

EconoBEE Crash Course Broad-Based Black Economic Empowerment

About BEE

BEE, or more accurately B-BBEE refers to Broad-Based Black Economic Empowerment. Broad-Based Black Economic Empowerment (B-BBEE) compliance is a process and should be viewed as long-term as opposed to a short-term once off event.

Black People

Black means African black, coloured or Indian people who ARE South African citizens by birth or became a South African citizen before 27th April 1994.

NB the definition of coloured now also includes Chinese

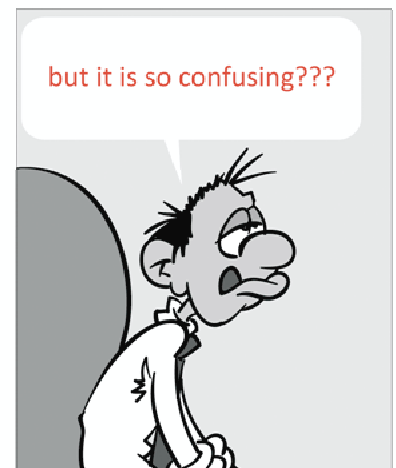
BEE compliance is measured by means of a scorecard (a broad-based scorecard). The scorecard is based on various elements and your company is measured out of a maximum of 100 points (in some cases it is possible to obtain more than 100 points). **EconoBEE offers various solutions to assist clients achieve a compliant BEE Status.**

The elements on which you are rated is what makes BEE broad-based. It covers various aspects of the economy, society and the company.

The seven elements

1. Ownership
2. Management
3. Employment equity
4. Skills Development
5. Preferential Procurement
6. Enterprise Development
7. Socio-Economic Development

EconoBEE will be discussing the Ownership element in a simple to understand, yet detailed way to ensure that you understand, work through and profit through black economic empowerment.



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Ownership

Ownership is worth **20 points** on the generic scorecard and **25 points** on the QSE (Qualifying Small Enterprise) scorecard. Ownership refers to who owns the business. Black people may hold their rights to ownership in a company as direct participants or indirectly.

Ownership in B-BBEE terms requires that the person has voting rights as well as economic interest rights.

Voting rights means that the person has a certain amount of control in how the business is run and can make decisions in the business.

Economic interest is commonly given in the form of dividends at the end of the financial year. If a black person has shares in a business but is not allowed to have voting rights and does not receive economic interest then the company does not earn any points from the transaction.

The Generic Scorecard

A generic company is a company that has an annual turnover of more than R35 million. The targets below must be achieved in order to earn all points:

- Exercisable Voting Rights in the hands of black people in the company should be at least 25% plus 1 vote (3 points)
- Exercisable Voting Rights in the hands of black women should be at least 10% (2 points)
- Economic Interest of black people in the company should amount to at least 25% (4 points)
- Economic Interest of black women in the company should amount to at least 10% (2 points)
- The following black natural people should have at least 2.5% Economic Interest in the company (1 point)
 - Black participants in Employee Ownership Schemes
 - Black beneficiaries of Broad-Based Ownership Schemes or
 - Black participants in co-operatives
- Ownership fulfillment (1 point)
- Net Value – a percentage value of the amount owing on the shares (7 points)

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Generic companies may score bonus points if:

- A 10% shareholding in the company belongs to black new entrants (2 points). Black new entrants are black people that have not yet done ownership deals amounting to more than R20m
- A 10% shareholding in the company belongs to black participants (1 point) in:
 - Employee Ownership Schemes
 - Broad-Based Ownership Schemes
 - Co-operatives

The QSE Scorecard

A QSE is a company whose annual turnover is between R5 million and R35 million. A QSE can claim the full 25 points if the company complies with the following targets:

- Exercisable Voting Rights in the hands of black people in the company should be at least 25% plus 1 vote (6 points)
- Economic Interest of black people in the company should amount to at least 25% (9 points)
- Ownership fulfillment (1 point)
- Net Value (9 points)

QSEs may score bonus points on meeting the following targets:

- 10% of equity owned by black women will score the company 2 points
- 10% of equity owned by black participants (1 point) in:
 - Employee Ownership Schemes
 - Broad-Based Ownership Schemes
 - Co-operatives

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Tips on how to maximize Ownership points

1. Identifying a black new entrant as a shareholder in the company will earn you a bonus point.
2. Encouraging investment from companies that are black-owned. Using the flow-through principle, if company A owns 25% of Company B and Company A is 100% black owned then the black ownership of Company B is $100 \times 25 = 25$. Therefore Company B is 25% black owned.
3. Recognition of sale of assets means that if a black shareholder holds shares and then sells his shares after 3 years, you can still recognize a portion of the shares after the person has left.
4. If a company has ownership in the form of a pension fund or insurance of sorts, it can be excluded from the calculation, which would by default increase the percentage of black shareholders.
5. Always make sure the shares are paid for. If they are not paid in full or quick enough you could end up losing a substantial amount of points.
6. Black Ownership alone does not reach your targets – include women and Ownership schemes to enhance your Ownership.
7. The target is 25 % + one vote not 26% or 25.1%. Be careful not to conclude your deal with the intention of reaching targets only to find out that you are either over or under.
8. If your shareholder has held shares for more than three years you might qualify for recognition after they have exited. This creates an incentive to keep your shareholder for longer.



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Documents Required (Record Keeping)

When going for verification, everything must be documented. Without proof of black ownership, no points will be awarded by the verification agency. Below, is a list of documents that can be kept for verification.

Certificate of incorporation CM1/CM27/CM29 for Private company or Founding statement CK1/ Amended founding statement CK2 for Close Corporation

Memorandum of association/Partnership, Members, Shareholders or Association Agreement/ Trust deed/Articles of association

Shareholders/members ID books/passports

Shareholding Structure (Drawing) / list of shareholders /BEE certificates of entities

Share certificates

Black shareholding of any institutional investors

Minutes of the last board meeting/ Minutes of Annual General Meeting proving voting rights of black shareholders

Proof that any black investor has not concluded cumulative BEE transactions in excess of R20 million prior to their shareholding in this company

Audited financial statements/ Signed management statement

Proof that the investor is a new entrant/ black new-entrant affidavit

Audited statement on the new entrant

All documents relating to Employee Ownership Schemes or Broad Black Based Ownership Schemes – Trust deed and letter of authority, Proof of staff / experienced professional advisors, Minutes of the meetings. Trust financial statements from the management company

Deed of Sale Agreement, in cases where there was a sale of shares

Financing agreement, in cases where a third party outside the business finances the buying of shares

Proof of payment for shares acquired/ Written confirmation

Written Tripartite agreement between measured entity, the participant and lender

Proof of value creation of black participants sold their shares of terminated contract

Bank statement reflecting payment of the debt

Private Equity Fund – Proof that the fund manager is BEE owned company, written agreement of exercisable voting rights in the hands of black people associated with the equity instruments, Proof that more than 50% of the value of the funds invested must at all times be invested in black owned enterprises

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About Us

About EconoBEE:

EconoBEE is a Black Economic Empowerment management consultancy specializing in all elements of BEE. We are a leading consultancy offering services to many large listed companies. Our critical nature has allowed us to discover many instances of fronting. Our clients are able to become BEE compliant in the true essence of Broad-Based BEE, but at a fraction of the cost and time.

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Managed Service – EconoBEE’s 10 Step Process:

EconoBEE’s Managed Services is a complete managed service which offers a high quality streamlined step-by-step approach to becoming BEE Compliant. Using the 10 steps to becoming BEE compliant to form the foundation of our work we will offer an improvement on your BEE scorecard while ensuring optimal success is reached from the start. Our consultants will become part of your BEE team increasing your capacity and reaching targets.

BEE Points = Business

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**Making Business Sense out of BEE
Making BEE Sense out of Business**