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“Creating BUSINESS sense out of BEE”

CODE 600: THE RECOGNITION OF ENTERPRISE DEVELOPMENT

Introduction

The Minister of Trade and Industry, Mandisi Mpahlwa, gazetted the Department of Trade and Industry’s Broad-based Black Economic Empowerment Codes of Good Practice under section 9 of the Broad-based Black Economic Empowerment Act (2003) on the 9th of February, 2006. These codes are now binding on the state and numerous state-owned entities (these are covered in schedules 2 and 3 of the Public Finance Management Act).

This document is a synopsis of the pertinent aspects of the statement. Detail is available from the codes themselves.

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 entity 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.

Enterprise Development scorecard

| Enterprise Development. Total points – 15 | | |
|---|------------------|-------------------|
| Description | Weighting points | Compliance Target |
| Average annual value of all Enterprise Development contributions and Sector Specific Programmes as a percentage of the target | 15 | 3 % of NPAT |

Purpose of enterprise development

Monetary or non-monetary contributions to beneficiaries, with the objective of contributing to the development, sustainability and financial and operational independence of those beneficiaries.

Types of beneficiaries

- a. **Category A** - involves enterprise development contributions to EMEs or QSEs which are 50% black-owned or black-women owned. Contributions to these entities attract R1.25 per R1 contributed.
- b. **Category B** - involves enterprise development contributions to any other entity that is 50% black-owned or black-women owned; or 25% black-owned or black-women owned with a BEE status of between level 1 and level 6

Target

Net Profit after Tax (NPAT)

Target is 3%

Turnover

Turnover must be used if:

- o the company did not make profit last year or on average over the last five years.
- o the net profit margin is less than a quarter of the industry norm.

Turnover target formula

.3% x indicative profit margin¹ (net profit after tax ÷ turnover) x turnover

¹ the profit margin in the last year where the company's profit margin is at least one quarter of the industry norm

General Rules

- Contributions must be quantifiable as a monetary value.
- Qualifying enterprise development contributions of any measured entity are recognisable cumulatively.
- Can only be contributions made up until the time of measurement.

The inception date

- The 9th of February, 2007 (commencement date of this statement)
- Earlier date chosen by the company
 - must not be earlier than five years before the commencement date of this statement,

Examples of enterprise development contributions

The following examples are for illustration purposes.

- Grant contributions to beneficiaries
- Investments in beneficiaries
- Loans made to beneficiaries
- Guarantees given or security provided on behalf of beneficiaries;
- Credit facilities made available to beneficiaries
- Direct costs incurred in assisting and hastening development of beneficiaries
- Overhead costs directly attributable to enterprise development contributions;
- Enterprise development or developmental capital advanced to beneficiaries
- Preferential credit terms granted to beneficiaries
- Preferential terms granted in respect of its supply of goods or services to beneficiaries

The value of the contribution is determined using the benefit factor matrix.

Enterprise development benefit factor matrix

| Qualifying contribution type | Contribution amount | Benefit factor |
|---|---|--|
| <i>Grant and related contributions</i> | | |
| Grant contribution | Full grant amount | 100% |
| Direct cost incurred in supporting enterprise development | Verifiable cost (including both monetary and non-monetary) | 100% |
| Discounts in addition to normal business practices supporting enterprise development | Discount amount (in addition to normal business discount) | 100% |
| Overhead costs incurred in supporting enterprise development (including people appointed in enterprise development) | Verifiable costs (including both monetary and non-monetary) 80% | 80% |
| <i>Loans and related contributions</i> | | |
| Interest-free loan with no security requirements supporting enterprise development | Outstanding loan amount | 100% |
| Standard loan to black-owned exempted micro enterprises and qualifying small enterprises | Outstanding loan amount | 70% |
| Standard loan provided to other beneficiary enterprises | Outstanding loan amount | 60% |
| Guarantees provided on behalf of a beneficiary entity | Guarantee amount | 3% |
| Lower interest rate | Outstanding loan amount | Prime rate – actual rate |
| <i>Equity investments and related contributions</i> | | |
| Minority investment in black-owned exempted micro enterprises and qualifying small enterprises | Investment amount | 100% |
| Minority investment in other beneficiary enterprises | Investment amount | 80% |
| Enterprise development investment with lower dividend to financier | Investment amount | Dividend rate of ordinary shareholders – actual dividend rate of contributor |
| <i>Contributions made in the form of human resource capacity</i> | | |
| Professional services rendered at no cost and supporting enterprise development | Commercial hourly rate of professional | 80% |
| Professional services rendered at a discount and supporting enterprise development | Value of discount based on commercial hourly rate of professional | 80% |
| Time of employees of measured entity productively deployed in assisting beneficiaries | Monthly salary divided by 160 | 80% |
| <i>Other contributions</i> | | |
| Shorter payment periods | Percentage of invoiced amount | Percentage of 15 days less the number of days from invoice to payment |

Calculating spend on the enterprise development scorecard

$$A = \frac{B}{C} \times D$$

Where:

A is the score for any given criteria

B is the value of all qualifying contributions

C is the target for the applicable criteria as referred to in the scorecard under statement 600

D is the weighting for the applicable criteria as referred in the scorecard under statement 600



“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

Please feel free to discuss this document with us at any time.

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