

## News

# Rate me if you can

## ● Government to develop self-assessment system



**HENDRI  
PELSER**

Scores of small and medium enterprises (SMEs) have wasted their time and money on black economic empowerment (BEE) rating certificates, which are not worth the paper they are printed on.

Lionel October, the deputy director-general of the department of trade and industry (dti), says SMEs that use verification agencies, do so voluntarily.

"We are going to develop a system to help people complete their own scorecards," he says.

October adds that it will not be compulsory for SMEs to use verification agencies, just as it is not compulsory for businesses to use auditors when completing their tax assessments.

This means that costs incurred by many SMEs to appoint empowerment rating agencies may have been unnecessary.

Although it is unclear how this self-assessment scorecard will work, or what size businesses will be able to use it, it is expected that the new electronic system will be similar to the SA Revenue Service's online tax calculator.

### RATING AGENCIES

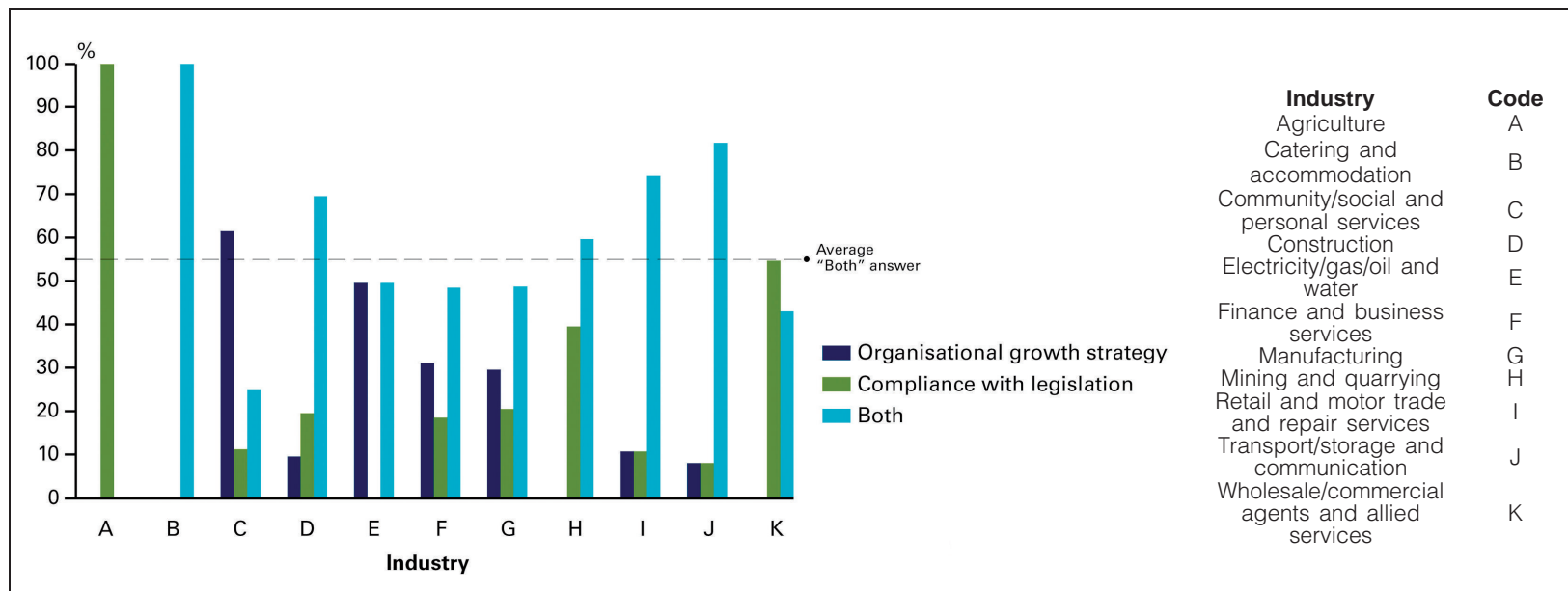
SMEs often approach rating agencies due to pressure from large businesses they supply products and services to.

Large corporates often demand verification certificates from the SMEs to implement their own preferential procurement strategies.

SMEs then approach rating agencies and pay as much as R12 000 for certificates, as they fear losing the contracts.

These efforts may have been unnecessary, as the government has not finalised empowerment legislation or accredited rating agencies.

The confusion resulting from the lack of legislation has created a situation where some rating agencies exploit uninformed SME



**Implementation of BEE strategies. . . Compliance versus growth. The legend for industries appears in the table above. Source: KPMG**

decision-makers.

"In any legislative vacuum, you'll find unscrupulous service providers. Always ask yourself who wants to see the certificate – even government does not ask for verification certificates," Sandile Hlophe, the associate director of KPMG, says.

If an SME insists on using a verification agency, Hlophe advises them to learn as much as possible about an agency beforehand.

The dti's policy co-ordination head, Ravi Naidoo, says if SMEs feel they were scammed, they should report the matter to the dti or the Small Enterprise Development Agency (Seda). "Small businesses should not be engaging in complicated verification processes at this time, because the codes have not been gazetted."

Hlophe says while conducting the 2006 KPMG BEE report, KPMG came across a variety of rating certificates – many of them "not worth the paper they are printed on".

### BEE RESEARCH

Despite the confusion, research suggests that SMEs are on the forefront of formulating and implementing BEE strategies in their businesses.

The KPMG report indicates that SMEs believe that a BEE strategy forms part of their core business strategy and that its implementation is essential to business growth.

From the 298 businesses surveyed, 80% formulated or implemented an empowerment strategy.

These businesses made



**KPMG's Sandile Hlophe.**

Photo: Hendri Pelsler

progress with employment equity and ownership, scoring eight and five points for these categories respectively out of a possible 20.

The scores for SMEs are marginally lower than these averages.

The survey also shows that SMEs do not procure from empowered businesses as much as large businesses.

SMEs scored an average four points out of twenty, while the average score is six points.

"Preferential procurement has been a challenge to implement due to the lack of an empowered companies database and the finalisation of BEE verification procedures,"

## SMEs 'taken for a ride'

Small and medium enterprises (SMEs) are often victims of unscrupulous empowerment rating agencies cashing in on ignorance.

Several *Gauteng Business* readers have contacted us to complain about the behaviour of rating agencies.

Many readers feel that the ignorance was exploited by these agencies.

In a detailed letter from Mari-Lize Roothman, owner of Blackwood Diesel Electrical, she complains that a certain agency charged her nearly R7 000 and R600 a month to compile a scorecard and to provide an empowerment strategy for her business.

Following discussions with Roothman, the particular agency and our lawyers, it was decided not to publish

the agency's name.

But Roothman warns all SMEs about so-called "certified BEE-rating companies" who are skimming thousands of rands off businesses due to their lack of knowledge about empowerment regulations.

"I was one one of these people. It is only when I did some proper homework afterwards, that I realised that I had been taken for a ride," she writes.

She adds that the agency misconstrued critical issues and exploited her fears of losing important contracts.

Roothman advises SMEs to do research before they approach a rating agency, to ascertain exactly what the business should do and before signing a contract. – *Ryk van Niekerk*

Hlophe says.

### COURSE OF ACTION

SMEs are advised against going to rating agencies, but to rather educate themselves about BEE expectations and practical implementations.

"If I was an SME, the starting point would not be a verification certificate, but an empowerment strategy," Hlophe says. He urges SMEs to learn as much about BEE and the codes of good practise.

"Instead paying someone to verify your business' status, pay

someone to train you. You cannot work in a BEE environment without knowing what it is about. Most SMEs know the Employment Act backwards – it's the same principle."

Hlophe believes most entrepreneurs can create their own BEE strategies. "Once you have formulated a strategy and understand the seven scorecard elements and a supplier demands a BEE certificate, give them a report outlining your plans and timelines.

"I will be surprised if any big business scoffs at that," he says.