

# BEE MADE SIMPLE

When the South African Government gazetted the BBBEE Codes of Good Practice at the beginning of 2007, it made the implementation of black economic empowerment a legal reality. This means that all government entities are obliged to use the Codes to measure BBBEE compliance when choosing suppliers, granting licences or making concessions. In other words, they will require all their suppliers to be BBBEE-compliant and the cascading effects thereof will make it hard for any non-compliant company to grow or maintain their level of business success in South Africa. The Department of Trade and Industry (DTI) is the driver of the BEE initiative;

But how does this affect you, as a business owner in South Africa? And how will BBBEE compliance impact on your profitability, control of, and personal vision for, your organisation?

## THE BUSINESS ADVANTAGE

In terms of the Codes, preferential procurement counts as much as ownership does, which means that publicly-owned companies will also be looking to use suppliers who themselves have high BBBEE ratings. Even if you don't do business with government or public entities, your clients might – and they will need your score to help improve theirs.

All businesses need access to capital and markets in order to operate successfully, and a carefully planned BBBEE strategy can help to provide these in the following ways:

- Providing access to finance for BBBEE companies is a priority for banks and other lending institutions. Assuming there is a strong business case to support the application, a BBBEE-compliant company is therefore likely to find it easier to access financial and related resources such as training and mentoring.
- Businesses that are BBBEE compliant have a competitive edge when tendering for new work. Preferential procurement is rapidly becoming standard practice and when all other factors are equal (such as price, quality and product offering), BBBEE compliance is the one factor that could determine which business wins the work.

## NOT BEE RATED YET?

- It is good business practice and essential for companies to report on the BBBEE status of all the suppliers paid.

## RELATED LEGISLATION:

- The Employment Equity Act (1998) applies to all black people, all women and disabled people and stipulates the requirements to ensure these groups are equitably represented in all occupational categories and levels of a company. This is binding on any business that employs 50+ staff, or has an annual turnover of more than R2 million.
- Skills Development Act (1998) and Skills Development Levy Act (1999) makes it compulsory for certain employers to contribute a percentage of their payroll, (known as Skills Development Levy) to a fund that can be used to train staff.
- Preferential Procurement Policy Framework Act (2000) allows any State entity to give preference to black people when awarding contracts.

## WHAT ARE YOU CATEGORISED AS?

- When your turnover is < R10 million/annum you are categorized as an **Exempted Micro Enterprises (EME)**. Please note that other industries may differ e.g. Tourism industry the annual turnover needs to be less than R2,5 million/annum. Your business automatically qualifies as level 4 on the condition that you are in possession of:
  - A letter from a registered accountant or auditor on their official letterhead;
  - Noting your company's financial period, company name(s), vat nr, etc.;
  - EME's with more than 51% Black ownership can achieve a Level 2 score and 100% Black ownership can obtain Level 1.
- You are categorized as a **Qualifying Small Enterprise (QSE)** when your turnover is > R10 million/annum but <R50 million/annum.
- Your Company is known as a **Generic Enterprise** when you turnover is >R50 million and will have to follow the formal BEE rating process and obtain a BEE certificate showing the various pillars and your participation under each one.

## HOW IS BBBEE IMPLEMENTED:

- Compliance is determined according to the number of points a business scores on the generic scorecard. The more points, the high the level of compliance.
- The scorecard is broken down into 5 sub-indicators, explained below:

OWNERSHIP	Proof of shares in HDI hands. A share certificate for example will need to be submitted for this purpose. This is regarded as a priority element and failure to comply with the minimum target (40% of Net Value) will result in the Level as obtained above being discounted.
MANAGEMENT	Proof of HDI's (men/women) in top/senior/middle/junior management. Interviews will be held to confirm seniority, job description, salaries, etc. Submission of an EE report and the involvement of PDI's in the organisation on different levels and categories.
SKILLS DEVELOPMENT	Proof of training spend on HDI's employees or non-employees and accredited programs such as apprenticeships, learnerships and internships and mentorship programs. This is regarded as a priority element and failure to comply with the minimum target of 40% will result in the Level as obtained above being discounted.
ENTERPRISE AND SUPPLIER DEVELOPMENT	Proof of purchases from current and suppliers that are BEE compliant and <b>Empowering Suppliers</b> as a percentage of total procurement spend. Aiding SMME's and emerging entities owned by HDI's to trade in the mainstream economy. An example is setting up a CC and contracting such an entity to provide products. This is regarded as a priority element and failure to comply with the minimum target 40% in all categories will result in the Level as obtained above being discounted.

<b>SOCIO ECONOMIC DEVELOPMENT</b>	Social contributions towards own employees, employees families and communities such as paying employees children's school fees and contributions towards black sports teams.
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## THE BEE PROCESS EXPLAINED

### Qualifying Small Enterprise Scorecards at a glance:

Old Codes			Amended Codes		
<i>Elements</i>	<i>Points</i>	<i>Bonus</i>	<i>Elements</i>	<i>Points</i>	<i>Bonus</i>
<i>Ownership</i>	25	3	<i>Ownership</i>	25	0
<i>Management Control</i>	25	2	<i>Management Control</i>	15	0
<i>Employment Equity</i>	25	3			
<i>Skills Development</i>	25	0	<i>Skills Development</i>	25	0
<i>Preferential Procurement</i>	25	0	<i>Enterprise and Supplier Development</i>	30	0
<i>Enterprise Development</i>	25	0			
<i>Socio-Economic Development</i>	25	0	<i>Socio-Economic Development</i>	5	0
<i>Total (after selecting any 4 of the above elements)</i>	<b>100</b>	<b>8</b>	<i>Total</i>	<b>100</b>	<b>0</b>

QSE's are now required to be compliant with all 5 elements as opposed to previously choosing the best 4 elements to be scored. The total points that can be on the scorecard is now 100 points with no bonus points available.

## Generic Scorecard at a glance:

Old Codes			Amended Codes		
Elements	Points	Bonus	Elements	Points	Bonus
<i>Ownership</i>	20	3	<i>Ownership</i>	25	0
<i>Management Control</i>	10	1	<i>Management Control</i>	15	4
<i>Employment Equity</i>	15	3			
<i>Skills Development</i>	15	0	<i>Skills Development</i>	20	5
<i>Preferential Procurement</i>	20	0	<i>Enterprise and Supplier Development</i>	40	4
<i>Enterprise Development</i>	15	0			
<i>Socio-Economic Development</i>	5	0	<i>Socio-Economic Development</i>	5	0
<b>Total</b>	<b>100</b>	<b>7</b>	<b>Total</b>	<b>100</b>	<b>13</b>

## HOW DOES MY SCORE RELATE TO THE BBBEE SCORING LEVELS?

Below is a comparative chart of the changes in scoring points of the Amended Codes vs Old Codes:

BBBEE LEVEL	AMENDED CODES	OLD CODES
1	≥ 100 points	≥ 100
2	≥ 95 but < 100	≥ 85 but < 100
3	≥ 90 but < 95	≥ 75 but < 85
4	≥ 80 but < 90	≥ 65 but < 75
5	≥ 75 but < 80	≥ 55 but < 65
6	≥ 70 but < 75	≥ 45 but < 55
7	≥ 55 but < 70	≥ 40 but < 45
8	≥ 40 but < 55	≥ 30 but < 40
<b>NON - COMPLIANT</b>	< 40 points	< 30

## HOW DO I PREPARE FOR BBBEE?

- Collect documentary evidence around areas where points can be scored
- Calculate pre-audit score to find out how many points you can achieve
- Design BBBEE profiles, policies, processes and strategies
- Look for more ways to earn more points on the scorecard.
- You now come into contact with an SANAS Accredited BBBEE Verification Agency to undergo an audit to determine your BBBEE compliancy Levels

## WHAT IS SANAS -THE SOUTH AFRICAN NATIONAL ACCREDITATION SYSTEM?



- Visit the SANAS website for approved BBBEE Verification Agencies;  
From February 2010 all BBBEE certificates must be **validated by a SANAS accredited verification agency**;
- The South African National Accreditation System (SANAS) is recognised by the South African Government as the single National Accreditation Body that gives formal recognition;

## WHAT TYPE OF DOCUMENTS ARE VALID BEE DOCUMENTS

- A BEE certificate issued by a SANAS approved agency; or
- A letter from a registered accountant.

## COMPANIES SHARING A BEE CERTIFICATE THROUGH SHAREHOLDING

- The certificate must clearly show the shareholding and companies incorporated under the single BEE certificate;

## HOW LONG IS A BEE DOCUMENT VALID FOR?

- All BEE certificates and EME letters are valid for one year from date of issue.