



BDO VERIFICATION SERVICES

Back to the BEE Basics

January 2019

WHAT DO WE DO?

BDO Verification Services is a SANAS accredited verification agency. We conduct audits of a company's contributions and issue a report and certificate confirming the level of achievement against each target.

We also offer:

- B-BBEE training
- Scorecard monitoring
- Gap analysis
- Supplier analysis
- Consulting (where we are not also the verification agency)

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INTRODUCTION

Broad based black economic empowerment (BEE for short) came about as a way to redress the imbalance in our economy brought about by apartheid.

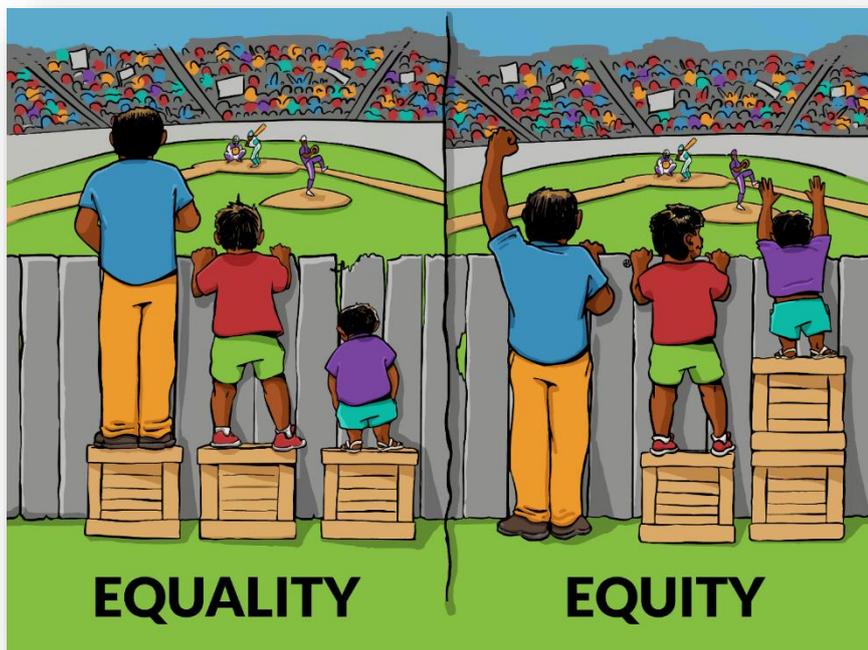
The department of trade and industry (DTI) was tasked with bringing black people into the economy with the gazetting of the BEE Act in 2003. The first phase of BEE brought about targets for the involvement of black people in the ownership and management control of a company.

The Codes of Good Practice, gazetted 4 years later in 2007, looked at a broader involvement of black people, bringing in targets for employment equity, skills development, preferential procurement, enterprise development and socio economic development. The codes provided a scorecard that companies could use to measure their progress. Also, they legislated that SANAS be authorised to assess, monitor and accredit verification agencies who could audit and verify these scorecards.

In 2013, the DTI gazetted the amended codes of good practice, which aimed at increasing the speed of transformation, by increasing/strengthening the targets for those areas where progress was seen to be slow.

Sector scorecards

The codes allow for industry sectors to come together and create a sector scorecard, for the purpose of taking into account any specific industry challenges or for speeding up transformation in these sectors. These currently include tourism, transport, AgriBEE, construction, ICT, financial services, marketing, advertising and communication (MAC), forestry and property sectors. These scorecards may have different thresholds and targets to the general codes.



Who is who?

DTI - the department of trade and industry is the custodian of the codes and has been mandated to develop, monitor and manage the codes, in their efforts to promote enterprise growth, empowerment and equity in the economy.”

SANAS - the South African National Accreditation System has the mandate to accredit and monitor verification agencies, who are then authorised to verify and issue BEE certificates.

B-BBEE Commission - their mandate is to oversee, supervise and promote adherence to the BEE Act in the interest of the public, which includes monitoring and reporting on progress, trends and issues, dealing with complaints.

ABP - the association of BEE professionals has been approved by the South African Qualifications Authority (SAQA) as a professional body and was formed as an independent national Membership Organisation in an effort to lead the Black Economic Empowerment (B-BBEE) Verification Industry in the transformation of the South African economy.

How does BEE work?

A company is measured on their contributions against the targets set out in the codes, based on their financial year. An accredited verification agency collects data, samples and verifies it and issues a scorecard and certificate, which is valid for a 12 months from date of issue.

Key principles

Points can only be awarded where evidence is available to back up the contribution. Contributions that take the form of spend are measured based on the contributions that took place in the annual financial period, i.e. spend on skills development, procurement, etc.

Measurements towards human capital are based on current data, i.e. employees at the time of verification.

There are different scorecards for different sized companies, based on turnover thresholds. The scorecard and targets attached in this document relate to Generic sized companies under the general scorecard.

Who needs a BEE audit?

Size of entity in terms of annual total revenue *	Black ownership	B-BBEE Status Level	Type of validation
Exempt micro enterprises (EMEs) R0 - R10million	100% black owned	Level One	Sworn affidavit (or EME certificate issued by CIPC if a start-up)
	51%+ black owned	Level Two	Sworn affidavit (or EME certificate issued by CIPC if a start-up)
	<51% black owned	Level Four	Sworn affidavit (or EME certificate issued by CIPC if a start-up)
Qualifying small enterprises (QSEs) R10m - R50million	100% black owned	Level One	Sworn affidavit
	51%+ black owned	Level Two	Sworn affidavit
	< 51% black owned	To be measured in terms of the QSE Scorecard	Full verification certificate required
Large enterprise (generic) R50million +	0-100% black owned	To be measured in terms of the Generic Scorecard	Full verification certificate required

*Companies falling to the tourism, forestry, ICT, transport, AgriBEE, property, MAC and financial sectors may have different thresholds.

Priority elements

Priority element	Sub minimum target	Penalty - QSE	Penalty - large enterprise
Ownership	8 points for net value	1 level discount	1 level discount
Skills development	40% of the points		
Supplier and enterprise development	40% of the points on each of the targets		
Treatment - Penalised if subminimum not met		Ownership plus one other	Any of the priority elements

Points available (Generic scorecard)

Element	Weighting Points
Ownership	25
Management control	19
Skills development	20
Enterprise & supplier development	50
Socio economic development	5
Total	109

Broad-based BEE status categories

B-BBEE Status	Qualification	B-BBEE Recognition Level
Level One Contributor	≥ 100 points	135% Recognition
Level Two Contributor	≥ 95 but < 100 points	125% Recognition
Level Three Contributor	≥ 90 but < 95 points	110% Recognition
Level Four Contributor	≥ 80 but < 90 points	100% Recognition
Level Five Contributor	≥ 75 but < 80 points	80% Recognition
Level Six Contributor	≥ 70 but < 75 points	60% Recognition
Level Seven Contributor	≥ 55 but < 70 points	50% Recognition
Level Eight Contributor	≥ 40 but < 55 points	10% Recognition
Non-compliant Contributor	< 40 points	0% Recognition

Elements

OWNERSHIP

This is a priority element.

Points are awarded for shareholding/voting rights in the hands of black people and their ability to take part in economic interest/the ability to earn a dividend or return on their investment.

The target for ownership is 25% plus 1 vote in the hands of black people. *Pro rata* points can be awarded.

There are additional points awarded for the involvement of black women and under economic interest, for the involvement of minority groups such as black youth, or black people in rural areas, etc. Also, there are targets for black people represented in employee ownership schemes and broad based ownership schemes.

The priority target is based on the net equity value of the shares in the hands of the black owners, taking into account the current value of the shares after any acquisition debt. The target in this element is to achieve a 40% subminimum, which equates to 10% of the shares in the company. Ownership is measured live as at the date of verification.

SCORECARD: OWNERSHIP

Indicators	Weighting Points	Compliance Target
2.1 Voting Rights:		
Exercisable Voting Rights in the Enterprise in the hands of black people	4	25% + 1 vote
Exercisable Voting Rights in the Enterprise in the hands of black women	2	10%
2.2 Economic Interest:		
Economic Interest in the entity to which Black people are entitled	4	25%
Economic Interest in the entity to which Black women are entitled	2	10%
Economic Interest of the following black natural people in the Measured Entity 1. Black participants in Employee Share Ownership Programmes; 2. Black people in Broad based Ownership Schemes; or 3. Black Participants in Co-operatives.	3	3%
New Entrants	2	2%
2.3 Realisation Points:		
Net Value	8	Refer to Annex C

MANAGEMENT CONTROL

This element looks at 2 main areas in the company

- Board and executive management
- Employees in senior, middle and junior management.

EAP targets

The targets for senior middle and junior management are indicated on the scorecard and further broken down by the economically active population (EAP) targets as supplied by the Department of Labour from time to time. This effectively breaks the target into specific requirements for proportional representation across the race and gender groups, after adjusting for the

approximately 10-11% of white people in the economy. For example, if the adjusted economically active population of South Africa shows that 46% of the EAP is black males, 43% black female, 11% coloured male, 10% coloured females 4% Indian male, 3% Indian female then your target for junior management of 88% should be made up as close as possible in those proportions.

Prerequisites

Employment equity reports EEA4 and EEA4 need to be filed with Department of Labour. Management control is measured live as at the date of verification, based on the current payroll.

SCORECARD: MANAGEMENT CONTROL

Indicators	Weighting Points	Compliance Target
2.1 Board Participation:	2	50%
Exercisable voting rights of black Board members as a percentage of all board members.	1	25%
Exercisable voting rights of black female Board members as a percentage of all board members.		
Black executive directors as a percentage of all executive directors.	2	50%
Black female executive directors as a percentage of all executive directors.	1	25%
2.2 Other Executive Management		
Black executive management as a percentage of all executive directors.	2	60%
Black female executive management as a percentage of all executive directors.	1	30%
2.3 Senior Management		
Black employees in senior management as a percentage of all senior management.	2	60%
Black female employees in senior management as a percentage of all senior management.	1	30%
2.4 Middle Management		
Black employees in middle management as a percentage of all senior management.	2	75%
Black female employees in middle management as a percentage of all middle management.	1	38%
2.5 Junior Management		
Black employees in junior management as a percentage of all junior management.	1	88%
Black female employees in junior management as a percentage of all junior management.	1	44%
2.6 Employees with disabilities		
Black employees with disabilities as a percentage of all employees.	2	2%

SKILLS DEVELOPMENT

This is a priority element.

This element measures spend on employees for skills development.

The target is broken down in to 2 main areas:

1. Spend on employees and disabled people
2. Number of employees and disabled people participating in learnerships, apprenticeships and internships, including unemployed people

Points are also awarded if all or some of the unemployed learners are absorbed into employment after the training as been completed.

Spend on internal training, training facilities, trainers, skills development facilitators, related admin costs and travel can be included, but are capped.

If spend on trainees was incurred for B, C or B training, the salary of the learner can also be counted towards your skills spend target.

Training outside of the country is not recognised, unless SAQA aligned.

Prerequisites for the awarding of points include the submission of workplace skills plans and annual training reports, training of skills identified by the SETAs as priority - for black employees.

The priority target is achieved if at least 40 of the points are earned for the scorecard, excluding the bonus points for absorption.

Skills Development is measured based on spend that occurred the 12-month financial period being verified.

SCORECARD: SKILLS DEVELOPMENT

Category	Weighting Points	Compliance Target
2.1.2 Skills Development Expenditure on any program specified in the Learning Programmes Matrix for black people as a percentage of the leviabale amount.		
Skills development Expenditure on the Learning Programmes specified in the learning programme matrix for for black peopelas a percentage of Leviabale Amount .	8	6%
Skills development Expenditure on the Learning Programmes specified in the learning programme matrix for for black employees with disabilities as a percentage of Leviabale Amount .	4	0.3%
2.1.2 Learnerships:		
Number of black people participating in Learnerships , Apprenticeships and internships as a percentage of total employees.	4	2.5%
Number of black unemployed people participating in training specified in the learning programme matrix as a percentage of number of employees.	4	2.5%
2.1.3 Bonus Points		
Number of black people absorbed by the measured entity at the end of the learnerships programme.	5	100%

ENTERPRISE & SUPPLIER DEVELOPMENT

This is a priority element.

Spend targets are measured against the Total Measured Procurement Spend or TMPS. This is a count of all spend, less allowable exclusions, such as depreciation, salaries and wages and certain imports.

This element consists of 3 sub-elements

1) *Procurement*

This is a measurement of spend with BEE compliant suppliers, with a specific focus on spend with 51% black owned and 31% black women owned suppliers. The target is based on a % of your total measured percentage spend, which is a total of all spend, less allowable exclusions such as salaries and wages, pass through expenditure, depreciation and certain government or monopolistic suppliers.

The following is a summary of which imported goods and services may be excluded from measured procurement spend:

- a) Imported capital goods or components for value-added production in South Africa provided that:
 - a. there is no existing local production of such capital goods or components; and
 - b. importing those capital goods or components promotes further value-added production within South Africa;
- b) Imported goods and services other than those listed above, if there is no local production of those goods or services including, but not limited to, imported goods or services that:
 - a. carry a brand different to the locally produced goods or services; or
 - b. have different technical specifications to the locally produced goods or services.

The Amended Codes further state that exclusion of the items listed in b above are subject to a localisation plan, which should include:

- Clear objectives
- Priority interventions
- Key performance indicators; and
- A concise implementation plan with clearly articulated milestones.

2) *Supplier development spend*

This is spend other than procurement of goods and services, which is aimed at assisting an entity with a turnover under R50 million and at least 51% black owned. This must be a supplier. Assistance can include monetary or non-monetary contributions in the forms of grants, loans, overhead costs, professional services, or time of your staff.

3) *Enterprise development*

This is spend other than procurement, which is aimed at assisting an entity with a turnover under R50 million and at least 51% black owned. This can be a supplier, but could be a non-related entity. Assistance can include monetary or non-monetary contributions in the forms of grants, loans, overhead costs, professional services, or time of your staff.

Spend for Supplier Development and Enterprise Development (ED) cannot be double counted. E.g. if R100 is spent, R50 can be recognised against Supplier Development and R50 towards ED, but only once each.

The priority target is achieved if at least 40% of the points are earned for each sub-section on the scorecard, excluding the bonus points.

ESD is measured based on spend and contributions that occurred on the 12-month financial period being verified.

SCORECARD: ENTERPRISE AND SUPPLIER DEVELOPMENT

Criteria	Weighting Points	Compliance targets
2.1 B-BBEE Procurement Spend:		
B-BBEE procurement spend from all Empowering Suppliers based on the B-BBEE procurement recognition levels as a percentage of total measured procurement spend.	5	80%
B-BBEE procurement spend from all Empowering Suppliers that are Qualifying Small Enterprises based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend.	3	15%
B-BBEE procurement spend from Empowering Suppliers that are Exempted Micro-Enterprises based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend.	4	15%
B-BBEE procurement spend from all Empowering Suppliers that are at least 51% black owned based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend.	9	40%
B-BBEE procurement spend from all Empowering Suppliers that are at least 30% black women owned based on the applicable B-BBEE procurement recognition levels as a percentage of total measured procurement spend.	4	12%
Bonus Points	2	2%
B-BBEE procurement spend from designated group suppliers that are at least 51% black owned.		
2.2. Supplier Development	10	2% of NPAT
Annual value of all supplier development contributions made by the measured entity as a percentage of the target.		
2.2. Enterprise Development	5	1% of NPAT
Annual value of all enterprise development contributions and sector specific programmes made by the measured entity as a percentage of the target.		
2.4 Bonus Points	1	
Bonus point for graduation of one or more enterprise development beneficiaries to graduate to the supplier development level.		
Bonus point for creating one or more jobs directly as a result of supplier development and enterprise development initiatives by the measured entity.	1	

SOCIO ECONOMIC DEVELOPMENT

This is the feel good element of the scorecard. Monetary or non-monetary contributions can be made towards *income generating activities* for black beneficiaries. At least 75% of the benefit must accrue to black beneficiaries. Assistance can include monetary or non-monetary contributions in the forms of grants, loans, overhead costs, professional services, or time of your staff.

ESD is measured based on spend and contributions that occurred on the 12-month financial period being verified.

SCORECARD: SOCIO-ECONOMIC DEVELOPMENT

Criteria	Weighting Points	Compliance Target
Average annual value of all qualifying SED contributions made by the Measured Entity as a percentage of the target.	5	1 % of NPAT

GLOSSARY

Black people refers to African, Coloured, Indian and Chinese persons who are South African citizens by birth or by descent, or who were naturalised prior to the commencement of the interim constitution in 1993, or who would have been able to acquire citizenship by naturalisation prior to 27 April 1994 had it not been for the presence of the Apartheid policy.

EAP - the economically active population is a measurement of the number of people of each race and gender group who are employed in any given province. Employment and training targets are *pro-rated* against the actuals in each area.

Empowering supplier - this is a measurement of a set of specified initiatives companies are achieving, resulting in recognition as an empowering supplier or not. This is currently granted automatically for all entities.

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