

## A Step-by-Step Guide to the Codes

The Codes of Good BEE Practice were approved by Cabinet in December 2006 and launched at the Sandton Convention Centre in Johannesburg on December 14th 2006 and Gazetted on 09 February 2007. Over the next couple of months, we will be taking you on the journey to a better understanding of the essence and implications of the Codes, starting with the abridged scorecard. The scorecard differed somewhat from the previous versions launched for public comment in December 2005 and December 2004.

BEE Pillar & Applicable Code

Weighting

Previous Weighting

Target

Previous Target

Notes

Ownership

Code 100

20

20

25.1% - multinationals which prohibit minority shareholding allowed to apply for exemption and to make contributions equivalent to 25% of their South African operations

25.1%

Indirect ownership will count towards ownership up to a maximum of 40% of the respective score. Indirect ownership includes forms of ownership where the black shareholder owns shares in a company through the participation of another structure, such as a pension fund administrator. Indirect ownership mostly, but not always, amounts to passive black ownership. The 40% cap is to mitigate the effects of this, where applicable, without punishing what could be genuine broad-based black ownership initiatives.

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Code 200

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40% to 50% black representation at board and executive management

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This incorporates board participation and executive management representation, with the requirement that black women should constitute at least 50% of the total black representation. This is a major break with the past, as black women will no longer be condemned to the sidelines of control of companies. You can expect to see more women on boards of companies and executive management structures of enterprises. The value of black representation in management (control) structures is to translate black ownership into active participation in the affairs of the company. Decisions made by a company with black representation are more likely to reflect the aspirations of the black employees, black communities and broad-based economic transformation of South Africa.

Skills Development

## Code 400

15

20

3% of annual payroll on learning programmes for black people (2% for qualifying small enterprises &ndash; which are enterprises with annual turnover between R5 million and R35 million)

4% of annual payroll on accredited learning programmes for black people

The learning programme need no longer be accredited with a Sector Education & Training Authority and could include adult basic education and training (ABET), but must be linked to the career advancement of the black person participating in it. 0.3% of the amount must be spent on disabled black employees. The main thrust of this element (pillar) is to ensure the compliance of corporate practice with the Skills Development Act of 1998 and the Skills Development Levies Act of 1998 and associated laws, as well as to counter the effects of skills shortage and brain-drain.

## Employment Equity

## Code 300

15

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40% to 80% black representation

60% to 80% black representation

Black women must constitute half of the black component of staff at all applicable levels. The emphasis of black representation is that black people must increasingly occupy senior occupational levels of their companies. As with Skills Development, the purpose of this element is to encourage alignment of employment practices with the Employment Equity Act of 1998, promulgated to increase the employment of black people (as well as women, people with disabilities and other designated groups). The benefit of having employment equity is that it makes organisations very adaptive to the needs of South Africa's (and global) diversified markets. For example, it is much easier for a diversified sales team to sell to a diversified market than a homogeneous one.

## Preferential Procurement

## Code 500

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20

70% of total procurement expenditure

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Suppliers that qualify as micro-enterprises are exempted from BEE compliance and are awarded an automatic Level 4 Contributor-status, meaning procurement from these enterprises will be accounted for at 100% of the rand value. Micro-enterprises are those enterprises with annual turnover of up to R5 million. The rationale is that by procuring supplies from small enterprises, the seed of entrepreneurship, will encourage their growth &ndash; making entrepreneurship a rewarding undertaking. The provision also takes cognisance of the challenges that face micro-enterprises and the cost of reporting on BEE.

## Enterprise Development

## Code 600

15

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3% of net profit after tax (NPAT) spent on developing black enterprises

5% of earnings before interest, tax, depreciation and amortisation

The higher of 3% of NPAT and 0.75% of turnover should be spent on the development of black enterprises, including industry-specific initiatives which were previously part of corporate social investment. The spirit of this provision is that in the absence of good black suppliers, procurement managers should make an effort to develop emerging enterprises to the point at which they can qualify as suppliers. All large suppliers were once small and micro-enterprises.

Socio-Economic Development  
(previously known as Residual)

Code 700

5

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1% of net profit after tax (NPAT) on qualifying development programmes

3% of net profit after tax on qualifying development programmes

The higher of 1% of NPAT and 0.125% of turnover should be spent on second economy initiatives to uplift the standard of living of black people. Initiatives could include sport, education, health interventions, etc. as long as they benefit black persons.

Total

100

100

Legend:

- Weighting is the number of points out of 100 allocated to the respective BEE element or pillar
- Target implies the extent to which a company has contributed to the advancement of the respective BEE indicator, element or pillar, which will determine how many points it may claim out of the allocated total to the element
- Applicable Code means a section of the Codes of Good BEE Practice dealing with a specific element or pillar of the BEE scorecard with regard to enterprises that are neither qualifying small enterprises (QSE) nor exempted micro-enterprises