

Chapter Nine: Code 700 – Measurement of the Socio-Economic Development Element of Broad-Based Black Economic Empowerment

Statement 700 – The General Principles for Measuring Socio-Economic Development

Introduction

Code 700 seeks to encourage initiatives that enhance the ability of black people who remain non-participants in the economic mainstream to be included in participating in the economy in a sustainable manner. The challenge which Code 700 therefore seeks to address may be summarised as follows:

The Majority of Black People in South Africa are still unable to access the mainstream economy owing to lack of education and poverty

Although it is recognised that social initiatives cannot always be linked to obtaining financial independence for beneficiaries, where possible, Statement 700 adheres to the principle that socio-economic development initiatives should strive to facilitate access to the mainstream economy for black people. It does so by encouraging socio-economic development contributions linked to improving the financial circumstances of beneficiaries, such as:

- Provision of development capital for communities
- Training or mentoring to beneficiary communities which will assist them to increase financial capacity
- Offering preferential terms to beneficiary communities when purchasing their goods/ services (e.g. early payment)

The most critical aspect of the socio-economic development (SED) element is that SED initiatives should result in the sustainable economic participation by its intended beneficiaries and discourage perpetual dependence on hand-outs.

The Socio-Economic Development Scorecard

Criteria	Weighting	Compliance Target
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	Points	
Annual average value of all Socio-Economic Development contributions by the measured entity as a percentage of the target	5	1% of Net Profit After Tax (NPAT)

The Socio-economic development scorecard contains one indicator that measures socio-economic development contributions to defined beneficiaries, as well as contributions to certain Approved Projects such as projects in rural or underdeveloped urban areas, earmarked by government for development and any sector specific contributions which have been approved through gazetting of a particular industry's Sector Code.

BENEFICIARIES OF SOCIO-ECONOMIC DEVELOPMENT DEFINED

BENEFICIARY	DESCRIPTION OF BENEFICIARY
SOCIO-ECONOMIC DEVELOPMENT -	<p>Social development beneficiaries are either black individuals, or, as is more commonly the case, communities or groups of people. In the latter case the percentage of black people within the beneficiary group affects the amount of spend recognition in terms of the Codes:</p> <ul style="list-style-type: none"> • where 75% of the beneficiary group is black, then the full value of contributions is recognizable • where less than 75% of the beneficiary group is black, then value of the contribution multiplied by the percentage benefiting black people
APPROVED SOCIO-ECONOMIC DEVELOPMENT PROGRAMMES -	The beneficiaries of Approved Socio-Economic Development programmes must meet the definition of Socio-economic development beneficiaries

QUALIFYING SOCIO-ECONOMIC DEVELOPMENT CONTRIBUTIONS DEFINED

Qualifying Contributions is a collective term for:

- Socio-economic development contributions
- Approved socio-economic development programme contributions

provided that such contributions are made to the defined beneficiaries of socio-economic development initiatives and that they are directly aligned to the socio-economic development principles of resulting in the sustainable economic participation by its beneficiaries with the view to discouraging perpetual dependence on hand-outs.



QUALIFYING CONTRIBUTIONS:

TYPE	GENERAL NATURE & OBJECTIVE	EXAMPLES
SOCIO-DEVELOPMENT -	Socio-economic development contributions: <ul style="list-style-type: none"> should typically strive to promote access to the economy for beneficiaries 	<ul style="list-style-type: none"> development programmes (especially for Black Designated Groups as defined in Code 100) HIV/ AIDS & healthcare support Support to schools and educational assistance through bursaries Skills development for the unemployed; ABET programme support Support for arts and culture Guarantees/ security for beneficiaries Development capital for beneficiary communities Training/ mentoring of communities to assist them to increase their financial capacity Investment in the social wage of employees (e.g. housing, transport and healthcare)
APPROVED SOCIO-ECONOMIC DEVELOPMENT PROGRAMMES	Contributions to projects which have been approved by organs of state as well as those that are sector specific as agreed to by sector representatives through their sector codes	Approved Project contributions include <ul style="list-style-type: none"> Infrastructure Development Reconstruction in underdeveloped areas Rural Communities Geographical areas identified in the government's Integrated Sustainable Rural Development and Urban renewal projects

Key Measurement Principles

I. Cumulative recognition to allow for fluctuations in spend based on the financial needs of different projects in different years

All socio-economic development contributions are measured cumulatively from the earlier of the commencement of the Codes or a maximum of five years prior to the commencement of the codes until the date of measurement. This cumulative period will be limited to five years at a time – in other words the sum of contributions is averaged over the number of years (limited to a maximum of five years). The figures to be used will be either of the following:

- the annual average value of the amount of money spent by the measured entity and the average Net Profit After Tax over that cumulative period; or
- The value of the actual amount of money spent by the measured entity in the preceding



financial year and the actual Net Profit After Tax in the preceding financial period;

In the case where the measured entity has not recorded any Net Profit after tax either in the preceding financial period or during any time during the 5 year cumulative period; or the Net Profit Margin is less than a quarter of the norm in the industry; then Turnover should be used as a base for determining their target. The following formula should be utilised:

- $1\% \times \text{Indicative Profit Margin} \times \text{Turnover}$
- Please note that the Indicative Profit Margin is the profit margin in the last year in which the company's profit margin was at least one quarter of the industry norm.

2. Inception Date allows for recognition of prior spend if an entity so wishes

Certain companies may wish to choose an Inception Date which is not the date of commencement of the Codes, but an earlier date. This is to allow recognition for companies which were early starters and which contributed to socio-economic development initiatives before the commencement of the Codes. However, companies must be able to produce evidence of contributions prior to the gazetting of the Codes if they wish to claim this spend, as they would for recognition claims following the gazetting of the Codes.

3. The Benefit Factor Matrix

The purpose of the Benefit Factor Matrix is to incentivise spend in certain areas whilst still allowing significant recognition in other areas of socio-economic contributions.

Note: All socio-economic development spend must first be multiplied by the corresponding Benefit Factor which appears in the Benefit factor matrix attached as Annexe 700A



Example

If a measured entity spends R500,000 per annum on professional services rendered at no cost for supporting socio-economic development initiatives, then this spend must be multiplied by the corresponding Benefit Factor of 80%

Annexe 700 (A) – Benefit Factor Matrix

Qualifying Contribution type	Contribution Amount	Benefit Factor
Grant and Related Contributions		
Grant Contribution	Full Grant Amount	100%
Direct Cost incurred in supporting socio-economic development, or approved socio-economic development contributions	Verifiable Cost (including both monetary and non-monetary)	100%
Discounts in addition to normal business practices supporting socio-economic development, or approved socio-economic development contributions	Discount Amount (in addition to normal business discount)	100%
Overhead Costs incurred in supporting socio-economic development, or approved socio-economic development contributions	Verifiable Costs (including both monetary and non-monetary)	80%
Contributions made in the form of human resource capacity		
Professional services rendered at no cost supporting socio-economic development, or approved socio-economic development contributions	Commercial hourly rate of professional	80%
Professional services rendered at a discount supporting socio-economic development, or approved socio-economic development contributions	Value of discount based on commercial hourly rate of professional	80%
Time of employees of Measured Entity productively deployed in assisting beneficiaries and supporting socio-economic development, or approved socio-economic development contributions	Monthly salary divided by 160	80%

