

ENHANCED RECOGNITION WHAT DOES IT MEAN?

According to the Generic Codes of Good Practice (Codes), a Qualifying Small Enterprise (QSE) is an organisation with an annual turnover of between R10m and R50m. However, there are two categories for QSEs based on the ownership structure. A QSE that has:

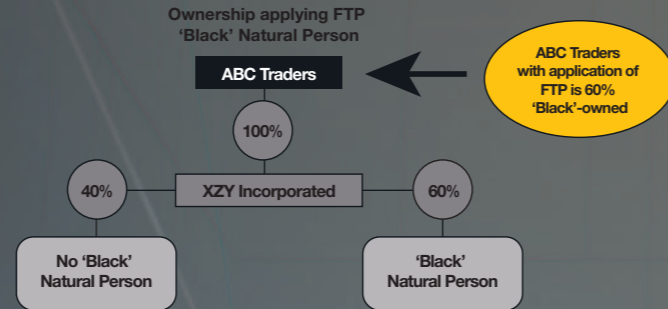
- > Less than 51% 'Black' Ownership must be measured against the QSE Scorecard by a SANAS accredited B-BBEE Rating Agency.
- > More than 51% 'Black' Ownership can claim Enhanced Recognition, thus only has to confirm its Ownership and the annual financial total revenue in an Affidavit.

There are only two Status Level categories a QSE with Enhanced Recognition can fall under:

- > At least 51% 'Black' Ownership equates to a Status Level 2 with a corresponding Preferential Procurement Recognition level of 125%.
- > 100% 'Black' Ownership equates to a Status Level 1, with a corresponding Preferential Procurement Recognition level of 135%.

It is, therefore, understood that a QSE with Enhanced Recognition does have leverage over its counterparts that have less than 51% 'Black' Ownership. Consequently, a QSE with Enhanced Recognition must qualify to claim this status. B-BBEE Credentials in the form of an Affidavit confirm that a QSE with Enhanced Recognition is indeed entitled to claim this status. The information captured in an Affidavit confirms its annual turnover and Ownership status by applying the 'Flow-Through' Principle (FTP).

- > **Confirming annual total revenue**
The latest financials produced by QSEs confirm whether or not they qualify to be measured under this threshold.
- > **Confirming Ownership**
Confirming Ownership against the scorecard is not always cut and dry when applying the FTP. It was introduced to trace and measure the chain of Ownership until it ultimately ends in the hands of a 'Black' natural person. It traces 'Black' Participants that own a business through the shareholding in another business. It essentially identifies the overall percentage of 'Black' Ownership through a chain of Ownership. To mitigate any risk, a B-BBEE Rating Agency may require further evidence to substantiate that the FTP has been correctly applied.



The FTP concept was introduced to encourage organisations to change their procurement patterns and focus on procuring from 'Black'-owned businesses with more than 51% 'Black' Ownership. Apart from the favourable Preferential Procurement Recognition, an organisation can apply a 1.2 multiplier for every Rand spent. It means that for every R100,00 paid on an invoice, R120.00 can be claimed in Procurement Recognition.

Other benefits for QSEs with Enhanced Recognition

A QSE with Enhanced Recognition qualifies as an Enterprise Development and Supplier Development Beneficiary. By design, QSEs with less than 51% 'Black' Ownership and Large Enterprises are encouraged to engage with QSEs with Enhanced Recognition to earn points on their scorecard.

All sub-elements of Enterprise & Supplier Development, namely Preferential Procurement, Enterprise Development and Supplier Development, play a part in Large Enterprises and QSEs with less than 51% 'Black' Ownership meeting their scorecard requirements. The core aim is to encourage larger businesses to grow the footprint of smaller ones over a given financial period.

A QSE with Enhanced Recognition is in a position to receive the following assistance from a Large Enterprise or QSE with less than 51% 'Black' Ownership:

- > Direct cost related to a specific cost object, such as stock purchases.
- > Overhead costs – those associated with the day-to-day operations of a Beneficiary.
- > Discounts.
- > Loans and related costs:
 - o Interest-free loan;
 - o Standard loan;
 - o Guarantees on behalf of the QSE with Enhanced Recognition; and
 - o Loans at lower interest rates.

- > Equity Investments:
 - o Minority investments; and
 - o Investments with a lower dividend to the financier.
- > Human Resource Contributions:
 - o Professional Services rendered at no cost to QSEs with Enhanced Recognition;
 - o Professional Services rendered at a discounted rate to QSEs with Enhanced Recognition; and
 - o Time spent by employees of a QSE with less than 51% 'Black' Ownership productively assisting a QSE with Enhanced Recognition.
- > Shorter payment terms for Supplier Development Beneficiaries.

Enhanced Recognition Sector Codes

Construction Sector Code

The financial threshold for a QSE with Enhanced Recognition per annum is between R6m and R25m

Full points, excluding the Bonus Points for Skills Development as per paragraphs 1.1, 1.2 and 1.3 of Statement CSC603. A QSE with Enhanced Recognition must achieve:

- > 40% of the Skills Development Scorecard target to avoid the application of the Discounting Principle;
- > Or meet the requirement of Supplier Development, which features in paragraphs 1.1, 1.2, 1.3 and 2.1 of CSC604.

Tourism Sector Code

The financial threshold for a QSE with Enhanced Recognition per annum is between R5m and R45m per annum.

Transport Sector Code

The amendments to this sector code do not align with the 2019 amendments to the Codes; therefore, it does not recognise Enhanced Recognition.

In conclusion, over the past few years, I have seen many fake Affidavits and ones not signed by a Commissioner of Oaths on the same day, which renders them invalid. Affidavits as B-BBEE Credentials are here to stay and must be taken at face value unless there are apparent discrepancies. As a SANAS accredited B-BBEE Rating Agency, we have to mitigate risk continuously. The Affidavits can pose a huge risk to the verification process. Enhanced Recognition is a huge advantage for smaller businesses and may contribute to their growth. However, with no regulator for Affidavits, the onus is on the owner, member or director signing the Affidavit to be truthful.



Linda Sewnarain is the Managing Director and a Technical Signatory at 5 Star BEE Compliance, a SANAS accredited B-BBEE Rating Agency. Over the past 14 years, Linda has gained unique insight into the complexity of the B-BBEE Verification space, where she has led verification teams in organisations of all sizes across all sectors. In 2010, Linda became a SANAS Assessor, a role she believes supports the ethics in the B-BBEE Verification space. Core to her success and that of 5 Star BEE Compliance is the commitment of the versed team that assures B-BBEE Verifications are done with a customer-centric approach to the highest standards.