July 16, 2021

Preferential Procurement and Supplier Development – the underutilised enhancement partners

As in the case of the Revised Codes of Good Practice, Exempted Micro Enterprises (EMEs) and Qualifying Small Enterprises (QSEs) in the Construction Sector qualify for enhanced recognition levels based on their annual turnover and Black Ownership.

The position of EMEs and QSEs in the Construction Sector differs from those in other sectors.

The position of EMEs and QSEs in the Construction Sector will be focussed on in this blog.

EMEs in the Construction Sector qualify as follows:

- Less than 30% Black Ownership – Level 5
- At least 30% Black Ownership – Level 4
- At least 51% Black Ownership – Level 2
- 100% Black Ownership – Level 1

QSEs in the Construction Sector only have 2 levels, namely:

- At least 51% Black Ownership – Level 2
- 100% Black Ownership – Level 1

Both EMEs and QSEs in the Construction Sector need to apply skills as a priority element, which means that unless they achieve the sub-minimum (40%) for skills, they will be discounted one level to those levels identified above. *Built Environment Professionals (BEPs) in the Construction Sector with an annual turnover below R1,8 million and Contractors with a turnover below R3 million are excluded from skills as a priority element* and, subject to certain exceptions, will still achieve the above levels without meeting the skills target.

What are the enhancement options?

Apart from skills being a priority element, it can also be used to move up a level. So, if full points are achieved for the skills target, the entity will move up one level to those levels identified above.

For *EMEs*, the skills target is focused on spending only, while for QSEs the target is based on spending as well as the training of middle management and upwards management levels, and a portion for disabled persons. QSEs sometimes find it difficult to source disabled trainees and often also complain that they cannot afford to send management on training courses as their absence from the offices often leaves a significant gap in the service supply chain.

One way of circumventing this problem is to focus on preferential procurement and supplier development as an enhancement tool.

Although EMEs do not have the extra skills targets apart from spending only, it is important to mention that they can move up one level by achieving full points for Supplier Development Expenditure on the QSE Scorecard. This means that the annual value of all qualifying Supplier Development contributions must be 1% of their NPAT (Net Profit After Tax).

How can QSEs use Preferential Procurement and Supplier Development to their advantage?

Because QSEs have the *extra skills target for management training*, they should consider the advantages of using Preferential Procurement and Supplier Development to move up a level. Achieving the Skills sub-minimum is still a requirement but making use of the enhancement options for Preferential Procurement and Supplier Development might prove to come in handy.

As in the case of an EME, a QSE needs to achieve full points for Supplier Development according to the target highlighted above. A QSE, however, also needs to meet the *preferential procurement targets* as part of the element.

These targets are–

- B-BBEE Procurement spend from all Empowering Suppliers based on the B-BBEE recognition levels as a percentage of the TMPS (total measure procurement spend) – 60%
- B-BBEE procurement spend from Empowering Suppliers that are at least 51% Black Owned on the B-BBEE Procurement Recognition levels as a percentage of TMPS – 17,5%
- B-BBEE Procurement Spend from Empowering Suppliers that are at least 35% Black Women Owned based on the B-BBEE procurement recognition levels as a percentage of TMPS – 7,5%.

How can you put focus on your suppliers?

The higher the B-BBEE level of the supplier from whom you purchase, the more recognition will be awarded. A Level 4 supplier has a 100% recognition level. This means that for every R1 spend, a QSE will receive recognition for R1 spend. A Level 5 only receives 80% recognition. So, for every R1 spend, only 80c is recognised as spend.

Each level has its own recognition percentage awarded. It is crucial, therefore, that a QSE should also focus on their suppliers and their B-BBEE levels. The *Construction sector* is an extremely competitive sector where the playing field is wide open, so be sure to choose the correct supplier – not only for their product and services, but also for their B-BBEE contribution to the QSE’s possible enhancement.

SERR Synergy assists businesses to implement viable B-BBEE initiatives and ensures alignment of initiatives with the legal requirements of the B-BBEE Codes. We provide B-BBEE consultation services to businesses, ranging from basic elementary requests to the most complex and integrated B-BBEE solutions specifically aimed at addressing B-BBEE challenges.

About our author: Audrey Cloete obtained her LLB degree from the North West University, Potchefstroom. After 7 years in legal practice, she changed career paths by entering the corporate environment in 2009. Audrey joined SERR Synergy in 2015 where she currently works as the National Verification Manager.