

BBBEE explained

An easy guide to
understanding Broad Based
Black Economic Empowerment



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BBBEE: a business opportunity

Broad Based Black Economic Empowerment (BBBEE) has the potential to redress inequality, boost economic growth and create a better life for all. So how – and why – do you make it work for your business?

When the South African Government gazetted the BBBEE Codes of Good Practice at the beginning of 2007, it made the implementation of black economic empowerment a legal reality.

But how does this affect you, as a business owner in South Africa? And how will BBBEE compliance impact on your profitability, control of, and personal vision for, your organisation?

This BBBEE information booklet provides simple explanations and checklists to help you make empowerment an integral part of your operation's strategy and growth. It explains the basic principles of BBBEE and offers general information on how to make it work for – rather than against – the business you have strived so hard to build.



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BBBEE at a glance

Empowerment is not about giving away or receiving free shares in a business just to meet legislative requirements. Rather, it is a tool for growth and sustainability that every South African business owner should learn how to use.

Broad Based Black Economic Empowerment (BBBEE) is the cornerstone of the South African Government's efforts to educate and train the large sector of the population that was disadvantaged under apartheid rule. It aims to accelerate the participation of black people in the economy by encouraging change in the following key areas of business: ownership, management and control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development.

When implemented correctly, BBBEE supports job creation, global competitiveness and economic growth. It also has the potential to reduce the burden on entrepreneurs and help to create a more skilled workforce.



The business advantage

All businesses need access to capital and markets in order to operate successfully, and a carefully planned BBBEE strategy can help to provide these in the following ways:

1. Providing access to finance for BBBEE companies is a priority for banks and other lending institutions. Assuming there is a strong business case to support the application, a BBBEE-compliant company is therefore likely to find it easier to access financial and related resources such as training and mentoring.
2. Businesses that are BBBEE compliant have a competitive edge when tendering for new work. Preferential procurement is rapidly becoming standard practice and when all other factors are equal (such as price, quality and product offering), BBBEE compliance is the one factor that could determine which business wins the work.

BBBEE is not intended to be a knee-jerk reaction that might put your business at risk. Instead, it is a process that works within the context of sound business practices.



3. As the benefits of BBBEE filter through, more black people will be brought into the mainstream economy. It is predicted that in a few years the vast majority of people who fall within the top three income categories (Living Standards Measures 7 to 10) will be black. Complying with BBBEE legislation is the first step towards tapping into this market.

Is anyone exempt?

Only one category of business falls outside the ambit of BBBEE regulation, and that is any enterprise with an annual revenue of less than R5 million. Known as Exempted Micro Enterprises (EMEs), these businesses automatically qualify as Level 4 BBBEE contributors (see page 10 for an explanation of this Level).

Ultimately, however, BBBEE affects everyone and every part of a business, and here's why: the BBBEE Codes of Good Practice are legally binding on all State and State-owned entities, which have 10 years to reach the stated targets. This means that all government

entities are obliged to use the Codes to measure BBBEE compliance when choosing suppliers, granting licences or making concessions. In other words, they will require all their suppliers to be BBBEE-compliant and the cascading effects thereof will make it hard for any non-compliant company to grow or maintain their level of business success in South Africa.

In terms of the Codes, preferential procurement counts as much as ownership does, which means that publicly-owned companies will also be looking to use suppliers who themselves have high BBBEE ratings. Even if you don't do business with government or public entities, your clients might – and they will need your score to help improve theirs.

Simply put, BBBEE is an economic strategy, not a political one, and a comprehensive, well thought-out empowerment plan can help to deliver both the capital and broader markets that your business needs in order to grow.

Common mistakes

Ownership = empowerment: BBBEE goes much further than mere equity and management. While black-owned and managed companies have a head start, they have to perform in other areas as well (such as procurement and socio-economic development, among others) before they are acceptably empowered. Effective transformation requires a level-headed attitude – rushing into an empowerment partnership can be disastrous if you don't give it the same careful consideration that you would any other strategic decision.

Not making it part of your strategy: Most companies see transformation as a standalone plan and do not incorporate it fully into the main focus of their business strategy. Anticipating and preparing for change is the most important recipe for success, and transformation should be an integral part of your annual business plan.

Key questions

Transformation is more sustainable in a growth environment because it allows you to implement changes by growing your capacity rather than by trying to create new positions that you don't need. Ask yourself:

- What does transformation mean for your organisation?
- What is the value of your planned BBBEE activities – not just in terms of scorecard points, but also in terms of the long-term results that they will have for your business and industry?
- How does the current BBBEE framework fit in with your current business strategy?

Don't assume that it is "now or nothing" – BBBEE should be a long-term business strategy. Small changes now could build up into an impressive profile five years down the line. The challenge is to improve on your BBBEE activities and score every year.

Misinformation: People often receive conflicting messages and ideas from uninformed, unreliable sources (such as, "you must have 51% black ownership to be considered a BBBEE company"; or "white women are considered beneficiaries of BBBEE policies"). This leads to companies making uninformed decisions that could be detrimental to their transformation plans.

Nationality doesn't count: The legally correct definition of black people includes African, Coloured and Indian people (including black women, youth, the disabled and people in rural areas) who are citizens of South Africa, either by birth, descent or by naturalisation. If the latter, they must have been naturalised before 27 April 1994. If any of your black employees or shareholders do not meet this definition, it could adversely affect your rating.

There is an exception to this rule, though, in that if a person can prove that he or she would have qualified for, and been granted, citizenship before 27 April 1994, had they been a white immigrant, then they can be classified as a beneficiary of BBBEE. However, this may be difficult to prove.

Making it one person's problem: Giving only one person the responsibility of transforming your company's BBBEE profile is a common mistake. It is a joint effort that rests on the shoulders of every employee, and all staff should be involved in its implementation.



The facts of fronting

Simply put, “fronting” is the practice of misrepresenting your BBBEE status and claiming to be empowered in order to secure work, when in fact you are not. Any business arrangement that involves only token or superficial involvement by black people or a black company, can be regarded as fronting. This includes:

Window dressing – when black people are appointed or introduced to a business purely because of their colour, and are discouraged or prevented from participating in the core activities of the business.

Benefit diversion – when the economic benefits of a project that is awarded on the basis of a favourable BBBEE rating are diverted away from the black participants upon whom the rating is based.

Opportunism – this includes joint venture type arrangements with black people to boost one party’s BBBEE status, but where the bulk of the work is outsourced back to the non-BBBEE company, or to its non-BBBEE-compliant suppliers.

The legal angle

The BBBEE Codes of Good Practice evolved from a number of BEE initiatives since 1999, and are supported by several other, related pieces of legislation.

Empowerment legislation in South Africa came about as the result of the myriad conflicting ideas on how best to achieve the economic equality that the country sought. This led to the formation of the BEE Commission in 1999, which was tasked with analysing the situation and making recommendations. This report then formed the basis of the Department of Trade and Industry's (**the dti's**) BBBEE Strategy Document, released in March 2003.

The basic tenet of the BBBEE Strategy Document was that BEE needed to be implemented in a manner that is sustainable in the long term, and that all BEE decisions must be based on sound economic principles. The document outlines the government's 10-year BBBEE plan and includes a policy statement, the reasoning behind BBBEE and the policy instruments that will be used in the implementation thereof.

This document (which is freely available from www.thedti.gov.za) was then formalised through the Broad Based Black Economic Empowerment Act of 2003, which provides a legal framework and road map for achieving the fair and equitable participation of all our population in the economy.

The Act is the most significant of a number of Acts relating to BBBEE (see summary on opposite page) as it defines both the meaning of, and measurement mechanisms for, BBBEE.

The Codes of Good Practice

While the Act provides guidelines on how empowerment should be constructed, the finer details are left to the Codes of Good Practice, which were gazetted in February 2007. These Codes provide clarity on what BBBEE is and how an enterprise's contribution should be measured. The full version of the Codes, plus an interpretive guide, can be downloaded from www.thedti.gov.za. The following is a brief summary of what each Code contains.

Code 000: Outlines the general principles of BBBEE, including the generic scorecard and framework for measurement.

Code 100: Measures the level of black ownership of a business.

Code 200: Measures the level of black management and control of a business.

Code 300: Outlines general principles for measuring employment equity in the workplace.

Code 400: Measures the extent to which employers develop the skills and competencies of black people.

Code 500: Measures the level of goods and services that a business buys from BBBEE-compliant suppliers.

Employment Equity Act (1998)

The Employment Equity Act applies to black people, all women and disabled people, and stipulates the requirements for affirmative action to ensure that qualified people from these groups are equitably represented in all occupational categories and levels of a company. The Act is binding on any business that employs 50 or more staff, or that has an annual turnover of more than R2 million to R25 million (depending on the industry in which you operate).

Skills Development Act (1998) and Skills Development Levy Act (1999)

These provide a framework for improving the skills and employment prospects of black people. These Acts also make it compulsory for certain employers to contribute a percentage of their payroll (known as the Skills Development Levy) to a fund that can be used to train staff. The current generic BBBEE scorecard awards points for skills development, but only for that which is over and above the payment of this levy.

Preferential Procurement Policy Framework Act (2000)

This allows any State entity to give preference to black people when awarding contracts. It also aims to boost SME development, create new jobs and promote local enterprises in specific provinces. Currently, the regulations of this Act are based largely on ownership, but this is likely to be revised in order to align it with the BBBEE Act and the Codes.



Code 600: Measures a business's contribution to enterprise development.

Code 700: Measures the extent to which a business promotes access to the economy for black people and contributes to socio-economic development.

Code 800: Contains the general principles for measuring qualifying small enterprises (QSEs) in all aspects of the scorecard.

Together, the measurement principles in Codes 100 to 700 make up the generic BBEE scorecard, which is used to measure

the total contribution that a business makes towards BBEE.

What are industry charters?

The targets and weightings in the generic scorecard are, as the name suggests, generic goals for South African business as a whole.

However, each industry is also allowed to develop its own version of the scorecard (an "industry charter" or "sector charter") to ensure that time frames and targets are practical. These charters also recognise particular activities that meet that industry's specific needs.



DID YOU KNOW ...?

If your industry has developed a sector charter that has been gazetted as a sector code by **the dti**, then you may use it instead of the generic scorecard to calculate your rating. Once approved and gazetted, a sector code carries the same legal weight as the generic scorecard and is legally binding on all institutions in that sector.



How BBEE is being implemented

BBEE compliance is determined according to the number of points a business scores on the generic scorecard. The more points it scores, the higher its level of compliance.

The BBEE generic scorecard, as well as any industry or sector codes that are based on it, measure BBEE compliance in three broad areas: direct empowerment, HR development, and indirect empowerment. These are further broken down into seven sub-indicators, as referred to in the previous pages, ie, ownership, management and control,

employment equity, skills development, preferential procurement, enterprise development and socio economic development.

A number of points and targets are allocated to each of these indicators and your scores are calculated based on how close your business is to each target. For example, if you meet or

exceed a particular target, you can claim the full number of points allocated to it. If you are halfway towards the target, you can claim half of the points allocated.

The total number of points you score on the entire scorecard tells you what level of BBEE contributor you are. (As indicated in the table below, a business is regarded as being 100% BBEE compliant when it reaches Level 4, ie, scoring 65 points or more.)

In this way, the scorecard provides an overall view of all the BBEE actions your business takes, rather than measuring merely ownership status. However, ownership is still regarded as a strategic objective.

For example, Exempted Micro Enterprises (EMEs) are automatically regarded as Level 4 contributors, but the Codes allow for a special bonus: if an EME is more than 50% black owned, it will be promoted to a Level 3 contributor. See page 20 for more information.

Important ...

Unlike State-owned entities, private companies are free to develop their own procurement policies, which may include different criteria and different weightings to that of the generic scorecard.

It is possible that this bonus element might be extended to other categories of business as well. In other words, any enterprise that scores any level of compliance (Level 8 or higher) will be automatically upgraded to the next level if it is more than 50% black-owned.



What are you aiming for?

Contribution level	Spend recognition	Your point score
Level 1 contributor	135%	100+
Level 2 contributor	125%	85 – 99
Level 3 contributor	110%	75 – 84
Level 4 contributor	100%	65 – 74
Level 5 contributor	80%	55 – 64
Level 6 contributor	60%	45 – 54
Level 7 contributor	50%	40 – 44
Level 8 contributor	10%	30 – 39
Non-compliant contributor	0%	Less than 30

NOTE: “Spend recognition” relates to procurement spend. It shows the amount that can be recognised for making purchases from each level of supplier. This is explained in more detail under “Preferential Procurement” on page 16.

Using the scorecard

Your rating is best calculated with the help of an independent verification consultant, especially if your business has a detailed ownership structure. But the more you prepare, the less costly it is likely to be.

Ownership is perhaps one of the most misunderstood – and incorrectly applied – aspects of BBBEE. However, it is also a strategic way to gain both ownership and management and control points.

For example, if a business owner sells 25,1% of his or her company to black investors who become directors, the business will immediately score points in both the ownership and management and control sections of the scorecard. If the deal is structured well, this could be as many as 34 points.

For more information on structuring BBBEE deals for small, medium and larger businesses, contact Standard Bank's Leveraged Finance team on 011 636 9643.

1 Ownership (counts 20 points + 3 bonus)

When determining the level of black ownership, a business scores points for the following:

- The extent to which black people can



Description	Weighting	Target	Your score
Exercisable voting rights in the hands of black people	3	25%+1 vote	
Exercisable voting rights in the hands of black women	2	10%	
Economic interest (% ownership) of black people	4	25%	
Economic interest (% ownership) of black women	2	2,5%	
Economic interest of black new entrants or black participants of broad-based ownership schemes or co-operatives	1	2,5%	
Ownership fulfilment (all shares fully paid)	1	Yes	
Net value of shares (as % of total net value)	7	5%	
Bonus points			
% of total shareholding by black new entrants	2	10%	
% of total shareholding by black participants of broad-based ownership schemes or co-operatives	1	10%	
Total	23		

influence the strategic direction of the business through their shareholding (ie, their voting rights in relationship to the total shareholder vote).

- The current net value of their shares (less settlement debt) in relation to the total value of the company.
- The amount of profit (% of each Rand) that accrues to all of these black shareholders.
- Whether these shares are paid for in full, or will be within 10 years or less.
- Bonus points are awarded if any of the black shareholders are new entrants (who have not previously benefited from a BBBEE deal) or are participants of broad-based ownership schemes or co-operatives.

If your business meets or exceeds the compliance targets listed in the table above, you can claim the full number of points allocated to that target. For example, the target for black ownership (economic interest) is 25%. If you have only one black shareholder

who owns 5% of the company, you have achieved 20% of the target and you will therefore score 20% of the available points:

$$5 \text{ (actual)} \div 25 \text{ (target)} \times 4 \text{ (available points)} = 0,8 \text{ points scored}$$

Important ...

A business that is part-owned by a larger black-owned company does not automatically qualify for maximum points. For example, if a 50% black-owned company buys a 25% stake in a smaller business, that stake is only half black-owned. Assuming the smaller business has no other black shareholders, it is therefore 12,5% black-owned. This is known as the “flow-through” principle. If, however, the 25% stake is held by a 100% black-owned company, then the smaller business can rightfully claim to be 25% black-owned.

2 Management and control (counts 10 points + 1 bonus)

This refers to the proportion of black people who control the direction of the business as well as those in top management who control day-to-day operations. The scorecard puts special emphasis on the role of black women through a formula known as the “Adjusted Recognition for Gender” (ARG). In terms of this formula, the percentage of total black representation at a particular level is divided by two before adding back the percentage of black female representation at that level.

For example: 5 out of 10 board members are black, one of which is a woman.

(5 black people out of 10)
50% total black representation
 $\div 2 = 25\%$
(1 black woman out of 10)
= 10% black woman representation

Effective ARG score:
25% + 10% = 35%



Important ...

Not all shareholders are board members and therefore some might not hold voting rights.

Description	Weighting	Target	Your score
Board participation			
% of voting rights held by black board members (using ARG adjustment)	3	50%	
% of executive directors (using ARG adjustment)	2	50%	
Top management participation			
% of black senior top management (using ARG adjustment)	3	40%	
% of black other top management (using ARG adjustment)	2	40%	
Bonus points			
% of black people who are independent non-executives	1	40%	
Total	11		

Description	Weighting	Target (by 2012)	Target (by 2017)	Your score
Black disabled people as a % of all full-time employees	2	2%	3%	
Black senior management (using ARG adjustment)	5	43%	60%	
Black middle management (using ARG adjustment)	4	63%	75%	
Black junior management (using ARG adjustment)	4	68%	80%	
Bonus points				
Meeting or exceeding EAP* levels on the above items (one point per item, excluding black disabled people). Bonus points are subject to achieving at least 40% of all the above four targets	3			
Total	18			

* EAP (Economically Active Population) refers to the percentage of the total labour force that is made up of black people, as determined by Statistics SA (currently approximately 87%).

3 Employment equity (counts 15 points + 3 bonus)

Employment equity measures the representation of black people at each management level in a business. These levels correspond with those set out in the existing Employment Equity Act, and are in line with traditional grading systems such as Peromnes and Paterson.

When calculating your score, bear in mind that the same ARG formula applies as used in the management and control section of the scorecard (see previous page).

Additionally, you can only score bonus points as described in the table above if you have achieved at least 40% of the required target in all four areas of measurement.



Important ...

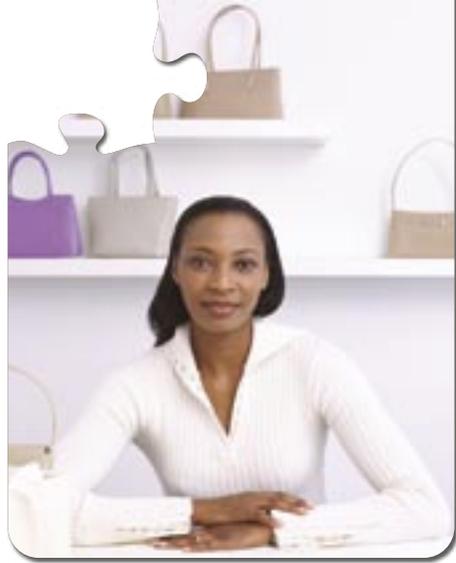
Any business that employs 50 people or more is required to comply with the Employment Equity Act, which is enforced separately to that of the BBBEE Act. Even if you don't fall into this category, you can voluntarily comply by submitting your employment equity reports to the Department of Labour. You are then bound by all the conditions of the Act. Some industry/sector charters and codes award bonus scorecard points if a business is compliant with the EE Act.

4 Skills development (counts 15 points)

Skills development measures a business's investment in the training and development of its black employees. It is an excellent way for any company to align its business growth and BBBEE strategy, regardless of the size of the organisation, because it directly benefits the skills base of your staff.

Only specific types of learning programmes and learnerships qualify when claiming points on the skills development scorecard. These are outlined in the annexures to Code 400, which can be downloaded from www.thedti.gov.za. Typically these include programmes at universities, schools and ABET providers, as well as experiential workplace training that is recognised, registered and/or assessed by an accredited body. It also includes, to some degree, informal work-based programmes, conferences and meetings.

Once again, the ARG formula (see page 13) applies when calculating your score.



Important ...

“On-the-job” or “core skills” training also counts as skills development, as long as you can quantify the cost involved using reasonable methodology. Remember that if you pay the Skills Development Levy, you can claim back some of the cost of any SETA-approved training conducted. However, you cannot include the levy paid as part of your training expenditure.

Description	Weighting	Target	Your score
Expenditure			
% of payroll spent on skills development for black employees through specified learning programmes (using ARG adjustment)	6	3%	
% of payroll spent on skills development for black disabled employees through specified learning programmes (using ARG adjustment)	3	0,3%	
Learnerships			
Number of black employees (as a % of total employees) participating in category B, C and D programmes as listed in Code 400 (using ARG adjustment)	6	5%	
Total	15		

5 Preferential procurement (counts 20 points)

This aspect of the scorecard allows you to gain significant points (as many as 20) by spending – but only if you buy from businesses that have a high BBBEE score. Your suppliers' ratings in turn depend on the ratings of their suppliers, and so the pressure to become BBBEE compliant is spread all the way down the value chain.

While there is no legal requirement for non-government entities to implement an empowerment policy in line with the Codes, preferential procurement gives them an incentive to do so.

Each supplier's individual BBBEE rating affects the amount of expenditure that you can claim as being from a BBBEE supplier, when calculating your preferential procurement points. The higher your supplier's rating, the more of that spend you can claim. In fact, you score the equivalent of bonus points if you buy from a Level 1 supplier, in that you can

claim 135% of the actual amount spent. For example, if you spend R10 000 with a Level 1 supplier, you can claim R13 500 as BBBEE spend. However, if you spend R10 000 with a Level 6 supplier, you can only claim R6 000.

The first step is to calculate how much of your spend you can claim for each supplier (see table below). Then add these amounts according to the categories shown in the table on the opposite page, to calculate your procurement score.

Important ...

Goods procured from a supplier that is also a beneficiary of your enterprise development spend, can be "marked up" by 25% when calculating the value. See page 18 for more information.

Level of supplier	% claimable	Amount spent (eg)	Amount claimable (eg)
Level 1 (100pts +)	135%	R10 000	R13 500
Level 2 (85 – 99)	125%	R10 000	R12 500
Level 3 (75 – 84)	110%	R10 000	R11 000
Level 4 (65 – 74)	100%	R10 000	R10 000
Level 5 (55 – 64)	80%	R10 000	R8 000
Level 6 (45 – 54)	60%	R10 000	R6 000
Level 7 (40 – 44)	50%	R10 000	R5 000
Level 8 (30 - 39)	10%	R10 000	R1 000
Non-compliant (less than 30)	0%	R10 000	R0

Description	Weighting	Target (by 2012)	Target (by 2017)	Your score
Claimable BBBEE procurement spend as a % of total procurement spend	12	50%	70%	
Claimable BBBEE procurement spend from Qualifying Small Enterprises (QSEs) and Exempted Micro Enterprises (EMEs) as a % of total spend	3	10%	15%	
Procurement from suppliers that are majority black-owned (max 3pts), or 30% or more black women-owned (max 2pts)	5	15%	20%	
Total	20			



What to include in, and exclude from, your preferential procurement calculation

INCLUDE:

- Financial services (banks, insurance)
- Rent
- Legal
- Travel
- Accounting and office supplies
- Raw material and services
- Multinational corporations operating in South Africa (which are also expected to develop BBBEE profiles)
- Spending where there is a natural monopoly (eg, Telkom)

EXCLUDE:

- Salaries and wages
- Spending where the choice of supplier is part of a global policy for technical reasons. However, if it is done merely for commercial reasons (eg, printing overseas because it is cheaper, when in fact it could be done locally), it should be included. Certain imports are excluded
- Charges for services rendered by other departments or suppliers within the same group
- Social investment or donations
- VAT and taxes payable



6 Enterprise development (counts 15 points)

What does your business do to support the creation or growth of another BBEE business? Can you place a Rand value on this? If so, then you can claim points on the scorecard.

For example, if you donate a vehicle to one of your black company drivers so that he or she can start or expand a delivery company, this qualifies as enterprise development. Contributions can also be monetary (such as loans and investments) or non-monetary (consultancy services, advice, etc).

When it comes to claiming enterprise development points, there are two categories of contributions:

- **Category A** are those contributions made to EMEs or QSEs (see page 20) that are majority black-owned or black women-owned (in which case, you can claim 125% of the actual value of your contribution).
- **Category B** are those contributions made to any other business that is majority black-owned or black women-owned, or which has more than 25% but less than 50% black

Important ...

Contributions to an enterprise development fund also count – as long as the recipients of the funding are black-owned businesses.

ownership and is a Level 6 contributor or higher. In this case, you can claim 100% of your contribution.

“Benefit factor” ratios are applied to all enterprise development calculations, according to what type of contributions they are. These ratios are contained in the Codes, which can be downloaded from www.thedti.gov.za.

When calculating your scorecard points, enterprise development contributions are expressed as a percentage of your net profit per annum over the past five years. If the business has not made a profit in the period of review, it should be expressed as a percentage of Indicative Profit Margin (profit margin multiplied by turnover) over a five-year period.

7 Socio-economic development (counts 5 points)

The final element of the BBEE scorecard is socio-economic development – also referred to as corporate social investment. Generally this includes a company’s donations to charity, or involvement in industry-specific charity-based initiatives.

Socio-economic development contributions are not about handouts. A successful investment should make strategic sense for your business and your reasons for any such investment should extend beyond the scorecard. It should be something that helps

Description	Weighting	Target	Your score
Average annual value of contributions made in the past five years, as a % of average annual net profit after tax for the same five years	15	3%	

to create a new market or new potential for your business in the years to come.

For example, if a magazine publisher donates money to a literacy programme, the company is effectively creating readers for its future publications and thus ensuring a long-term market for its product.

As with the enterprise development section of the scorecard, socio-economic development contributions are subject to particular benefit ratios, depending on the nature of the contribution. These ratios are contained in the Codes and can be downloaded from www.thedti.gov.za.

Only contributions where black people constitute more than 75% of all beneficiaries may qualify for 100% of the value of the contribution. Where less than 75% of the

beneficiaries are black people, only the portion of the contribution that benefits black people may be recognised before applying the benefit ratio.

For example, if the previously mentioned publisher donates R1 000 to the literacy programme, of which only 60% of participants are black, then the publisher can only claim R600 of the spend. However, if 75% of the participants are black, then the publisher can claim the full R1 000.



Important ...

If you support a charity or fund that has relevance to your industry and business, you can justify making a larger contribution.

Description	Weighting	Target	Your score
Average annual value of all qualifying contributions as a % of average annual net profit after tax	5	1%	



Size does count

To help all enterprises to compete on an equal footing, the Codes allow smaller businesses to measure their BBBEE compliance differently.

Here's how.

The generic BBBEE scorecard can sometimes make it harder for small businesses to compete head-on with larger companies that typically have more financial capacity and resources to pursue BBBEE compliance. The Codes make provision for this in two ways: by defining businesses that are exempt from BBBEE criteria (Exempted Micro Enterprises – EMEs) and businesses that are given special consideration based on their size (Qualifying Small Enterprises – QSEs).

Exempted Micro Enterprises (EMEs)

An EME is any business with revenue of less than R5 million per annum. According to the Codes, these businesses are automatically regarded as Level 4 BBBEE contributors. They do not need to complete a scorecard – all they need to do is prove that their annual revenue is below R5 million. Black-owned EMEs benefit even more – these are automatically regarded as Level 3 BBBEE contributors.

Qualifying Small Enterprises (QSEs)

A QSE is any business that has annual revenue of less than R35 million, but more than R5 million. The Codes state that QSEs may rate themselves using only four of the sections of the generic scorecard, in contrast to larger businesses, which have to be rated on all seven. Additionally, some of the sub-indicators and targets within each section have been simplified, and each sub-indicator carries the same weighting.



This means, for example, that a black entrepreneur who is just starting out could focus on ownership and control until he or she is more established. Similarly, a QSE that is not black-owned, but which scores highly in skills development, preferential procurement, enterprise development and socio-economic development, can still score enough points to be a Level 1 contributor. This levels the

The QSE scorecard

Description	Weighting	Target	Your score
Ownership			
Exercisable voting rights by black people	6	25%+1 vote	
Economic interest held by black people	9	25%	
Ownership fulfilment	1	Y	
Net equity value	9	25%	
BONUS: % Shareholding by black women	2	10%	
BONUS: % Shareholding by new entrants and participants of broad-based ownership schemes or co-operatives	1	10%	
Subtotal:	25+3		
Control			
Black representation at top management	25	50,1%	
BONUS: Black women in top management	2	25%	
Subtotal:	25+2		
Employment equity			
Black representation – all management	15	40% (by 2012); 60% (by 2017)	
Black employees as a % of total employees	10	60% (by 2012); 70% (by 2017)	
BONUS: for reaching the above targets (one point each)	2		
Subtotal:	25+2		
Skills development			
Skills development spend	25	2%	
Subtotal:	25 pts		
Preferential procurement			
Procurement from BBBEE compliant suppliers as a % of total measured procurement spend	25	40% (by 2012); 50% (by 2017)	
Subtotal:	25 pts		
Enterprise development			
Average annual contributions as a % of net profit after tax	25	2%	
Subtotal:	25 pts		
Socio-economic development			
Average annual contributions as a % of net profit after tax	25	2%	
Subtotal:	25 pts		
Your total (based on any four of the above)			

playing field between bigger and smaller businesses and makes it easier for the latter to contribute to BBBEE in a meaningful way.

That said, selling an ownership stake to a BBBEE partner is sometimes strategically better for a small business, as it can provide

growth opportunities and new resources. An ownership deal that is done on a commercial basis in a tax-efficient and BBBEE-compliant manner allows a QSE owner to realise new value in his/her operation while also scoring points in the management section of the scorecard.

Financing BBEE

Expertise and finance are the “diamond duo” of business success – especially so for an operation that plans to take on a new partner or embark on new projects to boost its BBEE profile.

Access to adequate funding remains a top challenge for local businesses – even those that have been established for some time. Players in BBEE transactions or start-up companies typically face the following difficulties:

- A lack of equity to pay for shares and a lack of resources or assets needed to secure traditional bank finance.
- Insufficient experience in business or financial management (poor business plans are a main cause of finance applications being rejected).
- The cost of preparing tender proposals is disproportionately higher for smaller companies.
- Limited working capital and cash flow, plus delayed project payments, make it difficult for small businesses to meet performance targets on large contracts.

The good news is that in terms of the Financial Services Charter, all financial institutions are committed to providing accessible financial services to black people and to directing investment into targeted areas of the economy in support of BBEE.

This takes various formats, from traditional medium-term business and personal loans through to high-level BBEE financing and advice.



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More than money

A successful BBBEE deal relies on more than funding. Empowerment finance is just the starting point and your financial partner should also provide you with the following:

- Education on empowerment and BBBEE principles.
- Tax-efficient structures that facilitate the funding of the purchase and sale of shares in a business.
- Access to generic legal documentation needed to facilitate the transaction.
- Funds to conclude the transaction.
- It also important to choose a financial partner who understands your business and who can help you to apply for any available grants and support initiatives.



For more information, visit the business banking section of the Standard Bank website at www.standardbank.co.za, or contact the Leveraged Finance Unit at Standard Bank.

Prepare your paperwork

The paperwork required for any financing transaction varies according to the nature and structure of the business, as well as the complexity of the proposed deal. As a minimum, the following information will be required. Bear in mind that the bank may request additional information in order to obtain a better understanding of the transaction.

- Past annual financial statements and recent management accounts.
- Predicted income statements and cash flows.
- Qualifications and experience of the owners.
- An outline of the business – what will you be doing, which industry will you be operating in, who your customers will be, who your competition is, etc.
- The amount of finance required, what it is needed for and how long it will take you to repay the loan.
- A description of the contribution you are making to the business, plus details of assets that are available as security for the loan.



Senior Debt

Senior Debt is a type of loan or bond, the repayment of which takes priority over all other debts. In other words, if the business has financial difficulties or goes bankrupt, senior debt must be repaid before other creditors receive any payment. This type of debt is secured by the assets of the business, and is considered less risky from the point of view of the lender. Most loans from financial institutions and mortgage providers are senior debt.

Private Equity

Private Equity is when a person or institution provides money in return for a share in the company. This is ideal for smaller businesses that have good prospects for fast growth and above-average returns.

To attract Private Equity your business needs to have a good track record or a competitive product or service. You must also have the experience and ability to run your own business. The bank needs to see clear growth potential and have a good idea of what the return on the investment will be within a fixed

period – usually three to seven years. The bank will often also insist on representation on the board of directors.

Leveraged Finance

Standard Bank has a specialised Leveraged Finance team dedicated to structuring BBBEE finance deals for businesses in the commercial and agricultural sectors. Leveraged Finance includes acquisition and expansion capital. This enables a management team or empowerment partner to acquire a business from existing owners, or – in the case of the agricultural sector – to buy into communal land or a farm, or to expand an existing farm. Usually the finance is structured through the formation of a new company that is jointly owned by the BBBEE partner and original owner.

Typically, the bank loans the new company a percentage of the purchase price and the new company pays back the loan from profits generated.

The Standard Bank Leveraged Finance team also provides guidance on what to look for when identifying a suitable BBBEE

Are you really ready to share?

If you are considering a BBBEE ownership deal, ask yourself the following:

- Do you need to empower your business at an ownership level?
- What is the benefit of this empowerment?
- What percentage stake in the business should you sell?
- How do you value your business, and what is this stake worth?



partner, legal documentation to facilitate the transaction and tax-efficient funding structures.

In the agricultural sector, Standard Bank works in conjunction with the Khula Land Reform Empowerment Facility (LREF) to re-finance BBBEE enterprises at a reduced rate. This effectively subsidises loan interest to further improve the sustainability of the BBBEE enterprise.

Specialised Lending Credit

Standard Bank's Personal and Business Banking Credit Division has formed a Specialised Lending Credit Department that has expertise in facilitating access to finance for transactions that do not meet Standard Bank's normal credit criteria.

The types of funding requests considered by this department include start-up finance, contract finance, lending to franchises, indemnity-scheme lending, expansion finance and leverage finance transactions.

This team takes an innovative, non-traditional view, with a strong emphasis on future cash flows. This is ideal for transactions with little or no equity or collateral, or where the new business owners have minimal technical or managerial experience and a limited credit history. The business proposal must show strong evidence that the proposed venture is both viable and sustainable.

Financing criteria

Collateral is not the overriding consideration when assessing an application for finance. Standard Bank considers some of the following factors, among others:

- The purpose of the funding.
- The management of the entity (including the qualifications, skills and expertise of the

business's owners and managers).

- The financial position (including assets and the ability to repay the loan).
- The collateral (such as personal or business assets that could be used to secure the loan).
- Any environmental factors (such as industry growth/decline, location, competition and barriers to entry).

All of these factors are important and are reviewed holistically when an application for finance is received.

Contract Finance

Another option available to BBBEE companies is Standard Bank's Contract Finance solution. This provides finance to businesses that require funds in order to be able to perform in terms of a contract.

Businesses can obtain credit facilities such as medium-term loans, vehicle and asset finance, and working capital finance to enable performance in terms of the contract.

Contract finance can be considered when a business has all of the following:

- A contract from a South African blue chip company or a national/provincial government department.
- A written, signed contract to supply goods and/or services for a defined Rand value within a defined period of time.
- A contract for the delivery of goods and/or services for a period of not less than 12 months.

Collateral is not always necessary to obtain finance against a contract. However, the business owner/shareholders must be willing to inject some of their own funds into the project.



Khula financing

Many small businesses have little or no assets to put up as collateral for a bank loan. To assist them, the government's small business finance agency, Khula, offers them an indemnity scheme.

The business merely applies to the bank for finance in the normal way and is not involved in the application to Khula for the indemnity. Standard Bank will facilitate the application on their behalf.

To qualify for a Khula-supported loan, the sole proprietor, majority shareholder, member or partner in the business must be:

- Willing to make a contribution of his or her own to the business. This may range from

2,5% upwards, depending on the size of the loan. This contribution can be either cash, productive equipment or land that will be used in the business.

- A full-time employee of the business.
- A South African citizen.
- Situated in South Africa. Additionally, the business's principal place of operation must be in South Africa.

All businesses can qualify for a Khula indemnity as long as the loan value is less than R3 million. Ownership status is not relevant, so white-owned, black-owned, start-up, existing or expanding businesses can qualify.



Who to contact

If you require any of the services or products referred to in this booklet, contact the BBBEE manager in your province (listed below) or visit your nearest Standard Bank branch to be put in touch with the appropriate person.

Province	Name	Telephone	Email
Gauteng	Harrington Ndlebe	011 677 0408	harrington.ndlebe@standardbank.co.za
Western Cape	Thobela Dikeni	021 401 2841	thobela.dikeni@standardbank.co.za
KwaZulu-Natal	Val Appanna	031 374 1347	val.appanna@standardbank.co.za
Eastern Cape	Trevor Beeton	041 391 2799	trevor.beeton@standardbank.co.za
Free State and Northern Cape	Will Choene	051 403 4715	will.choene@standardbank.co.za
Limpopo	Ashley Rasebotsa	015 290 8428	ashley.rasebotsa@standardbank.co.za
Mpumulanga	Julian Felix	011 636 2419	julian.felix@standardbank.co.za
North West	Kago Marumo	018 397 0500	kago.marumo@standardbank.co.za



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