

# Who is affected by the launch of the Codes of Good BEE Practice; and how?

Every business or enterprise, except an micro-enterprise (a business with the annual turnover of less than R5 million), called an exempt or exempted micro-enterprise in the Codes. Micro-enterprises do not have to report on their BEE credentials; and everyone buying from them will account for them as Level 4 Contributors to BEE. See Recognition of BEE Status All other businesses have to produce an annual report on their BEE credentials, preferably one verified by an independent verification agency. If the annual turnover of your business is greater than R5 million but less than R35 million, you are what is called a qualifying small enterprise (QSE) and will be required to report on your BEE credentials on the basis of a special scorecard (a QSE scorecard). See scorecard. The structure, interpretation and targets in the QSE scorecard are more flexible than in the generic scorecard. See scorecard. Failure to produce a BEE scorecard is not illegal, but will affect your ability to keep some of your clients as they will need your BEE scorecard to make their BEE scorecard look good. See Code 000: Recognition of BEE Status

Code 000: Recognition of BEE Status When compiling your company's BEE scorecard, you will realise that there is something (an element or pillar) called preferential procurement with a 20% weighting, i.e. out of a total of 100 points, 20 will depend on how well you have procured from good contributors to BEE. Therefore, by buying services from good contributors to BEE, your own BEE score, especially preferential procurement, will improve. The only way to score all 20 points is to attain the target set for preferential procurement, i.e. spend the prescribed percentage of your total procurement expenditure from good contributors to BEE &ndash; companies or suppliers with a good BEE score. This target percentage (preferential procurement) is 70% according to the generic scorecard &ndash; could be higher depending on the industry scorecard you use to report. What this means is that for every Rand you spend procuring goods and services, 70 cents must be from good contributors to BEE. There is a formula used in determining your preferential procurement score:

- for every Rand you spend procuring goods and services, there is a factor (a number or more precisely a fraction with which you multiply the Rand value of your procurement expenditure) for each one of your suppliers. The factor depends on the BEE status of your supplier or its Level of Contribution &ndash; which depends on its total BEE score.

## Level of Contribution

BEE Score Required to Earn the Level of Contribution

Recognition of Rand Value of Procurement from Supplier at Each Level

1

Greater than 100

1.35 or 135%, meaning R1 spent on a supplier at this Level is accounted for as R1.35. R1 x 1.35 = R1.35 (greater than what was actually spent)

2

85 &ndash; 100

1.25 or 125%, meaning every R1 counts for R1.25 of preferential procurement expenditure

3

75 &ndash; 85

1.1 or 110, equating every R1 spent on a supplier at this level to R1.10 of preferential procurement expenditure

4

65 &ndash; 75

1.0 or 100%, implying that for every R1 spent procuring goods and services from suppliers at this level translates into R1 of preferential procurement expenditure

5

55 - 65

0.8 or 80%, meaning you may only claim 80% of every R1 spent on procurement from suppliers at this level as preferential procurement expenditure.  $R1 \times 0.8 = 80 \text{ cents}$  (less than what was actually spent)

6

45 &ndash; 55

0.6 or 60%.  $R1 \times 0.6 = 60 \text{ cents}$

7

30 &ndash; 45

0.5 or 50%.  $R1 \times 0.50 = 50 \text{ cents}$

8

30 &ndash; 40

0.1 or 10%.  $R1 \times 0.1 = 10 \text{ cents}$

Not compliant

Less than 30

0 or 0%, meaning if you procure all your goods and services from suppliers at this level, all the Rand value of your procurement expenditure counts for nothing when calculating your preferential procurement expenditure.  $R1 \times 0 = 0$

As you can see from this table, the better the BEE score of your supplier, the higher the factor with which you multiply the Rand value of your procurement expenditure from them, the higher your preferential procurement expenditure (procurement from BEE suppliers), and the better your preferential procurement score and your total BEE score. A better BEE score will make you an attractive supplier to your own clients, as you will make their BEE scorecard look better. See, it will be like a food-web of BEE &ndash; where everybody is trying to impress everybody with their good BEE credentials; with everybody's BEE credentials depending on the BEE credentials of everybody else.