

# BusinessDay

WWW.BDLIVE.CO.ZA R20.00 INCL VAT / ZIM US\$3.00 WEDNESDAY 12 OCTOBER 2016

## BEE MATTERS

### Empowerment scorecard no respite for small enterprises



GIDEON GERBER

When the Department of Trade and Industry announced a more lenient scorecard for qualifying small enterprises with an annual turnover below R50m in May 2015, everyone thought it would relieve the pressure on them. But it has not.

These businesses are only excluded from completing a scorecard if they have at least a 51% black ownership. An increasing number of state departments, municipalities and big corporates require a black ownership component to be considered as a supplier.

This also applies to exempted microenterprises, whose annual turnover was raised from R5m to R10m to qualify for exemption from being measured, automatically achieving a level-4 BEE recognition.

All other qualifying small enterprises and generic entities with an annual turnover exceeding R50m can achieve a recognition level only by being measured on all five of the elements on the scorecard.

For a generic entity, the total scorecard comprises 109 points and for qualifying small enterprises, 100 points. To achieve a level 2 in terms of the amended codes, an entity needs to achieve 95 points, and for level 3 recognition level, it requires 90 points.

Given that 51% of black-owned qualifying small enterprises entities earn outright level 2 recognition without completing a scorecard, those qualifying small enterprises with less than 51% black ownership must score at least 95 points out of 100 to be competitive.

It is easier for generic entities to achieve 95 out of 109 points than for qualifying small enterprises to score 95 out of 100 points.

There are nine additional bonus points that can be earned for generic entities and eight for qualifying small enterprises entities. Although the bonus points do not save an entity from having to meet the sub-minimums of 40% on the priority elements, they do count towards the final score on the scorecard.

Five of the bonus points for generic entities and qualifying small enterprises can be earned under skills development if unemployed learners are employed after learning programmes, and the remainder of the bonus points are under the procurement subelement.

The bonus points under procurement are awarded for graduating one or more enterprise development beneficiaries to a supplier development level, creating one or more jobs directly as a result of supplier development and for buying goods or services from 51% black-owned designated group suppliers.

A three-year supplier contract with such a black-owned beneficiary would have the added advantage of multiplying all procurement from such an entity by a factor of 1.2 instead of 1 for every rand procured. Therefore, buying from these recognised entities gives you R1.20 recognition for every rand spent.

The amended codes suggest that the difference between an enterprise development beneficiary and a supplier-development beneficiary is that the latter must be at least a 51% black-owned exempted micro-enterprise or qualifying small enterprises supplying goods or services, while the enterprise development entity could be any exempted micro-enterprise with at least 51% black ownership, and it does not have to supply any goods or services to the measured entity.

However, the verification manual published in November 2015 clearly states that this is not the case.

According to the manual, the only difference between the two types of beneficiaries is that a supplier development entity must be an empowering supplier.

All exempted micro-enterprises and entities that obtained certificates under the old codes or entities measured in terms of the nonamended charters are automatically deemed to be empowering suppliers. Qualifying small enterprises and generic entities to which the amended codes apply must meet certain requirements to obtain empowering supplier status.

Therefore, as exempted microenterprises would qualify to be both an enterprise and supplier-development beneficiary, it is important to establish beforehand whether a 51% black-owned, qualifying small enterprises who benefits from supplier-development contributions qualifies to be an empowering supplier.

The bonus points have helped many entities under the amended codes to reach level-8 compliance. And when an entity is discounted a level for not meeting the subminimums on the priority elements, these bonus points have often allowed entities to claw back the level that was discounted.

As the margin between levels is often as little as five points, these eight additional bonus points for qualifying small enterprises and nine additional points for generic entities are priceless. Measured entities should concentrate on them as they can be easily earned.

● Gerber is an attorney and the founder and Director of Serr Synergy, specialising in BEE structuring and compliance.



Ownership: A more lenient economic empowerment scorecard has not relieved pressure on qualifying small enterprises. /istock