

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

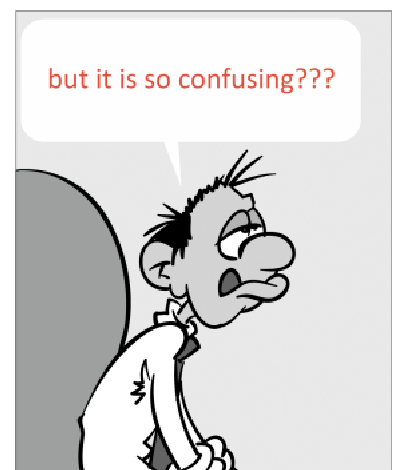
BEE compliance is measured by means of a scorecard (a broad-based scorecard). The scorecard is based on various elements and your company is measured out of a maximum of 100 points (in some cases it is possible to obtain more than 100 points). **EconoBEE offers various solutions to assist clients achieve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

The elements on which you are rated are what make 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 each 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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Preferential Procurement

Procurement is worth 20 points on the generic scorecard and 25 points on the QSE (Qualifying Small Enterprise) scorecard. Preferential procurement includes all goods and services procured by the company under cost of sales, operational expenditure and capital expenditure.

The aim of Preferential Procurement is to encourage purchasing of goods or services from both small businesses (Exempt Micro Enterprises – EMEs with an annual turnover of less than R5 million and Qualifying Small Enterprises – QSEs with an annual turnover between R5 million and R35 million), black-owned and black female owned companies. Preferential Procurement adds value to small businesses as it creates more demand for their product or service.

Preferential Procurement in BEE terms means **purchasing goods and services from BEE compliant companies, EMEs and QSEs and 50% black-owned and 30% black-female owned enterprises**

Companies that have an annual turnover larger than R35 million must comply with the generic scorecard. Companies with an annual turnover between R5 and R35 million must comply with the QSE scorecard.

Preferential Procurement Inclusions and Exclusions

Under preferential procurement, the BEE Codes of Good Practice identify several costs that may either be included or excluded from a company's procurement calculation.

Total Eligible Procurement Spend = Total Procurement Spend – Procurement Exclusions

Preferential Procurement Inclusions

The following types of spends are included when calculating Procurement:

- Cost of Sales
- Operational Expenditure

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- Capital Expenditure
- Public Sector Procurement
 - Procurement from Organ of the state and Public Entities listed in Schedules 2 and 3 of the Public Finance Management Act of 1998.
- Monopolistic Procurement
- Third Party Procurement
 - Procurement for a third party/client, where the cost of the procurement is an expense in the entity being rated.
- Labour Brokers & Independent Contractors
 - Outsourced Labour Expenditure.
- Pension Fund & Medical Aid Contributions.
 - Exclude any portion of such payments that are a contribution to a Capital Investment of the Employee.
 - The Portion that the Entity pays for this contribution is included in the procurement calculation, not the employee's contributions.
- Trade Commission
- Empowerment Related Expenditure
- Imports
 - Imports from non South African source
- Intra Group Procurement
 - Procurement from Subsidiaries & Holding Companies of the measured Entity.

Preferential Procurement Exclusions

Preferential Procurement excludes the following:

- Taxation
- Public Sector Procurement – Procurement from Organ of the state and Public entities listed in Schedule 1 on of the Public Finance Management Act of 1999.

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- Organ of the State or Public Entity that enjoys a Statutory or Regulated Monopoly in the supply of Goods/Services.
- Salaries, Wages, Remuneration & Emoluments
- Certain types of Imports
- Empowerment related procurement:
 - Investment in/ Loan to an Associate Enterprise
 - Investment, loans or donations to your enterprise development beneficiaries and Socio Economic development Beneficiaries.
 - Procurement related to Enterprise development and Socio economic Development.

The Generic Scorecard

Points can be earned on 4 indicators. Each indicator has a different target and number of points that can be earned.

1. 50% of all procurement should be from BEE compliant suppliers, regardless of their black ownership. This will earn the enterprise **12 points**.
2. 10% of all procurement should be from these enterprises. If this is incurred, the company earns **3 points**.
3. 9% of all procurement should be from these suppliers. This would guarantee the company an additional **3 points**.
4. 6% of all procurement from more than 30% black female owned companies will score the company **2 points**.

The QSE Scorecard

A company that spends 40% of their total BEE procurement with BEE compliant suppliers can claim these points.

Note: The targets will increase in yours 2012/2013

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Tips on how to maximize Preferential Procurement points

- Purchasing goods or services from the company's Enterprise Development Beneficiary.
 - Procurement spend incurred with the beneficiary is multiplied by a factor of 1.2. For instance, if R1000 was spent on buying goods or services provided by the enterprise development beneficiary (who is a black-owned EME, Level 3 BEE contributor and has a procurement recognition level of 110%), the recognized procurement spend would be as follows: $R1000 * 110% * 1.2 = R1320$
- Purchasing goods and services from black-owned and black female owned suppliers
 - Enables the company to "double-claim" points on procurement indicators
- Purchasing goods and services from Value-Added Suppliers
 - Further increases the procurement spend by a factor of 1.25

Documents Required (Record Keeping)

When going for verification, everything must be documented. Without proof of BEE Preferential Procurement, you won't be awarded any points. Below, is a list of documents that can be kept for verification.

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Complete list of ALL suppliers to your company indicating procurement spend (this excludes salaries, VAT and charitable donations) and the BEE procurement recognition levels
Each suppliers' latest BEE scorecard/ Letter from Accountant/Auditor stating Annual Turnover (EME)
Latest audited financial statements/ Signed management statement
Detailed Income Statement, Balance Sheet and Trial Balance
Detailed ledger for each supplier
Invoices from suppliers
Proof of Payment
Proof relating to excluded procurement
Your procurement policy
Your assessment of what constitutes eligible procurement
The percentage of total procurement spent on each supplier
Supplier breakdown in terms of Generic scorecard, QSE and Exempt Micro Enterprise
Complete list of imports
Statement of imports that cannot be sourced locally
Supplier information, including turnover, industry sector, actual black shareholding
Import number
Letter from your clearing agency
Supplier breakdown in terms of % black ownership and black female ownership
Proof if a supplier uses a consolidated scorecard

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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.



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**