ABSTRACT

The purpose of this research is to identify and outline the sustainable funding models for BEE transactions in the South African mining industry. It is proposed that from the early 2000s to 2014 the sustainability of BEE funding models was driven by regulatory pressure. In the absence of regulatory pressure, there would be a need to develop alternative funding models.

The study uses a quantitative research methodology by examining the frequency of use of various funding models, the impact of regulatory interventions and use of various funding sources on the sustainability of funding models, regression analysis and significance testing.

The research results show that the percentage of third party finance in funding structures has a negative correlation with the success of BEE transactions. Vendor finance shows a positive correlation with the sustainability of transactions, more so above 60% in the funding structures. Equity finance has a positive impact on the success of transactions from as low as 20% in the funding structures.

An ideal funding structure would consist of the following funding sources:

- Third party: Vendor: Equity = 40%: 20%: 40%, in the case of a BEE company that has equity available and
- Third party: Vendor = <40%: > 60%, where no equity is available to BEE entrepreneurs.

In the absence of BEE laws third party finance will dominate funding of empowerment transactions. Funding models based on third party finance must rely more on cash flow based payments rather than dividend payments to service debt.