

# An EMPOWERDEX Guide



## **The Codes of Good Practice for Qualifying Small Enterprises**

Reaffirming SA's commitment to nurturing small business

## Introduction

The Codes of Good Practice for Broad-Based Black Economic Empowerment (B-BBEE) were gazetted in February 2007 and represented a blue print for the transformation of the economy. The final step in the prolonged process of formalizing a regulatory framework for implementing and measuring B-BBEE, the February gazetting of the Codes resolve a number of outstanding uncertainties about the government's stand on B-BBEE and since the Codes are significantly more pragmatic than originally anticipated, the finalized Codes represent a balance between government's initial stand on Broad-Based BEE and the wishes of business. More than anything else, the final version of the Codes reveals the Department of Trade and Industry's flexibility in being able to meet the private sector half way while not selling out to the spirit of empowerment.

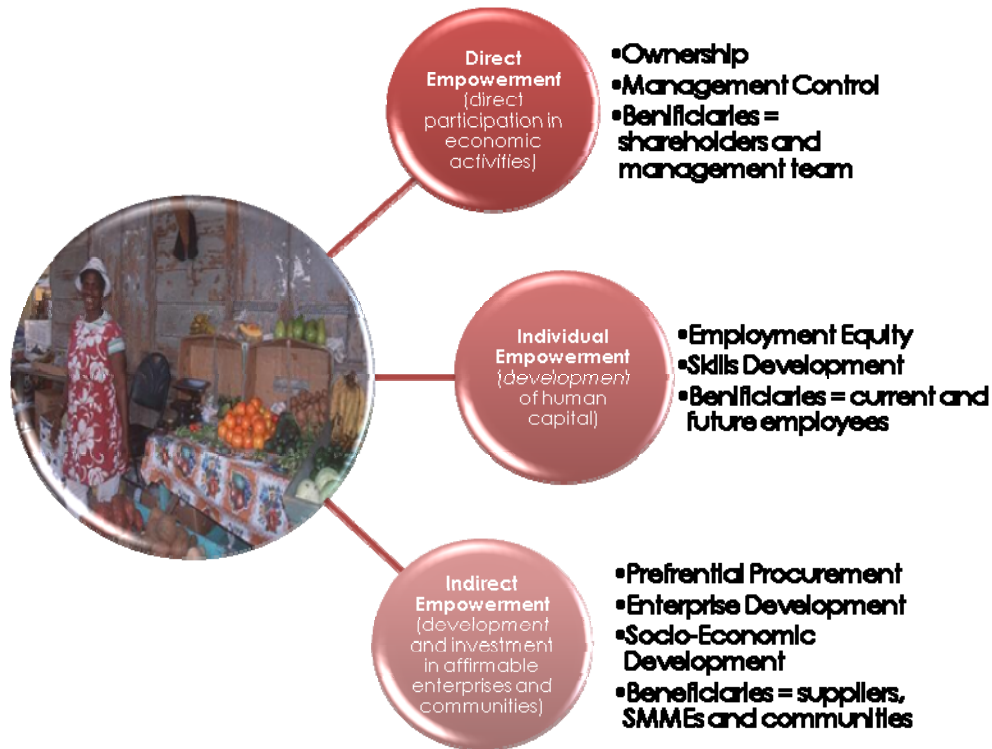
Qualifying Small Enterprises (QSEs) make up 10% of all companies and contribute 28% to the GDP. The gazetted Codes focus specifically on QSEs in Statement 800, which represent the Codes of Good Practice for this type of business. The number of elements that QSEs have to choose from the scorecard has been decreased, making it easier for them to score higher when being rated.

Presently, the Department of Trade and Industry (dti) is working with other government departments to ensure the Codes are enforced. Minister of Trade and Industry Mandisi Mphahlele also warned in December that the government would act against any sectors unwilling to transform.

## Core Components of B-BBEE

The scorecard measures three core components of BEE:

- **Direct empowerment** through ownership and management control,
- **Individual empowerment** through employment equity and skills development,
- **Indirect empowerment** through preferential procurement, enterprise development and socio-economic development.



## Organisation of the QSE Codes

The Codes are organized according to the seven key elements of B-BBEE and the Statements within each of the Code Series relates to the measurement of that particular element.

Index of the Codes	
<b>800</b>	Framework for the QSE Scorecard and exempted – micro enterprises
<b>801</b>	Measurement of the Ownership Element of Broad-Based Black Economic Empowerment for QSEs
<b>802</b>	Measurement of the Management Control Element of Broad-Based Black Economic Empowerment for QSEs
<b>803</b>	Measurement of the Employment Equity Element of Broad-Based Black Economic Empowerment for QSEs
<b>804</b>	Measurement of the Skills Development Element of Broad-Based Black Economic Empowerment for QSEs
<b>805</b>	Measurement of the Preferential Procurement Element of Broad-Based Black Economic Empowerment for QSEs
<b>806</b>	Measurement of the Enterprise Development Element of Broad-Based Black Economic Empowerment for QSEs
<b>807</b>	Measurement of the Socio-Economic Development Element of Broad-Based Black Economic Empowerment for QSEs

## Element Weightings

Element	Weighting	Code series reference
Ownership	25 points	100
Management Control	25 points	200
Employment equity	25 points	300
Skills development	25 points	400
Preferential procurement	25 points	500
Enterprise development	25 points	600
Socio-Economic Development	25 points	700

Qualifying Small Enterprises must choose any four of the six elements of BEE against which their BEE compliance will be measured. The enterprise will be scored in proportion to the extent that it meets the compliance targets for those four elements. Where no selection has been made the four best element scores will be used for the purposes of measurement.

Any matter concerning the application of the QSE scorecard that is not dealt with explicitly in the QSE scorecard must be dealt with in terms of codes 100-700.

## The QSE Scorecard

Carrying the indicators, points and weighting for each element, the QSE scorecard is the key to the entire implementation of this aspect of the Codes. The weightings and point allocation reveal the level of priority the government has assigned to each element.

Element	Category	Indicator	Weighting Points	Interim Target	Compliance Target
<b>OWNERSHIP</b> Measures effective ownership of companies by black people Code 801	Voting Rights	Exercisable Voting Rights in the Enterprise in the hands of black people	6		25%+1 vote
	Economic Interest	Economic Interest of black people in the Enterprise	9		25%
	Realisation Points	Ownership fulfillment	1		
		Net value	9		
Bonus Points	Involvement in the ownership of the Enterprise of black new entrants	2		10%	

Total Points = 25		Involvement in the ownership of the Enterprise of black participants: - in Employee Ownership Schemes - of Broad-Based Ownership Schemes - Co-operatives	1		10%
<b>MANAGEMENT CONTROL</b> Code 802 Total Points = 25	Measures effective control of companies by black people	Black Representation at Top Management level	25		50.1%
		Black women representation at Top Management level	2		25%
<b>EMPLOYMENT EQUITY</b> Code 803 Total Points = 25	Measures initiatives intended to achieve equity in the workplace	Black employees who are Management as a percentage of all Management adjusted using the Adjusted Recognition for Gender	15	40%	60%
		Black employees as a percentage of all employees adjusted using the Adjusted Recognition for Gender	10	60%	70%
		Bonus point for meeting and exceeding EAP target in each of above categories	2		
<b>SKILLS DEVELOPMENT</b> Code 804 Total Points = 25	Measures the extent to which employers develop the competencies of black employees	Adjusted Skills Development spend on Learning Programmes for black employees as a percentage of Leviable Amount	25		2%
<b>PREFERENTIAL PROCUREMENT</b> Code 805 Total Points = 25	Measures the extent to which companies buy goods and services from BEE compliant suppliers as well as black-owned entities	BEE Procurement Spend from all Suppliers based on the B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	25	40%	50%
<b>ENTERPRISE DEVELOPMENT</b> Code 806 Total Points = 25	Measures the extent to which companies carry out initiatives contributing to enterprise development	Average annual value of all Qualifying Contributions made by the Measured Entity as a percentage of the target	25		2% of Net Profit After Tax
<b>SOCIO-ECONOMIC DEVELOPMENT</b> Code 807 Total Points = 25	Measures the extent to which companies support socio-economic development	Average annual value of all Socio-Economic Development Contributions made by the Measured Entity as a percentage of the target	25		1% of Net Profit After Tax