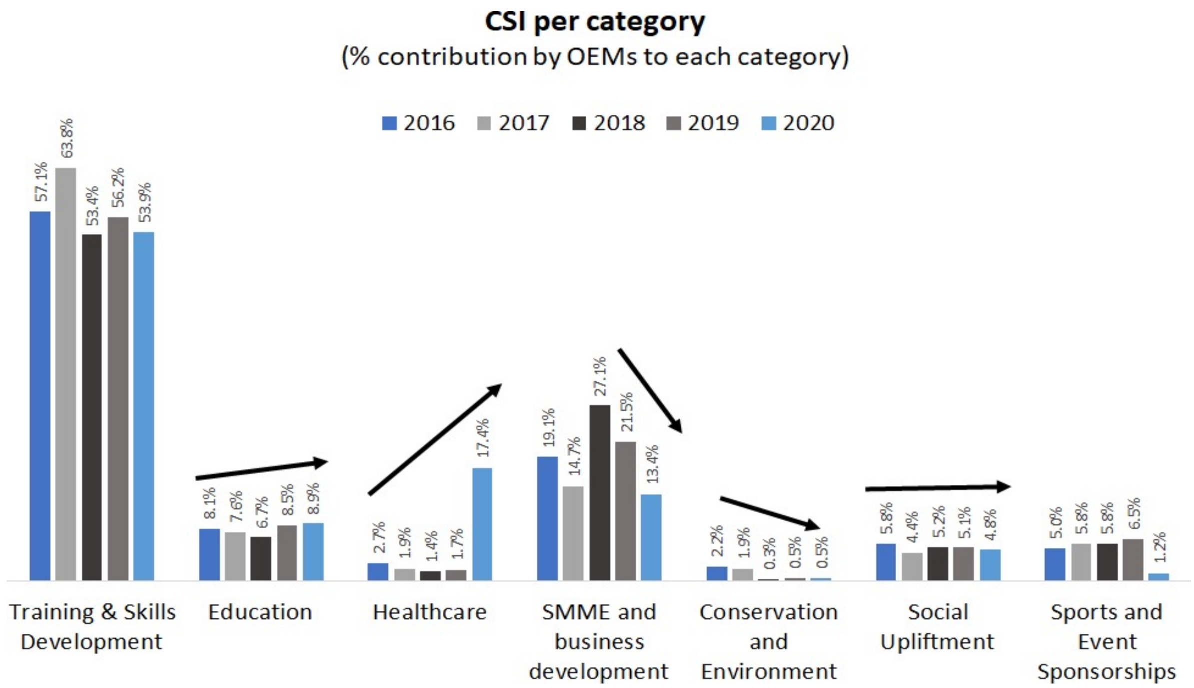


Chart 3



The trends in the CSI contributions per category (shares of the various categories in total CSI) are shown in the chart below:

Chart 4

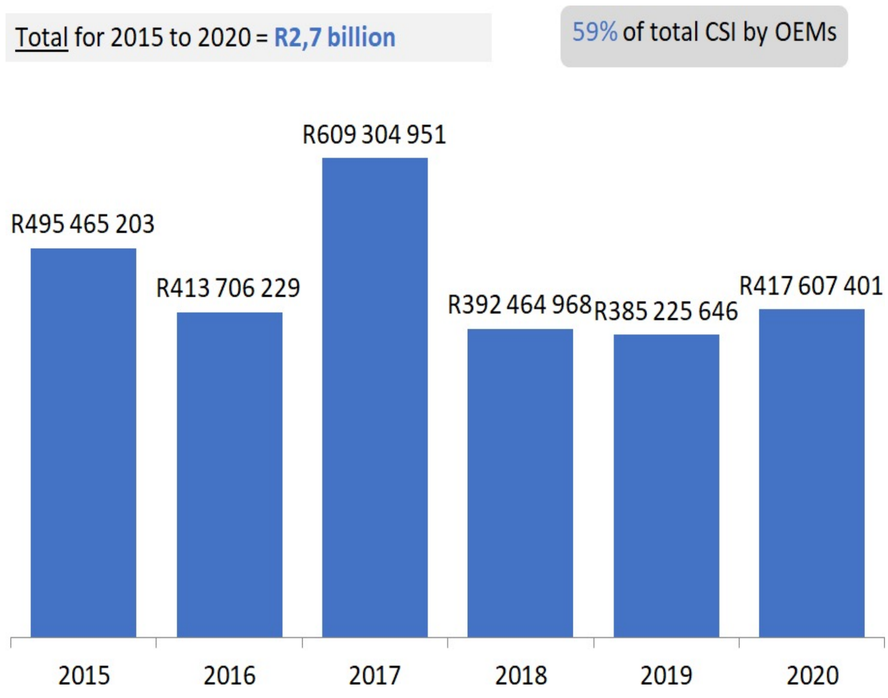


The following trends are highlighted in the chart above:

- The second-largest category in terms of corporate investment volume in 2020 was healthcare – mainly due to the significant injection of funds by the OEMs into the healthcare sector in 2020, in response to the COVID-19 pandemic, with approximately R135.1 million or 17.4% of the total (compared to an average share of 2% over the preceding four years).
- The share of education projects in total CSI reached its highest level in 2020, namely 8.9%.
- The share of SMME and business development in total CSI decreased to the lowest level in 2020, i.e. 13.4%.
- CSI contributions to conservation and environment projects have steadily declined over the last five years.
- CSI contributions to social upliftment projects have remained relatively constant over the past five years (between 4½%-5½% of total CSI).
- In 2020, CSI contributions to sport and event sponsorships reached their lowest level of 1.2% in five years, mainly due to the lockdown and social distancing restrictions brought about by the COVID-19 pandemic. Instead, CSI contributions by OEMs were redirected to health projects.

TRAINING & SKILLS DEVELOPMENT

Chart 5



Total normal expenditure on training and skills development by the seven OEMs was R2.7 billion from 2015 to 2020. In 2020, the amount spent on training in skills development by the seven OEMs increased by a solid 8.4% to R417.6 million (from R385.2 million in 2019).

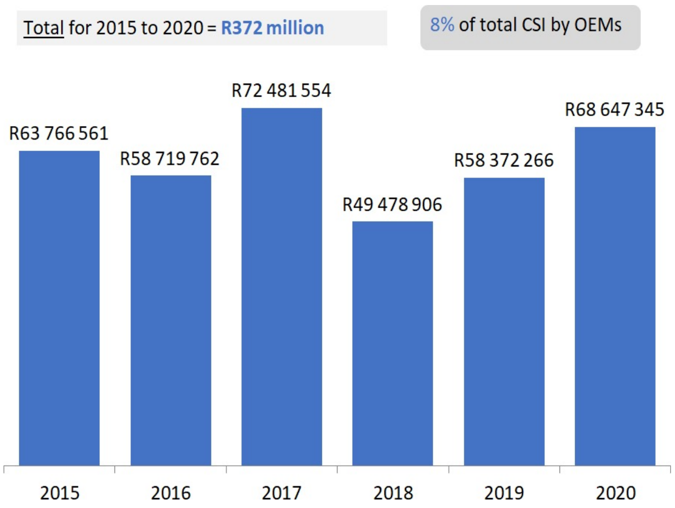
Training and skills development has become a focal point of the automotive industry, in general. Skills development is crucial in the automotive industry in order to keep pace with the massive advances in technology that take place globally every year.

Over the past decade, the technology content in vehicles has advanced considerably. Consequently, assembly plant workers and dealer-based auto technicians have been obliged to progress from basic levels of mechanical expertise to increasingly higher levels of competence, particularly in the field of electronics.

Specialised training and re-training courses (related to the installation and repair of these systems) have to be regularly provided by vehicle manufacturers and importers to impart the appropriate level of skill to their local workers. Without this training, many expensive vehicles would be rendered unserviceable well before the end of their design lifespans.

EDUCATION

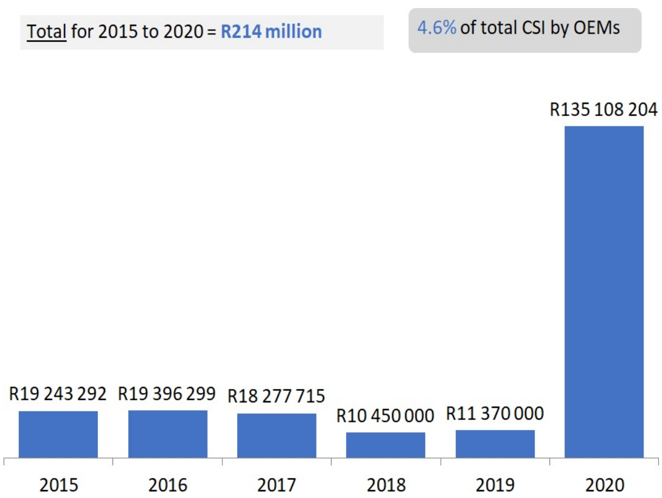
Chart 6



Education includes, for example, initiatives for pre-primary, primary and secondary schooling, ECD centres, schools, tertiary institutions, school fees or bursaries; literacy programmes, maths, science and Non Profits sector support in the education space. The total CSI allocated for 2015-2020 was R372million, accounting for 8% of total CSI by the automotive OEMs. In 2020, expenditure increased significantly to R68.65 million from R58.37 million in 2019 (+18% y/y). The average growth over 2016-2020 was 3.9%.

HEALTHCARE

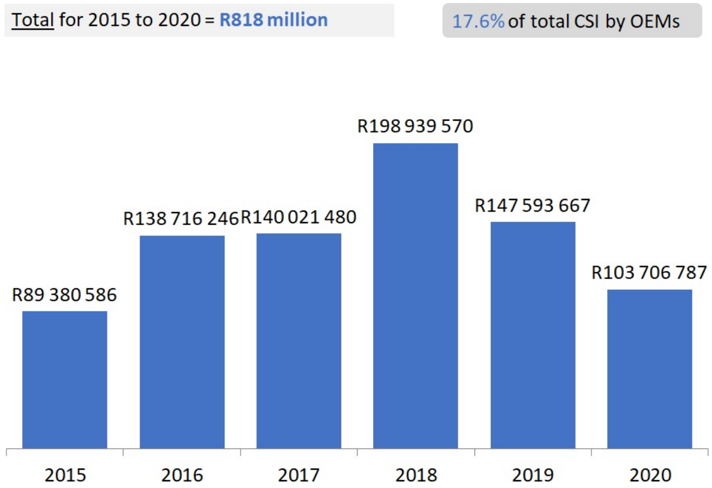
Chart 7



CSI initiatives in the healthcare space include all efforts by the industry to intervene with the pandemic, contributions to hospitals or employee welfare programmes. Total CSI for the six years (2015-2020) was R214 million. In the past, the OEMs were particularly committed to promoting HIV/AIDS campaigns. However, in 2020, the OEMs – in response to the COVID-19 pandemic and its devastating impact on the automotive industry and society at large – contributed a remarkable R135.1 million to healthcare projects (or 17.4% of total CSI in that year). Expenditure on health campaigns soared by an incredible 1088% y/y in 2020.

SMME AND BUSINESS DEVELOPMENT

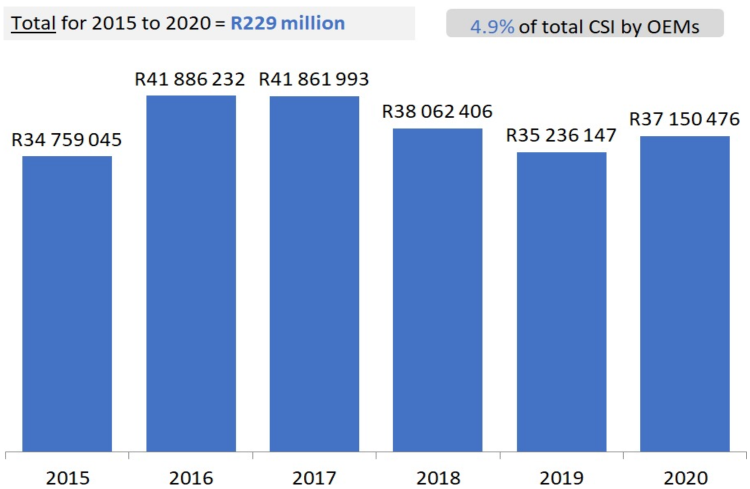
Chart 8



Resources allocated for the promotion of SMME and business development totaled R818 million for the six-year period 2015 to 2020, which is equal to an averagecontribution of 17.6% to total CSI. The OEMs supported enterprise development through, inter alia, preferential loans and by donating funds to organisations and initiatives that seek to stimulate entrepreneurism, building up the capabilities and quality of a domestic supply chain. In 2020, expenditure decreased by -29.7% (to R103.71 million), compared to R147.59 million in 2019, due to the impact of COVID-19 lockdowns on the automotive manufacturing industry, as well as businesses linked to the industry. The average growth over 2016-2020 was 8.5%.

SOCIAL UPLIFTMENT

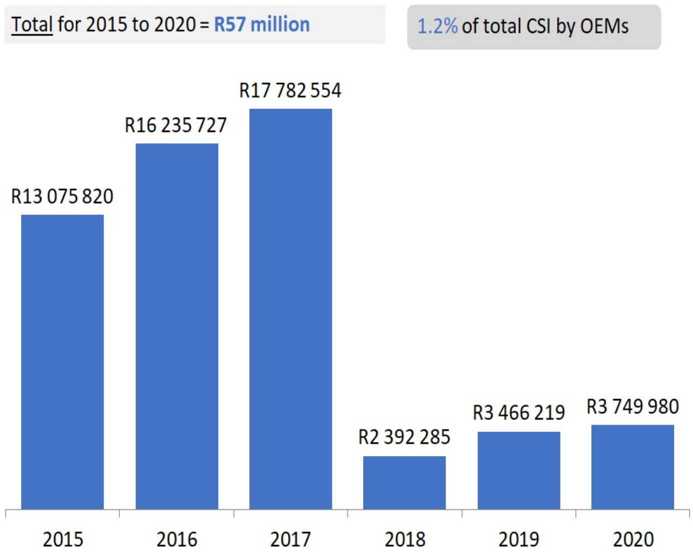
Chart 9



In the Social upliftment category, resources were spent on a variety of small- scale community support programmes. The OEMs donated funds, for example, to initiatives and organisations that support children and orphanages, and women or people with disabilities. Expenditure earmarked for social upliftment totaled R229 million in the six-year period 2015 to 2020, accounting for 4.9% of the total CSI. In 2020, expenditure increased to R37.15 million (5.4% y/y compared to 2019), while the average growth over 2016-2020 was 1.9%.

CONSERVATION AND ENVIRONMENT

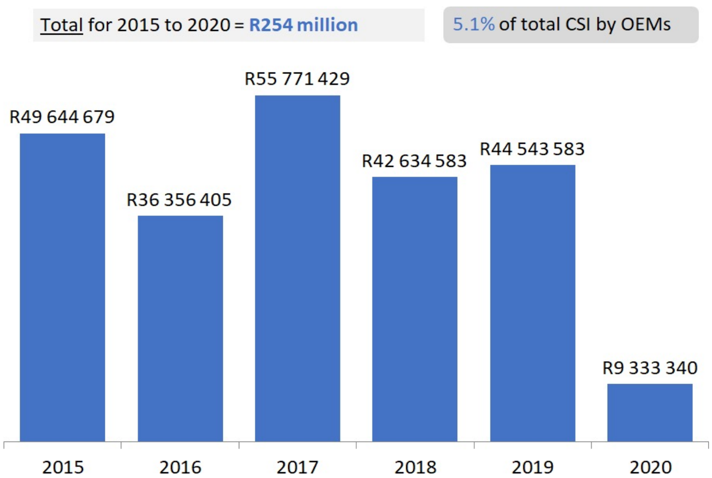
Chart 10



According to our survey, the seven OEMs spent only a minor share of their CSI budget on environmental and conservation projects. For the six-year period 2015 to 2020, R57 million was spent by OEMs, which is equal to 1.2% of total CSI expenditure. In 2020, the amount spent on conservation and the environment by the seven OEMs increased by a solid 8.2% to R3.75 million (from R3.47 million in 2019). However, after 2017, there has been a movement away from CSI expenditure on environmental and conservation projects, with categories such as healthcare and education increasingly benefitting since 2018.

SPORT AND EVENT SPONSORSHIP

Chart 11

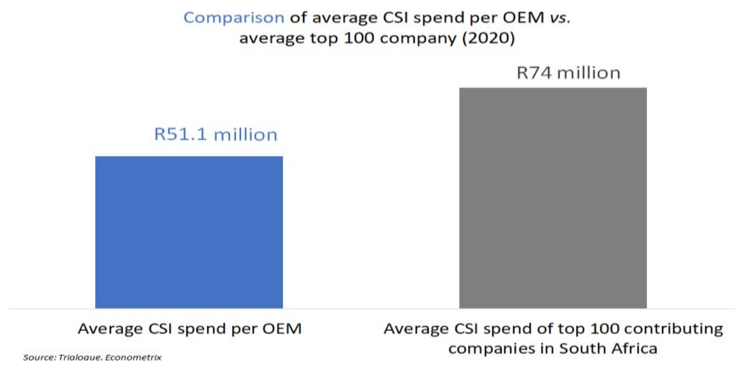


CSI for sport and event sponsorship totalled R254 million (or 5.1%) over the period 2015-2020. In 2020, expenditure dropped to R25.1 million from R44.54 million in 2019 (-79% y/y). The average growth over 2016-2020 was -14.3%. Please note that sponsorships of national and provincial rugby teams, Premier League football teams and international golf and polo teams and tournaments have been excluded from this category.

BENCHMARK: AUTOMOTIVE INDUSTRY VS OVERALL INDUSTRY

The 2020 edition of Business in Society Handbook (23rd edition), published by Trialogue, gives an overview of CSI expenditure for companies across all sectors in South Africa. Based on their findings, the following comparisons can be made using the figures from Econometrix's survey of the automotive OEMs' CSI expenditure. ***Note that "training and development" is excluded from this comparison.***

Total SA CSI expenditure	CSI expenditure of OEMs
Total CSI expenditure in South Africa for 2020 amounted to **R10.7 billion.**	Excluding training and development, the seven OEMs collectively contributed **R357.7 million** to CSI in 2020.. Using this value, we can estimate that the seven automotive OEMs collectively contributed approximately 3.3% of total CSI expenditure in South Africa in 2020.
The **top 100 contributing companies in SA spent R7.4 billion on CSI** in 2020. This equates to an average of R74 million per company.	The seven automotive OEMs' *average* contribution was **R51.1 million per OEM.**



Trialogue reports that CSI expenditure remains concentrated among larger companies**, with 33 companies** out of the top 100 companies in Trialogue's survey contributing more than R50 million per company in 2020.	With an average of R51.1 million CSI expenditure per automotive OEM, this places them in the top third of companies that contributed to CSI in 2020, highlighting the fact that OEMs make a significant contribution to CSI, far above the majority of SA companies.
According to Trialogue, the nominal y/y growth rate of CSI expenditure was 4.9% y/y in 2020 and 1.6% y/y in real terms.	The collective CSI contributions of the automotive OEMs grew faster than the total SA sample. The OEM CSI contribution growth in 2020 was 19.0% y/y in nominal terms, and 15.7% y/y in real terms.

CONCLUSION FROM THE SURVEY

The primary conclusion from Econometrix's survey is that automotive companies' spending on social initiatives can be regarded as substantial. Compared to corporates in South Africa, the average CSI expenditure per OEM in 2020 (excluding training and development) falls within the top third of contributing companies (i.e. companies that contribute more than R50 million p.a.).

Based on the statistics, OEMs are socially accountable corporate citizens that contribute significantly to employee improvement and local communities; this is over and above their direct economic impact through traditional business activities. Ultimately, all CSI expenditure (through the multiplier effect) contributes to growth in South Africa, benefitting the economy as a whole.

Although the full pass-through effects are difficult to predict, we have found evidence that companies are going beyond general expenditure to focus on targeted investment having the most significant social impact.

SOCIO-ECONOMIC CONTRIBUTION OF AUTOMOTIVE OEMs–

BLACK ECONOMIC EMPOWERMENT

BACKGROUND

The objective of this chapter is to measure and understand the empowerment efforts of the OEMs beyond their companies' pofit maximisation cost structure. Given South Africa's history, the empowerment of previously disadvantaged groups is an important aspect when considering the social contribution of the various OEMs. This aspect is not properly captured when analysing direct economic impacts as it is generally an internal process; nevertheless, it is widely regarded as being an important historical redress in reducing inequality, poverty and unemployment, which remain broadly divided along racial lines.

Econometrix conducted a survey (see methodology below) to measure and quantify empowerment by the seven South African OEMs, namely BMW, Nissan, Ford, Volkswagen, Isuzu, Mercedes-Benz and Toyota.

DEFINITION OF B-BBEE

The Department of Trade and Industry defines B-BBEE as the legislative framework for the transformation of South Africa's economy to "redress the inequalities of the past in every sphere: political, social and economic". The fundamental objective of the Broad-Based Black Economic Empowerment Act is to advance economic transformation and enhance the economic participation of black people in the South African economy and was first legislated in 2003. In support of this vision, government has worked to create empowerment targets and instituted a set of punitive measures for those firms who do not reach them. In 2007, 2013 and 2019, revisions were made to the B-BBEE Codes of Good Practice in order to focus more on the growth of black entrepreneurs through Enterprise and Supplier Development elements, as well as skills development.

After 15 years of implementation, the framework and guidelines for B-BBEE are largely standardised and centre around a 'scorecard' measuring the proportion of black employees, black ownership and black supplier procurement. This scorecard is then translated into B-BBEE levels ranging from Level 1 (highest) to Level 8 at the lower end of the spectrum, just above "non-compliant". The criteria of the scorecard are as follows:[2]

- **Equity Ownership – 25% weighting.** This pertains to voting rights and shareholding. In calculating the score, one looks at black ownership in general, and ownership by black women specifically. The act also calculates ownership and voting rights among certain groups, such as those below the age of 35 and above the age of 65.
- **Management Control – 19% weighting.** This criterion refers to the extent to which voting rights on the board are held by black members, what percentage of black members control the executive board, and what percentage make up senior management.
- **Skills development -20% weighting with 5% bonus for certain criteria.** Skills development refers to the extent to which a company invests in and works towards improving the skills and competencies of its black workforce.
- **Enterprise and supplier development – 40% weighting with 4% bonus for certain criteria.** This aspect of the new B-BBEE scorecard records the extent to which small, black-owned companies are supported and developed
- **Socio-economic development – 5% weighting.** The extent to which a company carries out social investment initiatives.

[2] *Source: [What is the new B-BBEE scorecard and how does it work? (golegal.co.za)](golegal.co.za)*

SURVEY METHODOLOGY

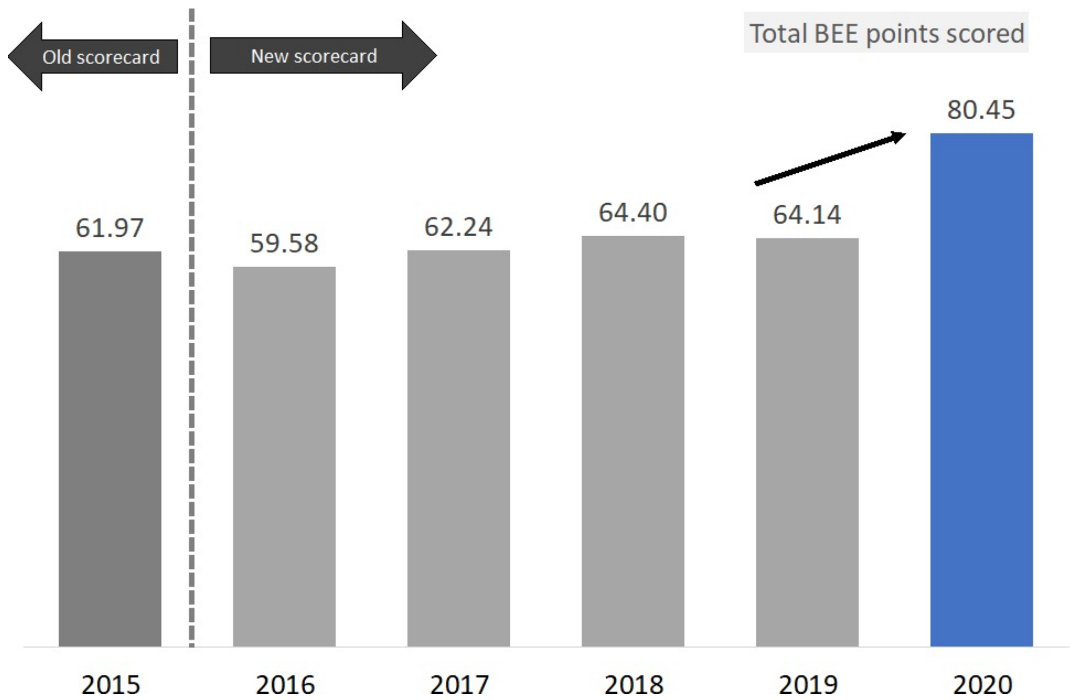
Before analysing the results of the survey, it is important to understand the survey methodology, response rate and sample validity. In gathering empowerment data, Econometrix focused on official B-BBEE certificates and detailed scorecards. Responses were received from all seven OEMs.

RESULTS OF THE B-BBEE SURVEY

B-BBEE scorecards – overall result

The following chart shows the total average empowerment contributions of the South African automotive OEMs for 2015 to 2020, as summarised from their B-BBEE certificates.

Chart 12

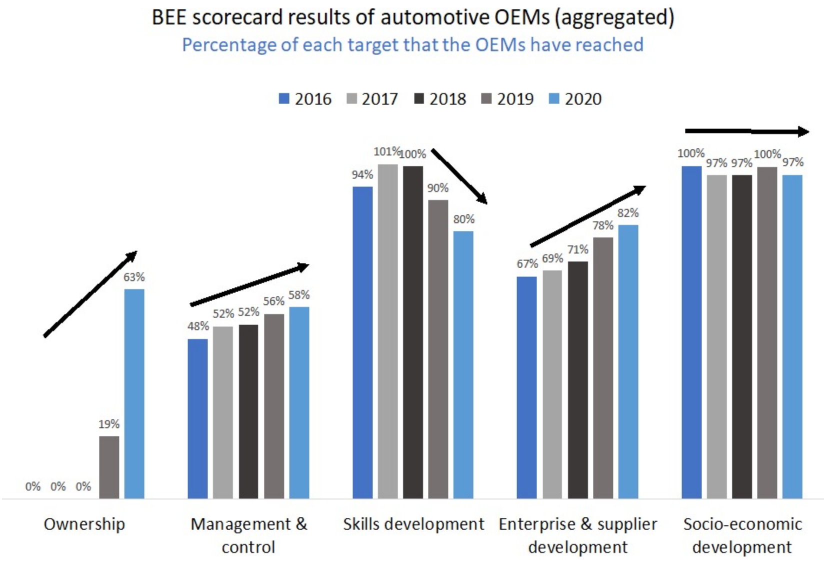


Please note, as per legislated amendments to the B-BBEE scorecards and calculations, certificates and scorecards used prior to 2016 cannot be directly compared to those used from 2016 onwards.. It is clear that from 2016 to 2020 that automotive OEMs improved their investment and commitment in transformation as indicated by an improvement in total BEE points scored, from an average score of 59.58 to 80.45 in 2020; this was despite a difficult operating environment in 2020.

B-BBEE SCORECARDS BY MAJOR CATEGORY

The score results per category are illustrated in the chart below – the chart indicates the percentage of each target that the OEMs have reached.

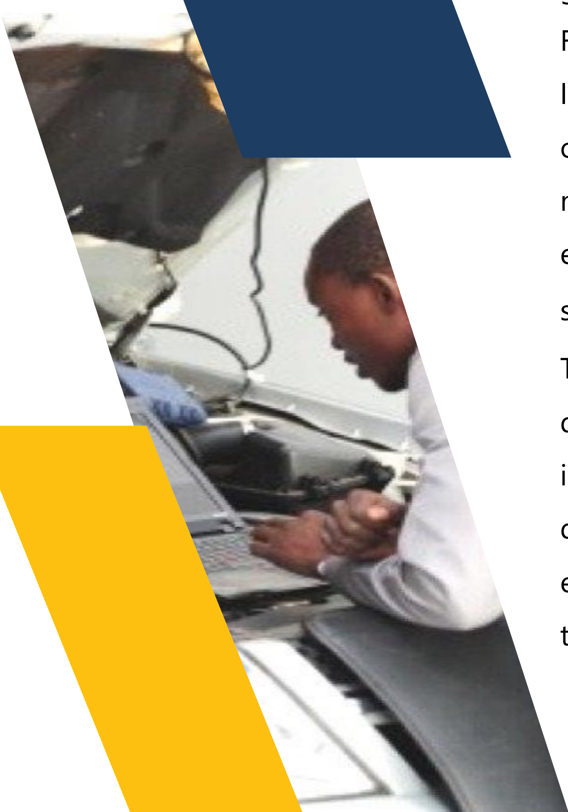
Chart 13



- Steady improvements were made in three categories over the last five years, which underline the fact that OEMs are strongly committed to transformation in the automotive industry:
  - The ownership element improved significantly from 0% in 2016-2018 to 63% in 2020. Prior to 2019, the OEMs scored zero in this category as they are multinationals with foreign ownership and head offices abroad. In response to this quandary, OEMs engaged with government and launched an Automotive Industry Transformation Fund (AITF) in 2019.

    In essence, such a programme would allow multinationals to earn ownership credit without selling shares to black shareholders by making a massive proposed investment of R6 billion to support and empower black enterprise development in the automotive industry supply chain.

    The fund's objective is to accelerate black supplier development, downstream enterprise supplier development, upstream dealer initiatives and sustainable job creation, expand black-owned dealerships and authorised repair facilities, and upskill black employees and prospective auto entrepreneurs. The unique feature of the AITF is that it is supported and funded by the seven OEMs that



will utilise the services of black-owned businesses to grow and expand transformation across the whole auto value chain. According to Naamsa, the AITF will play a vital role in implementing the South African Automotive Masterplan (SAAM), particularly with regard to industry transformation and localisation. The SAAM target is to reach approximately 500 Tier 2 and 3 suppliers by 2035, of which 25% (or 130) must be black-owned.

Management and control improved from 48% in 2016 to 58% in 2020. Although there was a marked improvement in this category in 2020, the score still remains relatively low. Because OEMs are multinational companies, it is challenging for them to transfer a significant portion of management control.

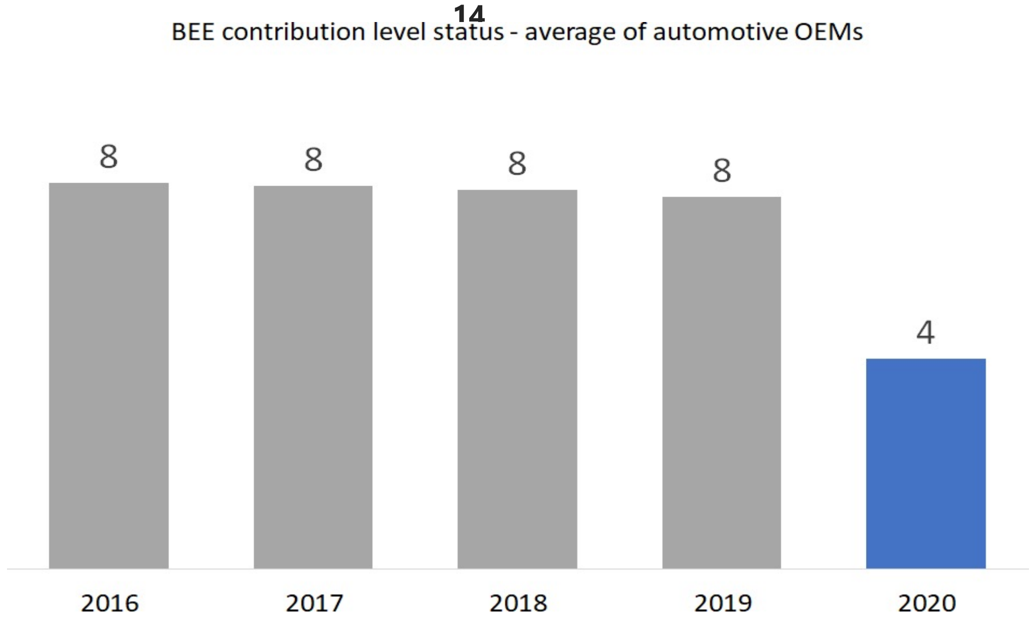
Enterprise and supplier development improved from 67% in 2016 to 82% of the target reached in 2020. This improvement is in line with the establishment of the AITF (see above), which is aimed at addressing the scarcity of black-owned component manufacturers, as well as transforming the automotive industry by broadening the participation of black and historically disadvantaged entrepreneurs to participate in the development of the industry.

- Very strong consistent scores were recorded in the socio-economic development with 97%-100% of the target reached over the period 2016-2020.
- Scores in the skills development category have deteriorated since reaching 100% in 2017 and 2018, to 90% of the target reached in 2019, and 80% in 2020.

B-BBEE AVERAGE STATUS LEVEL

The contribution level of OEMs improved significantly in 2020 to an average Level 4 B-BBEE status, from Level 8 in previous years). The reason for this is primarily based on the significant improvement of the scores in the ownership category (see P 17). This is particularly encouraging in the face of news that government phased in a stipulation that all recipients of government incentives – the Automotive Production and Development Programme in the case of the automotive industry – must achieve a minimum B-BBEE rating of Level 4.

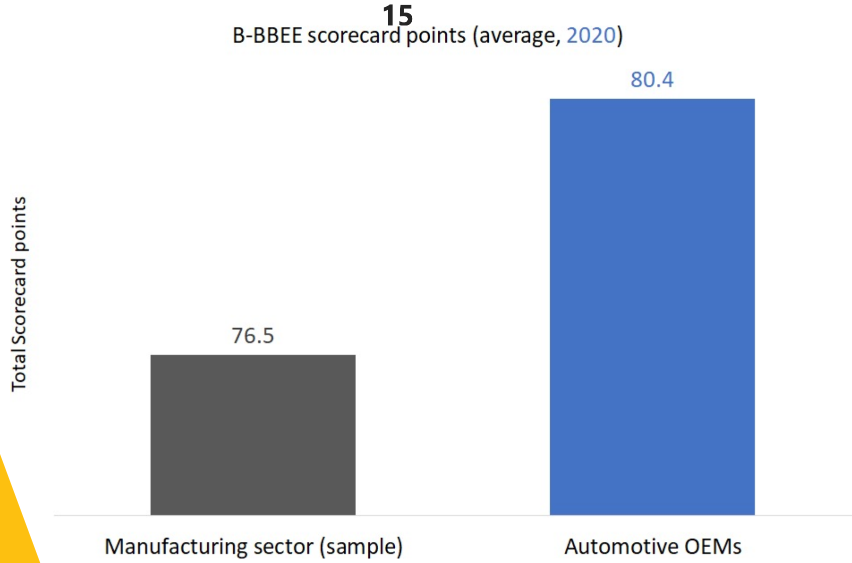
Chart 14



COMPARATIVE SCORECARDS: AUTOMOTIVE VS OVERALL MANUFACTURING

Beyond an absolute viewpoint of B-BBEE contribution by OEMs, it is valuable to compare the automotive OEMs' score with other companies in the manufacturing sector. Econometrix compiled publicly available B-BBEE certificates of 31 manufacturing companies that are listed on the JSE, with generic scorecards and an annual turnover of more than R50 million per annum.

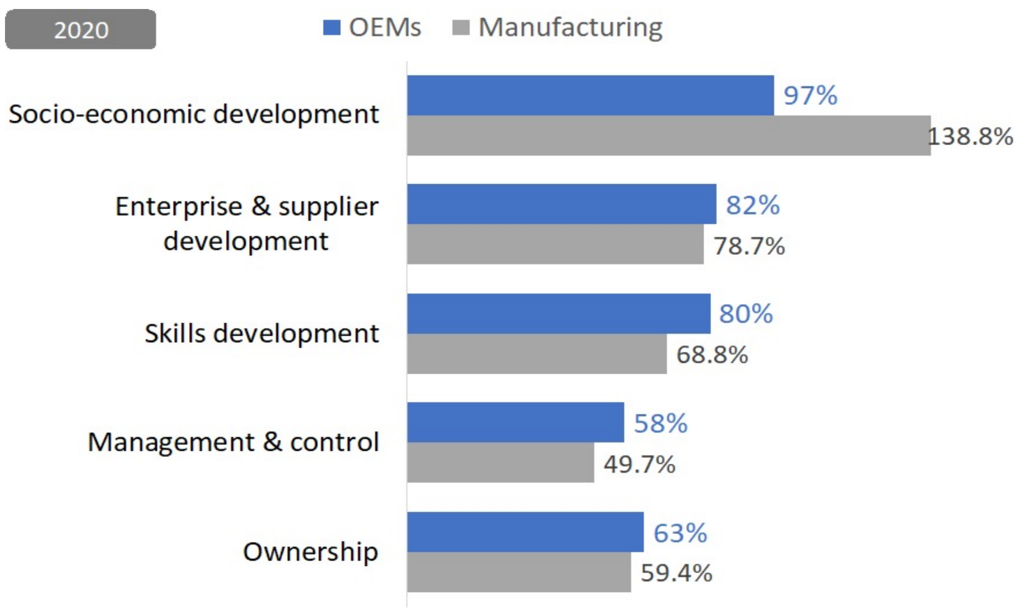
Chart 15



Given that the automotive OEMs are a sub-sector of the overall manufacturing industry, these requirements were deemed appropriate to indicate their comparative performance with regard to black economic empowerment.

The automotive OEMs' average score exceeded that of the comparative manufacturers' sample (with an average of 80.4 points versus the manufacturing sector's sample average of 76.5 points).

Chart 16



It is clear from the more detailed scorecard that OEMs outperform the manufacturing average on all aspects of the scorecard, except for socio-economic development. In some cases, such as skills development, this difference is significant.

CONCLUSION FROM THE SURVEY

Based on the survey results, it is clear that all OEMs are going beyond legislative requirements with regard to transformation. Particularly since the change to the ownership element in 2019, OEMs have made a substantial commitment toward B-BBEE, strongly complying with all requirements and scoring well on all metrics of transformation. OEMs have moved from an average Level 8 contribution in previous years to an average Level 4 in 2020. When compared to other large manufacturing companies, the OEMs outperform the manufacturing average on all aspects of the scorecard, with the exception of socio-economic development.

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