



“Creating BUSINESS sense out of BEE”

CODE 600: MEASUREMENT OF THE ENTERPRISE DEVELOPMENT ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT

Introduction

The final BEE codes were released on the 20th of December, 2005. These codes cover the remaining aspects of empowerment from Enterprise Development to Qualifying Small Enterprises. Code 600 discusses the Enterprise Development requirement.

Don't forget that at all times the definition of black people remains: A generic term for Africans, Coloureds and Indians who

- are South African citizens by birth or descent;
- are South African citizens by naturalisation before 27th April, 1994;
- became South African citizens after 27th April, 1994, but who, but for the Apartheid policy that had been in place prior to that date, would have been entitled to acquire citizenship by naturalisation prior to that date.

An enterprise is defined as - a natural or a juristic person, or any form of co-operative, conducting a business, trade or profession in the Republic of South Africa. When we refer to companies we are effectively referring to an enterprise as defined.

Control: whenever we refer to control we refer to either *direct or indirect* control.

Enterprise Development

Enterprise Development (ED) manifests itself in contributions made by an enterprise to a beneficiary enterprise. The intention of this contribution is to stimulate the growth and sustain the beneficiary enterprise. Code 600 describes the ultimate aim of ED as having the *specific objective of assisting and/or accelerating the development, sustainability and ultimate financial and operational independence of these Beneficiary Entities.*

The Code also seems to encourage companies to develop a long-term Enterprise Development strategy. This is in keeping with the sustainability principle. Companies that have established ED programmes are able to consider these contributions (starting from five years before the code is gazetted) for ED points.

Qualifying Beneficiary Entities

Beneficiary entities are the recipients of the ED donations. Enterprises are described as “a natural or a juristic person, or any form of co-operative, conducting a business, trade or profession in South Africa.”

Qualifying beneficiaries are:

- An exempted micro enterprise - an enterprise that does not have to register for VAT – i.e. turns over less than R300k/year. *Note that EMEs are not accorded a racial profile.*
- A qualifying small enterprise which is:
 - in excess of 50% black owned and a level one to six BEE contributor
 - a level one to three BEE contributor (irrespective of ownership)
- A generic (Codes 100 to 700) enterprise which is:
 - in excess of 50% black owned and a level one to six BEE contributor
 - a level one to three BEE contributor (irrespective of ownership)

Definition of 50% black ownership

A 50% black owned company means that:

- black people hold in excess of 50% of the exercisable voting rights and economic interest
- they have attained the full seven points under the net equity interest of the equity scorecard (Code 100)

Where a contribution falls in either the CSI or ED camp a choice must be made as to which code it will be claimed under.

Enterprise Development Scorecard

The scorecard differentiates between recoverable and non-recoverable contributions. These contributions are covered in more detail below.

Criteria	Weighting points	Compliance targets
Cumulative Non-Recoverable Contributions made as a percentage of cumulative EBITDA measured from the commencement/Inception Date to the date of measurement.	6	2%
Cumulative Recoverable Contributions made as a percentage of cumulative EBITDA measured from the commencement/Inception Date to the date of measurement.	4	3%
Total points	10	

Making only non-recoverable contributions

Where an enterprise makes only non-recoverable contributions the target for non-recoverable contributions moves from 2% to 3.3%. The weighting points' value is then moved up to 10 points.

Criteria	Weighting points	Compliance targets
Cumulative Non-Recoverable Contributions made as a percentage of cumulative EBITDA measured from the commencement/Inception Date to the date of measurement.	10	3.3%
Total points	10	

Recoverable contributions do not enjoy the same rule – i.e. the maximum points for a recoverable contribution is 4 points irrespective of whether the target has been exceeded or not.

Bonus Points

A single bonus point is awarded for contributions that directly contribute towards increased levels of employment in the preceding year. This point is not carried over from year to year, it is awarded each year on its merits.

Bonus calculations

In the following cases the Rand contribution may be multiplied by a factor.

- Contributions which directly contribute towards the creation of employment opportunities:
 - in rural communities and
 - any geographic areas identified in the government's Integrated Sustainable Rural Development and Urban Renewal Programmes¹qualify for recognition of **1.5** to the actual Rand value of the contribution. This contribution still qualifies as a bonus point.
- Contributions which assist and accelerate the development of Exempted Micro Enterprises, qualify for recognition of **1.25** to the actual Rand of the contribution.
- Contributions which assist and accelerate the development of Beneficiary Entities which manufacture, produce or sell goods and/or services not previously produced or manufactured in South Africa qualify for recognition of **1.5** to the actual Rand value of the contribution.
- Monetary contributions to a warehousing fund² (provided this contribution is not made in warehousing fund that owns an equity interest in the contributor) qualify for recognition of **1.25** to the actual Rand of the contribution.

Transactions for the sale of equity in an enterprise

Any contribution recoverable or non-recoverable that results in an equity transfer in the contributor's company is NOT regarded as an ED initiative and will not attract any ED points. The only exception to this rule is the funding of warehousing funds.

EBITDA

Earnings Before Income Tax, Depreciation and Amortisation.

¹ The Urban Renewal Programme and the Integrated Sustainable Rural Development Programme consists of 21 nodes across South Africa within which some ten million of its poorest citizens live.

² A warehousing fund is an "exit mechanism for black investors". It can be established by an enterprise, the state or a public entity. The fund will buy shares from black investors wishing to exit empowerment deals, the company will then be able to retain its black ownership status and claim points on its ownership scorecard for a maximum of three years. To use the fund, a company must have already found new black shareholders to whom it wanted to sell.

Inception date

The inception date is the date that the enterprise development contribution was made. This date can go back to a *maximum of five years* BEFORE the commencement of statement 600 (i.e. the date the code is gazetted.)

Types of contributions

Non-recoverable contributions

The monetary value of contributions made to the Beneficiary in the form of grants, donations, discounts and other similar quantifiable benefits which are not recoverable by the Measured Entity.

Recoverable contributions

The monetary value of contributions made to the Beneficiary that must be repaid or returned to the Measured Entity upon the happening of a specified event.

Monetary and non-monetary contributions

Contributions can be monetary and non-monetary. Code 600 offers a few ideas as to what might be considered a contribution – you will note that in many cases these instances could be either monetary or non-monetary. These are a few examples:

- Provision of seed or development capital
- Contributing to the costs of services improving operational or efficiency levels (e.g. professional services, licensing fees, IT services etc)
- Payments to third parties to perform ED initiatives on the contributor's behalf.
- Contributions allowing beneficiaries to produce or manufacture goods or services that are not available in South Africa.
- Preferential credit facilities (e.g. finance below prime; relaxed security requirements for loans; preferential payment rates of less than 21 days)
- Training and mentoring a beneficiary. This could be professional services or IT services.

Measuring Enterprise Development initiatives

Initiatives must be quantifiable in Rands to be measured. They are measured cumulatively from the inception date (see above) to the date of measurement. It is important to ensure that the beneficiaries are *qualifying* enterprises.

Recoverable contributions

These include (but are not limited to):

- the annualised value of the monthly average value of the investment in the beneficiaries;
- the annualised value of the monthly average value of the loans granted to beneficiaries;
- the annualised value of the monthly average value guarantees given to beneficiaries;
- the value of credit facilities made available to beneficiaries.

Non-recoverable contributions

These include (but are not limited to):

- direct costs incurred by in assisting and accelerating the development of the beneficiary;
- any overhead costs directly attributable to ED;
- provision of seed and developmental capital to the beneficiary;
- preferential credit terms granted to the beneficiary;
- preferential terms in respect of supply of goods and/or services to the beneficiary.



“Creating BUSINESS sense out of BEE”

the Caird Group

To operate in today’s business environment requires a sharp eye. Business trends and legislation change so dramatically, that often companies may be left behind in coming to terms with these changes. The Caird Group is a consultancy that finds the positive benefits in all these trends and translates them into business opportunities for its clients.

Broad-based BEE (BBBEE) is one example. The Caird Group firmly believes in its responsibility to ensure that its clients have a firm understanding of the concept and that they are able to isolate and implement the business opportunities and efficiencies that reside within BBBEE.

Our BEE solutions combine well established methodologies with best practices that maximise the BBBEE implementation.

Contact the Caird Group

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