

TO BEE OR NOT TO BEE PART 5

How to maintain compliance when transitioning from an Exempted Micro Enterprise to a Qualifying Small Enterprise.

5

Welcome to the **fifth of six newsletters** aimed at helping you better understand the **Amended B-BBEE Codes of Good Practice** and the **Amended B-BBEE Financial Services Codes**.



This issue is focused on those companies transitioning from an **Exempted Micro Enterprise (EME)** to a **Qualifying Small Enterprise (QSE)**.

An EME earns revenue between R0m and R10m that qualifies them for automatic B-BBEE status. As an exempted enterprise they must complete a sworn affidavit to determine their B-BBEE Status, according to these criteria:

- If 100% black-owned**, qualifies for automatic Level 1 BEE status and must complete a sworn affidavit.
- If at least 51% black-owned**, qualifies for an automatic Level 2 BEE status and must complete a sworn affidavit.
- If less than 51% black-owned**, must be rated on the full QSE Scorecard and be verified by a SANAS accredited BEE Rating agency.



What is the QSE scorecard?

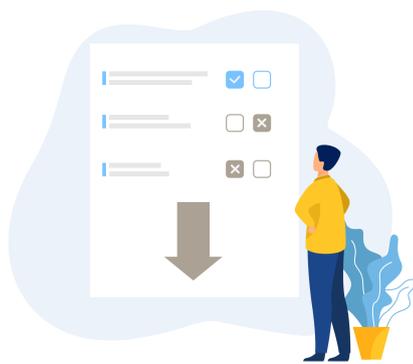
B-BBEE compliance is measured against **five elements** and points known as the **scorecard**. A number of points and targets are allocated to each element and scores are calculated based on how a company implements these requirements. The level attained is based on the total score achieved.

THE SUMMARISED QSE SCORECARD

ELEMENT	POINTS	PRIORITY ELEMENT
OWNERSHIP Measures the effective ownership of enterprises by black people. Measured as at date of verification.	25	Yes
MANAGEMENT CONTROL Measures the effective control of enterprises by black people. Measured as at the current payroll.	15	No
SKILLS DEVELOPMENT Measures the extent to which employers carry out initiatives designed to develop the competencies of black people. Measured as at year end.	25 +5 bonus points	Yes
ENTERPRISE AND SUPPLIER DEVELOPMENT: Split into three sub-elements. Measured as at year-end.	30 +3 bonus points	Yes
<ul style="list-style-type: none"> Procurement Measures the extent to which enterprises buy goods and services from suppliers with B-BBEE procurement recognition levels. Enterprise Development measures the extent to which enterprises carry out enterprise development initiatives intended to assist and accelerate the development and sustainability of other enterprises. Supplier Development measures the extent to which enterprises carry out supplier development initiatives within its procurement chain intended to assist and accelerate the development and sustainability of other enterprises. 		
SOCIO-ECONOMIC DEVELOPMENT Measures the extent to which enterprises carry out general and financial sector specific initiatives that contribute towards socio-economic development which promotes access to the economy for black people. Measured as at year-end.	5	No
TOTAL POINTS	100 +8 bonus points	

A QSE entity not qualifying for automatic recognition is further required to comply with the priority elements. A QSE is required to **comply with Ownership** and select one other between 'Skills Development' and 'Enterprise and Supplier Development'.

Non-compliance with 40% sub-minimum requirements of any of the priority elements will **result in downgrading** by one level until the next verification period. Only the discounted level will appear on the B-BBEE certificate.



OWNERSHIP:

The sub-minimum requirement for Ownership is 40% of the net value points for ownership. **and either:**

Skills Development:

The sub-minimum requirement for Skills Development is 40% of the total weighting points (excluding bonus points).

OR

Enterprise and Supplier Development:

The sub-minimum requirement for Enterprise and Supplier Development is 40% of the total weighting points (excluding bonus points) of each of the three broad categories: Preferential Procurement, Enterprise Development and Supplier Development.

Priority elements are the fundamental elements of the scorecard that were identified to address the key objectives of the B-BBEE Act.

Navigating the B-BBEE compliance process can be a daunting task. This is especially true for entities that transitioned from EME to QSE and are required to comply with the QSE Scorecard. Now that we've explained the basics, this is how your company can maintain a Level 4 rating or go even higher.

To maintain compliance, business partners should follow these steps:

- 1 Understand what constitutes revenue** and check that **all pass-through revenue has been disclosed on your financials**, so the rating agency is able to exclude the amounts from your overall revenue recognition. A business partner's revenue may have exceeded the threshold through pass-through revenue which is not recognised as its own, which is why it's important that this aspect is cleared with your accountants. If the business partner has included and recognised pass-through revenue as its own then the revenue will be taken as stated and third party procurement exclusion will not be allowed.
- 2 Have your detailed income statement available for planning.** The BEE verification for the skills development, ESD and SED elements are based on the financial year period and an entity cannot claim spend outside of the financial period. The final forecast must be completed no later than first quarter of your financial year, to allow for B-BBEE planning and implementation,
- 3 Determine your understanding of the B-BBEE QSE scorecard.** If you have limited knowledge or its your first year of being verified, appoint a qualified B-BBEE consultant/advisory firm. Santam Group works with several reputable B-BBEE consultants and advisors and can refer these to business partners.
- 4** If your knowledge is sufficient to work through the B-BBEE scorecard and targets, **ensure your B-BBEE targets are set** and an **implementation plan is in place** to meet the requirements,
- 5** The **appointed advisor** will work through your B-BBEE strategy and develop **tailored strategies and solutions to optimise your B-BBEE score** in line with B-BBEE legislation.
- 6** Appoint a ratings agency that will **verify your company** and issue you with a SANAS Accredited BEE Certification.
- 7** If budget doesn't allow for a B-BBEE consultant/advisor, you can **attend B-BBEE training** to further enhance knowledge and manage processes internally.



If your entity belongs to any sector code, thresholds applicable to EME and QSE entities are different and may affect compliance.

NEXT STEPS

- Review** forecasts with accountants and determine if revenue shall exceed R10m.
- Follow the stipulated steps** to maintaining compliance.
- If unsure** of which sector to align with, **contact our team**.



Should you have **further questions or require assistance**, please email our Transformation Team at SantamTransformation@santam.co.za.

Thank you for reading! Keep an eye out for part 6 in the series.