

## **What you need to know about Enterprise Development on the B-BBEE Scorecard**



***Enterprise Development is one of the sub-elements of Enterprise and Supplier Development on the Broad-Based Black Economic Empowerment (B-BBEE) scorecard contained in the Codes of Good Practice.***

***Enterprise Development can be defined as a contribution to a black-owned business.***

This can be in the form of grant contributions, time, services, etc. The Enterprise Development Matrix provides the framework for these contributions.

In a previous blog we discussed *how to account and provide for taxation of Supplier Development, Enterprise Development and Socio-Economic Development contributions and donations in respect of B-BBEE measured entities*. For the purpose of this blog, we will review the definition of a black-owned business as well as Enterprise Development.

### **What is a black-owned business?**

A black-owned business is defined as an entity with at least 51% black ownership, meaning a black male or black female. *The Enterprise Development contribution* is usually made to Small and Medium-sized Enterprises (SMEs); however, contributions can also be made to Generic entities, although this is not generally done because a Generic entity (an entity with a turnover of above R50 million) is not regarded as being in need of financial support, as in the case of SMEs.

The Measured Entity can still make the Enterprise Development contribution to black-owned businesses/ beneficiaries that fall within the Generic category if they had previously been Exempt Micro Enterprises (EMEs) or Qualifying Small Enterprises (QSEs) that received assistance from the Measured Entity. This recognition for Generic entities will only be allowed for five years after the first time they received assistance from the Measured Entity.

### **What is Enterprise and Supplier Development?**

*Enterprise and Supplier Development is one of the three Priority Elements of the B-BBEE Scorecard*. A Measured Entity is required to achieve a 40% sub-minimum of each of the categories on the Enterprise Development and Supplier Development element (excluding bonus points). This sub-minimum amounts to 4 out of 10 points for Supplier Development, and 2 out of 5 points for Enterprise Development. Failure to comply with any one of the two sub-minimums will result in a drop of one level on the Broad-Based Black Economic Empowerment (B-BBEE) scorecard.

It is important to note that the Enterprise Development beneficiary cannot be a supplier to the Measured Entity, unlike Supplier Development which is specifically a contribution that the Measured Entity must make to a black-owned business within its supply chain.

The following bonus points are available under the Enterprise Development sub-element:

- One bonus point for graduation of one or more Enterprise Development beneficiaries to the Supplier Development level
- One bonus point for creating one or more jobs directly as a result of the Supplier Development or Enterprise Development initiatives by the Measured Entity.

### **How can Enterprise Development points be earned?**

In order for the Measured Entity to obtain the available points on the Enterprise Development element, the Measured Entity is required to spend 1% of their Net Profit After Tax (NPAT) on enterprise development. This is applicable to the Generic scorecard as well as the QSE scorecard. Should the Measured Entity not make a profit for the particular financial year, or if its NPAT does not exceed a quarter of the industry norm, a calculation will be made to reach a “deemed net profit”.

The contribution must take place during the Measured Entity’s financial year. No contribution made after the financial year will be taken into account for the verification applicable to the relevant financial year.

### **Why is Enterprise Development important?**

Besides contributing positively to the GDP, new enterprises create jobs and establish increased entrepreneurial opportunities. This, in turn, contributes to economic transformation in South Africa. A more direct benefit to the Measured Entity would be that they can strategically develop their supply chain by choosing Enterprise Development beneficiaries as their suppliers. This will benefit the Measured Entity on the *Preferential Procurement element of the scorecard as they can earn points by procuring from QSEs, EMEs, 51% black-owned suppliers and 30% black female-owned suppliers.*

Given the current state of the economy and more recent job losses due to Covid-19, Enterprise Development can be seen as having a positive impact on the South African economy and can assist in creating sustainable businesses and contributing to job creation.

### **In conclusion**

The Enterprise Development element is aimed at assisting start-up black-owned enterprises, or black-owned enterprises that are in dire need of assistance, to build a solid foundation for the future of their business and become financially sustainable. This will help to alleviate poverty within South Africa and contribute positively to black-owned businesses that are part of rural communities. The overall benefit is growth within the South African economy.

As South Africa's leader in Legal Compliance and Transformation Solutions, *SERR Synergy* assists businesses to *implement viable B-BBEE initiatives* and ensure alignment of initiatives with the requirements of the B-BBEE Codes. We have various initiatives that assist many small black-owned businesses, for example Review Management Solutions, Zithobeni Technologies (Pty) Ltd and Enterprise Development Initiative (Pty) Ltd.

Contributions made to these enterprises are fully recognised and comply with the B-BBEE Codes of Good Practice. All the documentation required for BEE verification is provided to the contributing entities. These black-owned businesses consist of black women, as well as youth and people living in rural communities. They are independently audited on an annual basis and the funds that they receive are utilised responsibly.

**About the author:** Sherisa Hiralal completed her LLB at the University of South Africa (UNISA) and has worked in the B-BBEE industry since 2011. She started at SERR Synergy in 2015 and currently holds the title of Project Manager where she specialises in the incorporation of specialised programmes and initiatives relating to B-BBEE.

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