

Transitioning from an Exempted Micro Enterprise (EME) to a Qualifying Small Enterprise(QSE), what must I do to maintain compliance.



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.



In this newsletter we focus on basic knowledge critical to a company **transitioning** from an **Exempted Micro Enterprise** to a **Qualifying Small Enterprise**. An Exempted Micro Enterprise earns revenue of between R0m to R10m that qualifies for automatic B-BBEE status.

Being an Exempted Enterprise requires the entity to complete a sworn affidavit where the B-BBEE Recognition Level is determined by the black ownership held by the entity.

The B-BBEE Status is determined by the below criteria:

- If an EME is 100% black-owned: automatic Level 1 BEE status.
- If an EME is at least 51% black-owned but less than 100%: automatic Level 2 BEE status.
- If an EME is less than 51% black-owned: automatic Level 4 BEE status.



What happens when a Business Partner forecasts revenue growth which moves their company to an annual turnover of R10m but less than R50m?

Entities that have an annual **turnover of between R10 million and R50 million** are classified as **Qualifying Small Enterprises** and therefore must comply with the requirements for a QSE entity.

The B-BBEE Status is determined by the below criteria:

- If a QSE is 100% black-owned: qualifies for an automatic Level 1 BEE status and must complete a sworn affidavit.
- If a QSE is at least 51% black-owned%: qualifies for an automatic Level 2 BEE Status and must complete a sworn affidavit.
- If a QSE is 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?

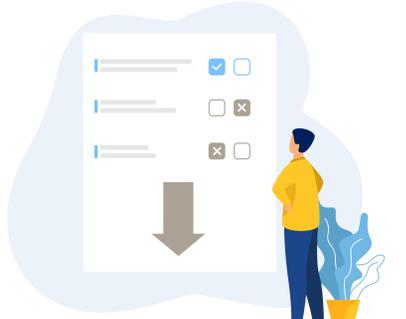
B-BBEE compliance is measured against **five elements and points** that combine into what is called the scorecard. A number of **points and targets** are allocated to each of these elements and an entity's scores are calculated based on **how the company implemented the requirements** for each element. The recognition level attained is based on the **total score** the QSE entity would have 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, specifically suppliers. 		
SOCIO-ECONOMIC DEVELOPMENT Measures the extent to which enterprises carry out general and financial sector specific initiatives that contribute towards Socio-economic Development and that promote access to the economy for black people. Measured as at year-end.	5	No
TOTAL POINTS	100 +8 bonus points	

A QSE Entity which does not qualify for automatic recognition is further required to comply with the priority elements. **A QSE entity 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), for Skills Development.

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, within the Enterprise and Supplier Development element, namely:

- **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.

The B-BBEE compliance process can be a lengthy, daunting task that is difficult to navigate altogether especially for entities that have transitioned from EME to QSE and are required to comply with the QSE Scorecard. Now that we have explained the basics, it's time to understand how your company will be able to maintain a Level 4 which was held as an EME or improve the score to a higher level.

To maintain compliance after transition, Business Partners are encouraged to follow the below steps

- 1 Understand **what constitutes revenue** for your entity 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, hence 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 forecasted **detailed income statement** available for planning. The BEE Verification for the Skills Development, Enterprise & Supplier Development and Socio-Economic Development elements are based on the **financial year period** and an entity cannot claim B-BBEE spend outside of that. The final forecast must be completed **no later than quarter one** of your financial year, to allow for B-BBEE planning and implementation.
- 3 How well **do you understand** the B-BEE Generic Scorecard? If you have **limited knowledge** or it's your first year of being verified, consider appointing a **qualified B-BBEE consultant or advisory firm**. Santam Group can refer you to a reputable company that can help you develop **tailored strategies and solutions** to optimise your **B-BBEE score**.
- 4 If you can work through the B-BBEE Scorecard and targets on your own, ensure your **B-BBEE targets are set**. Put a plan in place to meet the requirements and monitor it quarterly.
- 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 the B-BBEE legislation.
- 6 Appoint a rating agency that will **verify your company** and issue you with a SANAS Accredited BEE Certification.
- 7 We also encourage **B-BBEE training** to further enhance knowledge so you can **manage the process internally** if budget does not allow for an outsourced B-BBEE consultant/advisor.



It is important to note that if your entity belongs to any sector code, thresholds applicable to the EME and QSE entities are different and therefore may affect their compliance.

NEXT STEPS

- Having worked through the basics of transitioning from an EME to a QSE, business partners are encouraged to:**
- **Review** forecasts with accountants and determine if revenue shall exceed R10m.
 - **Follow the stipulated steps** to maintaining compliance.
 - **If unsure** of which sector code 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.