

# AMENDED AGRIBEE CODES

Enterprise and Supplier Development  
(Preferential procurement; Supplier  
Development; Enterprise Development)

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*agri***fusion**

# Structure

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- Overview of ESD element
- Preferential procurement
- Supplier Development
- Enterprise Development

Workshop discussion – best practice

# Elements condensed from 7 to 5

2007 Codes		Amended Generic		Amended AgriBEE	
Element	Weight	Element	Weight	AgriBEE (Large)	AgriBEE (QSE)
Ownership	20	Ownership	25	25	25
Management Control	10	Management Control (& Employment Equity)	15	19	15
Employment Equity	15				
Skills Development	15	Skills Development	20	20	30
Preferential Procurement	20	Enterprise and Supplier Development (& Preferential Procurement)	40	40	25
Enterprise Development	15				
Socio-economic Development	5	Socio-economic development	5	15	15
TOTAL	100		105	119	110

# Overview of ESD

*Priority  
Element*

- Combined PP and ED (total 40 points) and now has 3 sub elements namely:
  - Preferential procurement (25 points)
  - Supplier Development (10 points)
  - Enterprise Development (5 points)
- Priority: 40% sub minimum on “total targets” = 16 points
  - PP: 40% of 25 = 10
  - SD: 40% of 10 = 4
  - ED: 40% of 5 = 2

# Preferential Procurement

*Priority*

2.1 PREFERENTIAL PROCUREMENT	Weighting points	Compliance targets
2.1.1 B-BBEE Procurement Spend from <b>all Empowering Suppliers</b>	5	80%
2.1.2 B-BBEE Procurement Spend from <b>Empowering Suppliers that are Qualifying Small Enterprises</b>	3 (12)	15%
2.1.3 B-BBEE Procurement Spend from <b>Empowering Suppliers that are Exempted Micro Enterprises</b>	4	15%
2.1.4 B-BBEE Procurement Spend from <b>Empowering Suppliers that are at least 51% black owned</b> Phase in: 10% yr1; 20% yr2; 25% yr3; 30% yr4; 40% yr5 <u>provided</u> also achieve the 3% NPAT target for Supplier Development	9 (3)	40%
2.1.5 B-BBEE Procurement Spend from <b>Empowering Suppliers that are at least 30% black women owned</b> Phase in: 6% yr1 to yr4 <u>provided</u> Supplier Development target is 3% NPAT	4 (5)	12%
<b>Bonus Points</b> B-BBEE Procurement Spend from <b>Designated Group Suppliers</b> that are at least 51% Black owned	2	2%

# Preferential Procurement QSE

*Priority*

## Scorecard

(For all targets: based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend)

2.1 PREFERENTIAL PROCUREMENT	Weighting points	Compliance targets
2.1.1 B-BBEE Procurement Spend from <b>all Empowering Suppliers</b>	<b>10</b>	<b>60%</b>
2.1.4 B-BBEE Procurement Spend from <b>Empowering Suppliers that are at least 51% black owned</b> Phase in: 5% yr1; 10% yr2; 15% yr3.	<b>5</b>	<b>15%</b>

# Empowering supplier

Priority

## Definition

- Empowering Supplier status, needs to be verified: BEE compliant, good citizen, comply with all regulatory requirements & must meet 3 (QSE 1) of the following requirements.
  - At least **25% of cost of sales** excluding labour cost and depreciation must be **procured from local producers or local suppliers in SA**, for service industry labour cost are included but capped at 15%.
  - **Job creation** – 50% of jobs created are for Black People provided that the number of black employees since the immediate prior verified B-BBEE Measurement is maintained.
  - At least 25% **transformation of raw material/beneficiation** which include local manufacturing, production and/or assembly, and/or packaging.
  - Skills transfer – at least spend 12 days per annum of productivity deployed in **assisting black EMEs and QSEs** beneficiaries to increase their operation or financial capacity.”
  - At least 85% of labour costs paid to SA employees by Service Industry entities
- EME's = Empowering supplier

# Multipliers and Notes

*Priority*

Measured entity procures goods and services:

- ED recipient supplier with >3 year contract = 1.2
- Black owned QSE/EME (no ED beneficiation) with >3 year contract = 1.2
- First time supplier = 1.2

Notes:

- Beneficiaries under SD and ED = 51% Black owned or 51% Black women owned
- SD and ED contributions recognised up to 2 years even if turnover thresholds exceeds on condition up front qualification
- Land leased from Black owner qualify as preferential procurement provided that:
  - Written lease agreement
  - Arms length and fair market related value
  - Black land owner should actively farm the land



# Preferential procurement

*Priority*

## Strategy

### Potential

Preferential procurement:  
>51% Black suppliers

EME's (including white) 100% & automatically “empowering”

Integrated strategies:  
Support & procure from black businesses  
49%/51% joint ventures

Multiplier opportunities

Consider software package to collect supplier BEE data

Note: Maximise SD points to get benefit of phasing targets for PP

# Enterprise and Supplier Development

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- Consists of SD and ED
- Promote development, sustainability and financial independence
- Turnover <R50 million
- 51% black owned
  - 51% of exercisable voting rights
  - 51% of economic interest. Note: the MFT principle may be used to calculate both of these – but some risk
  - The entity must have earned all the points for Net value.

# Enterprise and Supplier Development

*Priority*

## Scorecard

2.2 SUPPLIER DEVELOPMENT	Weighting points	Compliance targets
2.2.1 Annual value of all Supplier Development Contributions made by the Measured Entity as a percentage of the target	10	3% of NPAT yr1 to yr4 Then 2% of NPAT
2.3 ENTERPRISE DEVELOPMENT		
2.3.1 Annual value of all Enterprise Development and Sector Specific Contributions made by the Measured Entity as a percentage of the target	5	1.5% of NPAT
2.4 BONUS POINTS		
2.4.1 Bonus point for graduation of one or more Enterprise Development Beneficiaries to graduate to the Supplier Development Level	1	
2.4.2 Bonus point for creating one or more jobs directly as a result of Supplier and Enterprise Development initiatives by the Measured Entity.	1	

# Enterprise and Supplier Development QSE

*Priority*

## Scorecard

2.2 SUPPLIER DEVELOPMENT	Weighting points	Compliance targets
2.2.1 Annual value of all Supplier Development Contributions made by the Measured Entity as a percentage of the target	5	1% of NPAT (no phasing)
2.3 ENTERPRISE DEVELOPMENT		
2.3.1 Annual value of all Enterprise Development and Sector Specific Contributions made by the Measured Entity as a percentage of the target	5	1.5% of NPAT (no phasing)
2.4 BONUS POINTS	(no bonus points)	

# ED & SD Matrix

ENTERPRISE DEVELOPMENT AND SUPPLIER DEVELOPMENT : Benefit Factor Matrix (400B)		
Qualifying Contribution type		Benefit Factor
<b>1</b>	<b>Grant and Related Contributions</b>	
1.1	Grant Contribution	Full Grant Amount 100%
1.2	Direct Cost incurred in supporting approved projects or enterprise development	Verifiable Cost (including both monetary and non-monetary) 100%
1.3	Discounts in addition to normal business practices supporting approved projects or enterprise development	Discount Amount (in addition to normal business discount) 100%
1.4	Overhead Costs incurred in supporting enterprise development (including people appointed in enterprise development)	Verifiable Costs (including both monetary and non-monetary) 70%
<b>2</b>	<b>Loans and Related Contributions</b>	
2.1	Interest-Free Loan with no security requirements supporting enterprise and supplier development	Outstanding Loan Amount 70%
2.2	Standard Loan to enterprise and supplier development beneficiaries	Outstanding Loan Amount 50%
2.4	Guarantees provided on behalf of a Beneficiary entity	Guarantee Amount 3%
2.5	Lower Interest Rate	Outstanding Loan Amount Prime Rate – Actual Rate

# ED & SD Matrix

ENTERPRISE DEVELOPMENT AND SUPPLIER DEVELOPMENT : Benefit Factor Matrix (400B)			
Qualifying Contribution type		Contribution Amount	Benefit Factor
3	Equity Investments and Related Contributions		
3.1	Minority Investment in enterprise and supplier development beneficiaries	Investment Amount	70%
3.3	Enterprise and Supplier Development Investment with lower dividend to financier	Investment Amount	Dividend Rate of Ordinary Shareholders – actual Dividend Rate of Contributor
4	Contributions made in the form of human resource capacity		
4.1	Professional services rendered at no cost and supporting approved projects or enterprise and supplier development	Commercial hourly rate of professional	60%
4.2	Professional services rendered at a discount and supporting enterprise and supplier development	Value of discount based on commercial hourly rate of professional	60%
4.3	Time of employees of Measured Entity productively deployed in assisting beneficiaries	Monthly salary divided by 160	60%
5	Other Contributions		
5.1	Shorter payment periods	Percentage of invoiced amount x <u>15%</u> ( <u>approx cost of short term funding</u> )	Percentage being 15 days less the number of days from invoice to payment ( <b>max points is 15% of 10 points</b> ) ( <b>max 1.5 points</b> )

# Enhanced recognition

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ESD INITIATIVES	Multiple
Create new jobs in associated enterprise (pro rate if increase less than 100%)	1.5
Assist entity to produce goods / services not previously produced in SA (must be agreement)	1.5
Contribution to warehousing fund (no equity in ME & excludes statutory levies & 3 <sup>rd</sup> party facilitators)	1.25
Support to Land Reform beneficiaries & other black owned entities	1.5

# Supplier development vs Enterprise development

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- SD entity must be in your supply chain ie must be part of your TMPS
- Note: Verification manual definition of SD as an “empowering supplier”
- SD beneficiary may be a ED beneficiary but not vice versa



# Proposed ESD Fund

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- See objectives
- Managed by independent fund administrator?
- Will get full points if contribute appropriate amount
- Can apply to fund to implement ESD in your enterprise
- “National” versus localised / industry body / commodity based

# Black owned businesses

- Huge advantages for >51% black owned businesses with turnover under R50m
- Do not have to comply with Codes - only sign affidavit (empowering supplier issue?)
- If 100% - level 1
- >51% - level 2
- Can access ED & SED money & big preferential procurement advantages

# Discussion

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- SD & ED makes sense, is great opportunity for black entrepreneurs & can benefit your business
- Cost effective option in scorecard
- Establish / support black suppliers & buy from them
- Joint ventures with >51% black owned companies
- Effective structures
- Beware of fronting provisions

# Broad-based Black Economic Empowerment

## Sustainable BEE Solutions



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