

## **GUIDE ON START-UP ENTERPRISES**

### **About the Guide**

The guide is developed and distributed by the Broad-Based Black Economic Empowerment Commission (“B-BBEE Commission”) with the aim of providing guidance on how Start-up Enterprises are treated with the B-BBEE Codes of Good Practice issued with accordance with the B-BBEE Act.

### **Start-up Enterprise and B-BBEE**

The Codes of Good Practice defines Start-up Enterprises as recently formed or incorporated entities that have been in operation for less than a year, which is a departure from the norm where entities can claim start-up status for three to five years. A Start-up Enterprise does not include any newly constituted or restructured enterprise which is merely a continuation of a pre-existing enterprise or business.

### **Eligibility as a Start-up Enterprise**

In order to qualify as a Start-up Enterprise, the enterprise must provide an independent confirmation in terms of paragraph 4.5 of Codes Series 000. Start-up Enterprises are measured as Exempted Micro-Enterprise (EME) as per Codes Series 000 for the first year following their formation or incorporation.

### **Exemption from verification process**

EMEs are not required to undergo a verification process with verification agencies but only required to obtain sworn affidavits in accordance with the template provided on [www.thedti.gov.za](http://www.thedti.gov.za) confirming the following:

- Details of the deponent
- Whether management accounts and financial are being used;
- Financial year of the financial information;

- Annual Total Revenue of R10 million or less; and
- Level of black ownership of the entity

EMEs can alternatively also obtain a certificate from the Companies and Intellectual Property Commission confirming that they are a start-up and information can be obtained at [www.cipc.co.za](http://www.cipc.co.za).

Any misrepresentation of the above information constitutes a criminal offence as set out in the B-BBEE Act.

### **Automatic level for Start-up as EME**

Further to the exemption from the verification process explained above an EME which is at least 51% Black owned qualifies for elevation to “Level Two Contributor” having a B-BBEE recognition level of 125%, An EME, which is at least 100% black owned qualifies for elevation to “Level Two Contributor” having a B-BBEE recognition level of 135%.

### **Specific requirements for Start-up Enterprise in tenders/contractors/other economic opportunities**

In spite of the above-mentioned exemption from verification and enhanced status for EMEs and by extension Start-up Enterprises, Start-up Enterprises must submit a Qualifying Small Enterprise (“QSE”) scorecard when tendering for any contract, or seeking any other economic activity covered in terms of Section 10 (1) of the B- BBEE Act, which have a value higher than R10 million but less than R50 million, and for contracts of R50 million or more they are required to submit a Generic scorecard applicable to large entities.

This means a Start-up Enterprise will require a verification by accredited verification agency in these circumstances and the presentation of such scorecard must be based on annualised data.

## **Conclusion**

The aim is to reduce the regulatory burden and costs for Start-up Enterprises, so it is important that this be applied carefully for the benefits to be enjoyed by Start-up Enterprises. However, new entities established with a view to circumvent the B- BBEE Act, which are clearly a continuing business will not meet the requirements for Start-up Enterprises.

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