

CODE SERIES 500: MEASUREMENT OF THE PREFERENTIAL PROCUREMENT ELEMENT OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT

STATEMENT 500: THE GENERAL PRINCIPLES FOR MEASURING PREFERENTIAL PROCUREMENT

Issued under section 9 of the Broad-Based Black Economic Empowerment Act of 2003

Arrangement of this statement

Para	Subject	Page
1	<i>Objectives of this statement</i>	2
2	<i>Preferential Procurement Scorecard</i>	2
3	<i>Key Measurement Principles</i>	2
4	<i>Black Owned Professional Services Providers and Entrepreneurs</i>	3
5	<i>Total Measured Procurement Spend</i>	3
6	<i>Exclusions from Total Measured Procurement Spend</i>	4
7	<i>Measurement of B-BBEE Procurement Spend</i>	5
8	<i>The calculation of Preferential Procurement contributions to B-BBEE</i>	5
9	<i>Annexe 500(A)</i>	6

1 Objectives of this Statement

The objectives of this statement are to specify:

- 1.1 the Preferential Procurement scorecard;
- 1.2 the key measurement principles applicable to calculating Preferential Procurement contributions to B-BBEE;
- 1.3 a basis for the award of an enhanced recognition status to certain categories of Preferential Procurement;
- 1.4 principles applicable when calculating B-BBEE Procurement Spend; and
- 1.5 the formula for calculating the individual criteria specified in the Preferential Procurement scorecard.

2 Preferential Procurement Scorecard

2.1 The following table represents the criteria for deriving a score for Preferential Procurement under this statement:

Criteria	Weighting points	Compliance targets	
		Years 0 - 5	Years 6 -10
2.1.1 B-BBEE Procurement Spend from all Suppliers based on the B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	12	50%	70%
2.1.2 B-BBEE Procurement Spend from Qualifying Small Enterprises or Exempted Micro-Enterprises based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	3	10%	15%
2.1.3 B-BBEE Procurement Spend from any of the following Suppliers as a percentage of Total Measured Procurement Spend:	5	15%	20%
2.1.3.1 Suppliers that are 50% black owned (3 out of 5 points); or			
2.1.3.2 Suppliers that are 30% black women owned. (2 out of 5 points)			

3 Key Measurement Principles

- 3.1 The Weighting points in the Preferential Procurement scorecard represent the maximum number of points possible for each of the criteria.
- 3.2 All goods and services procured by the Measured Entity, other than any portion specifically excluded in terms of this statement, is measurable in calculating its Total Measured Procurement Spend.
- 3.3 If a Measured Entity procures goods and services from a Supplier that is:
 - 3.3.1 a recipient of enterprise development contributions from the Measured Entity under Code series 600, the recognisable B-BBEE Procurement Spend that can be attributed to that Supplier is multiplied by a factor of 1.2; and
 - 3.3.2 a Value-Adding Supplier, the recognisable B-BBEE Procurement Spend that can be attributed to that Supplier is multiplied by a factor of 1.25.
- 3.4 This statement applies to all areas of procurement.

4 Black Owned Professional Service Providers and Entrepreneurs

- 4.1 A key intention of this statement is to promote the use by Measured Entities, of black owned professional service providers and entrepreneurs as suppliers.
- 4.2 Black owned professional service providers and entrepreneurs that comply with all the elements of the Codes:
 - 4.2.1 qualify for recognition in all three criteria in the preferential procurement scorecard; and
 - 4.2.2 qualify as value-adding suppliers thereby attracting the benefits in paragraph 3.3.2.

5 Total Measured Procurement Spend

The following procurement is measurable within Total Measured Procurement Spend:

- 5.1 Cost of sales: all goods and services procured that comprise the cost of the sales of the Measured Entity;
- 5.2 Operational expenditure: all goods and services procured that comprise the operational expenditure of the Measured Entity;
- 5.3 Capital expenditure: all capital expenditure incurred by the Measured Entity;
- 5.4 Public sector procurement: all goods and services procured from organs of state and public entities listed in Schedules 2 and 3 to the Public Finance Management Act of 1998;
- 5.5 Monopolistic procurement: all goods and services procured from suppliers that enjoy a monopolistic position;
- 5.6 Third-party procurement: all procurement for a third-party or a client, where the cost of that procurement is an expense recorded in the Measured Entity's annual financial statements;
- 5.7 Labour brokers and independent contractors: any procurement of the Measured Entity which is Outsourced Labour Expenditure;
- 5.8 Pension and medical aid contributions: payments made to any post retirement funding scheme or to a medical aid or similar medical insurer by a Measured Entity for its employees, excluding any portions of such payments which are a contribution to a capital investment of the employee. The scheme or insurer must issue a certificate dividing payments between the capital investment portion and the balance to establish the amount that is measurable within Total Measured Procurement Spend;
- 5.9 Trade commissions: any commissions or similar payments payable by a Measured Entity to any other person pursuant to the business or trade of the Measured Entity;
- 5.10 Empowerment related expenditure: all goods and services procured in carrying out B-BBEE. The Total Measured Procurement Spend does not include the actual contribution portion recognised under Code series 600 or 700 but does include any expenditure incurred in facilitating those contributions;
- 5.11 Imports: all goods and services that are imported or procured from a non-South African source; and

- 5.12 Intra-group procurement: except as provided in statement 002, all goods and services procured from subsidiaries or holding companies of the Measured Entity.

6 Exclusions from Total Measured Procurement Spend

The following list is the only permissible exclusions from Total Measured Procurement Spend recognisable in terms of paragraph 5:

- 6.1 Taxation: any amount payable to any person which represents a lawful tax or levy imposed by an organ of state authorised to impose such tax or levy, including rates imposed by a municipality or other local government;
- 6.2 Public sector procurement:
- 6.2.1 all goods and services procured from organs of state and public entities listed in Schedule 1 of the Public Finance Management Act of 1999. Despite this, procurement by a Measured Entity from a local government authority, which is a reseller of that service, is measurable at the B-BBEE Recognition Level of the primary Supplier of the service; and
- 6.2.2 in any event, any procurement of any goods or services from any organ of state or public entity that enjoys a statutory or regulated monopoly in the supply of such goods or services, is excluded;
- 6.3 Salaries, wages, remunerations, and emoluments: any amount payable to an employee as an element of their salary or wage and any emolument or similar payment paid to a director of a Measured Entity;
- 6.4 Pass-through third-party procurement: all procurement for a third-party or a client that is recorded as an expense in the third-party or client's annual financial statements but is not recorded as such in the Measured Entity's annual financial statements;
- 6.5 Empowerment related procurement:
- 6.5.1 investments in or loans to an Associated Enterprise;
- 6.5.2 investments, loans or donations qualifying for recognition under any statement under Code series 600 or 700;
- 6.6 Imports: the following imported goods and services:
- 6.6.1 imported capital goods or components for value-added production in South Africa provided that:
- 6.6.1.1 there is no existing local production of such capital goods or components; and
- 6.6.1.2 importing those capital goods or components promotes further value-added production within South Africa;
- 6.6.2 imported goods and services other than those listed in paragraph 6.6.1 if there is no local production of those goods or services including, but not limited to, imported goods or services that -
- 6.6.2.1 carry a brand different to the locally produced goods or services; or
- 6.6.2.2 have different technical specifications to the locally produced goods or services.

7 Measurement of B-BBEE Procurement Spend

- 7.1 B-BBEE Procurement Spend is the value of the procurement falling within paragraph 5 and not excluded by paragraph 6. If a supplier falls within a category of supplier listed in paragraph 3.3 or 4, the value of procurement from that supplier is multiplied by the applicable factor listed in paragraph 3.3.
- 7.2 B-BBEE Procurement Spend can be measured in terms of formula "A" in Annexe 500(A).
- 7.3 The B-BBEE Procurement Spend for a Measured Entity in respect of a supplier is calculated by multiplying the spend contemplated by paragraph 5 (and not excluded by paragraph 6) in respect of that supplier by the supplier's B-BBEE Recognition Level.
- 7.4 A Measured Entity's Total Procurement Spend is the total of all amounts calculated in terms of paragraph 7.3.

8 The Calculation of Preferential Procurement Contributions to B-BBEE

- 8.1 A Measured Entity receives a score for procurement in proportion to the extent that it meets the compliance target.
- 8.2 The Measured Entity's score for Preferential Procurement contributions to B-BBEE under the preferential procurement scorecard can be calculated in terms of formula "B" in Annexe 500(A).

ANNEXE 500(A)

A: B-BBEE PROCUREMENT SPEND:

$$A = \text{sum of } (B \times C)$$

Where

A is the calculated total B-BBEE Procurement Spend for the Measured Entity. It is equal to the sum of the result of the product of B and C for each Supplier of the Measured Entity not excluded under the exclusion from total measured procurement spend;

B is the value of procurement falling within Total measured procurement spend and not excluded under the exclusion from total measured procurement spend from each Supplier of the Measured Entity;

C is the B-BBEE Procurement Recognition Level of each such Supplier of the Measured Entity.

B: THE CALCULATION OF PREFERENTIAL PROCUREMENT CONTRIBUTIONS TO B-BBEE

$$A = \frac{B}{C} \times D$$

Where

A is the calculated preferential procurement score for each criteria in the scorecard under statement 500 for the Measured Entity;

B is the total B-BBEE Procurement Spend of the Measured Entity calculated under measurement of B-BBEE Procurement Spend as a percentage of Total Measured Procurement Spend of that Measured Entity;

C is the compliance target for each criteria specified in the scorecard under statement 500;

D is the Weighting points allocated to each criteria specified in the scorecard under statement 500.