



**DETERMINING THE EFFECTIVE IMPLEMENTATION OF ENTERPRISE AND  
SUPPLIER DEVELOPMENT FUNDS**

**August 2022**

**FINAL REPORT**

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# ABBREVIATIONS

B-BBEE	Broad-Based Black Economic Empowerment
BDS	Business Development Support
DPW	Department of Public Works
DSDP	Accenture Global Diverse Development Programme
ED	Enterprise Development
EME	Exempted Micro Enterprise
ESD	Enterprise and Supplier Development
GSDP	Global Diverse Development Programme
MBEs	Minority Business Enterprises
ME	Measured Entity
NMSDC	National Minority Supplier Diversity Council
NPAT	Net Profit After Tax
QSE	Qualifying Small Enterprise
SAICA ED	South African Institute of Chartered Accountants Enterprise Development
SANAS	South African National Accreditation System
SD	Supplier Development
SDG	Sustainable Development Goal
<b>the dtic</b>	The Department of Trade, Industry and Competition

## COMMISSIONER'S FOREWORD

This report on the effective deployment of Enterprise and Supplier Development (ESD) funds is a timely and valuable contribution to how to realise the full potential of this vital B-BBEE lever for improved and sustainable B-BBEE outcomes. It is nearly 20 years since South Africa's mission to redress the injustice of economic exclusion of black people through the targeted approach embodied in the Broad-Based Black Economic Empowerment Act, 2003 (Act. No 53 of 2003 as amended). The report will be one of reference points in necessary reflections of where the country is, on the B-BBEE journey, and will serve as a resource on required solutions and interventions to ensure the next phase of B-BBEE will be better than previous years.

The research draws on international comparative experience to validate ESD as a policy and strategy, describing it as development-oriented and supportive of productive activities, decent jobs, entrepreneurship, creativity and innovation, and the formalisation and growth of small, micro and medium-sized enterprises, over and above it being about improving the capabilities and performance of suppliers and value-chains.

While it is encouraging that ESD is being enabled by compliance with B-BBEE policy/law by the entities measured, this is in a context of insufficient overall progress of B-BBEE in the country compared to the initial optimism and anticipation of the early years of democracy and national reconciliation, and the Constitution's advocacy for economic redress and inclusion.

Having been undertaken in the midst of Covid-19, the study also reflects how the pandemic negatively impacted B-BBEE, in terms of the number of B-BBEE transactions, initiatives and the quantum of funds allocated to ESD. According to the National Status and Trends on B-BBEE Report for 2021, the overall achievement of the set target towards ESD declined from 61% in 2020 to 46.46% in 2021, which is translated into aggregated spend of R26 billion by measured entities. This meant that many enterprises that required enhanced support in a challenging environment, were faced with lack of finance and that resulted into closure of businesses, especially the so-called exempted micro-enterprises (EMEs) and qualifying small enterprises. Still, the funds allocated to ESD, to comply with the requirement of 3% of a measured entity's net profit after tax, are not negligible, and if properly harnessed can contribute to the SMME sector's recovery and catalyse inclusive long-term growth of the sector and the broader economy.

The study puts the spotlight on critical issues that require attention in the ongoing implementation of B-BBEE, and which should be on the policy agenda of government and on the compliance agenda of private and public sector entities. For example, survey results for the study show that only 62% of



participating entities confirmed to having ESD strategies, most of which operate in the property, construction and financial services sectors. This suggests the prevalence of ad-hoc approaches to implementing ESD, which reduces the intended impact of ESD as B-BBEE lever. Another challenge is mis-alignment between the preferences of measured entities and the requirements of ESD beneficiaries, as far as what ESD should best focus on. For example, where the requirements of beneficiary entities may be operational effectiveness, market penetration and sustainability, a measured entity may instead consider (in order of importance from survey results) the relevance of the beneficiary's services and/or products; or its B-BBEE rating and overall performance; or grant contributions and/or early payment of suppliers; or mentoring, including offer of professional services to beneficiaries at no cost, as preferred ESD initiatives.

A related challenge is that in 2021 only 61% of the set targets was achieved for ESD, which is a continuing trend over the past five years (2017: 44%; 2018: 60%; 2019: 51%; 2020: 61%).

There is therefore clearly a need, from both policy and operational perspectives, to revisit and revitalise ESD through innovative approaches, informed by the true needs of SMMEs owned by black people, women, youth and persons living with disabilities, and in this way unlock the SMME sector's potential to support growth and job-creation. In this regard, the study recommends among others that ESD funds be pooled into a central fund, with a governance framework similar to the Solidarity Fund that was created to assist with responding to the Covid-19 pandemic. As part of this, a register or database of vetted black enterprises that qualify under the ESD element could be created, to enable the funding to be better targeted and more impactful than has been the case overall.

The reorientation of ESD, and the study's recommendation to that end, deserve serious engagement by government in partnership with the private sector. This is opportune as we approach 20 years of the B-BBEE Act in 2023, a milestone which calls for well-thought-out solutions and bold measures to better advance B-BBEE in the period ahead. To this end, the B-BBEE Commission stands ready to work with all stakeholders.

We wish to thank Afmas Solutions (Pty) Ltd for professionally executing a research project that could not have been easy, as well as the measured entities who saw value in participating in the exercise, and B-BBEE Commission colleagues who oversaw the process.

**TSHEDISO MATONA**  
**ACTING COMMISSIONER**

## EXECUTIVE SUMMARY

The research begins by outlining the scope, aims and objectives of the study. The main aim of the research was to assess how ESD funds can be implemented effectively in promoting the development and growth of black owned enterprises. The objectives of the research included determining the extent to which measured entities are able to implement the set profit target for enterprise and supplier development, determining the portion of the funds from the set NPAT target that measured entities have already deployed and that they may/are not able to implement, assessing the nature of the challenges that hamper the ability of measured entities from fully implementing the set NPAT target for enterprise and supplier development. Also, determining how the B-BBEE Commission can assist measured entities to fully implement the set NPAT target allocated for ESD. The study sought to provide an indication of compliance with the NPAT targets of ESD expenditure and advise the B-BBEE Commission of any specific interventions and/or recommendations to the Minister of **the dtic** with regards to Statement 400.

The section is followed by background information on South Africa's national ESD policy and the B-BBEE Act with special focus on Statement 400 which contains the general principles for measuring enterprise and supplier development. ESD is discussed as a global initiative that has proven to boost economies, diversify supply chains, and create jobs world-wide. The concept is further discussed in the context of developing small enterprises in South Africa given the country's history of apartheid. In South Africa, the SMME sector is a major contributor to GDP and the government has attempted to advance it through a variety of social and legal channels since the country's transition to democracy, with varying degrees of success. ESD is then discussed in terms of legislation, laws and policies driving black economic empowerment in the country with a special focus on the B-BBEE Act.

The literature review section unpacks both national and international definitions of ESD. International literature posits that SD is any effort to increase the performance of products and services or expanding the capabilities of beneficiary companies. ED promotes development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourages formalisation and growth of small, micro and medium-sized enterprises. Thereafter, the evidence of the impact of preferential expenditure on economies is investigated which highlighted the global trend toward use of local content requirements, where governments pursue a range of objectives such as employment creation, development of specific sectors or industries, skills, and technology transfer. The national and international experience on ESD strategy were discussed. The section leverages examples where direct government pressure and/or regulatory frameworks have led to the establishment of supplier development programs. The examples include the Chevron

program developed in Angola following the civil war, the Rio Tinto program developed in Canada, and the BHP Billiton program in Mozambique. In addition, the obstacles in ESD achieving sustainable impact in the country are also discussed. Case studies from the literature were reviewed to form basis for best practices, principles and critical success factors for workable implementation of ESD strategies.

The methodology section provides the motivation for adopting a mixed method approach i.e., including both qualitative and quantitative methodologies. The study design, the sampling technique applied, data collection tools, the treatment of non-responses and triangulation are all discussed. Two research instruments were designed to collect data for the research. A principal survey questionnaire was administered to survey respondents and a semi-structured questionnaire administered to key informants.

The findings section consolidate findings from case studies undertaken as part of the research and the survey findings. Based on the lessons from the case studies, the research discovered that the lack of understanding of B-BBEE legislation drove non-compliance for some public entities. The most common obstacle highlighted was that beneficiaries were not ready to scale up their businesses due to a lack of proper financial systems, strong financial management structures, sound business plans and governance structures. This challenge highlighted the need for ESD strategies to provide support in this regard so that these companies can start operating competitively and productively in a sustainable way.

The survey found most measured entities to have structured their approach to ESD with a clearly defined ESD strategy with their development relationships set within formally defined agreements. This is a positive finding as this is illustrative of a formal, strategic, and institutional commitment to ESD. This observation is supported by the fact that all entities with a clearly defined ESD strategy also reported to have a specific budget allocated towards this commitment. This stands in contrast to those companies that reported no strategy of which the majority reported no budget allocated to this function.

In general entities were found to limit their development support to only one type of contribution with preference shown towards monetary support consisting of grant contributions and early payment of suppliers. Just more than one third of entities provided mentoring programmes as their contribution towards ESD. Providing loans on favourable terms were found to be the least preferred contribution by measured entities noting that such loans are poor business practice that do not add to the sustainability of a business. Reasons provided for this stance was twofold. Firstly, measured entities argued that loans only add to the financial pressure of small businesses and thus only provide

temporary relieve with repayments often found difficult. Secondly the danger of applying these loans in an unwise manner was offered as a concern together with the little authority of measured entities to manage or advise on the spending there of by beneficiaries.

When selecting ESD beneficiaries the three main criteria applied by measured entities are firstly the relevance of services and/or products delivered by the applicant, secondly the B-BBEE rating of the applicant and thirdly the overall positive performance of the applicant. Considering the type of ESD beneficiary they prefer to support, an overwhelming majority noted to prefer EMEs. Considering available budgets for enterprise development according to the NPAT targets near to equal portions of measured entities reported budgets between R101 000 – R999 999, R1 million – R5 million and R21 million or more, with 5% more within the first category compared to the second.

Budgets for supplier development as set by the NPAT target found most entities with budgets of either between R1 million to R5 million (majority) or R21 million or more. Measuring the portion of the available funds spend towards supplier development, nearly two thirds of the entities indicated to have spent their entire budget, with a smaller portion that spent more. Of those that declared a budget for supplier development nearly all indicated to have spent their entire budget.

The following recommendations to facilitate improved ESD spending are offered in the report:

- i. Companies must develop a long-term approach to ESD.
- ii. For an ESD strategy to work, obtaining senior management commitment is vital for the success of the ESD programme.
- iii. Reinforce the commitment and responsibility of the public sector/general government to implement enterprise and supplier development.
- iv. Create a collaborative environment between measured entities and B-BBEE Commission towards the empowerment of EMEs and QSEs.
- v. Stronger emphasis towards building and strengthening skills and capacity at EMEs and QSEs as part of the ESD programme.
- vi. Reinforce the importance of both having an ESD strategy and reviewing its relevance to every ESD relationship.
- vii. Build and maintain a database of possible ESD beneficiaries.
- viii. Acknowledge development support that fall outside the standard NPAT spending in scoring ESD programmes.
- ix. Local content must be promoted in ESD programmes to increase the multiplier effects on the local economy.

## 1. INTRODUCTION

The B-BBEE Commission, as an entity within the administration of the Department of Trade, Industry and Competition (“**the dtic**”) is mandated amongst others to promote adherence to the B-BBEE Act in the interest of the public, as well as to promote good governance and accountability by creating an effective and efficient environment for the promotion and implementation of Broad-Based Black Economic Empowerment (B-BBEE).

The B-BBEE Commission formally started operating in June 2016 pursuant to the gazetting of the B-BBEE Regulations, which means it has been in existence for more than five years. In execution of its mandate, the B-BBEE Commission through the annual release of the National Status and Trends on B-BBEE Report has noted that measured entities for the past five (5) years have not been fully implementing the requirements of Statement 400 of the Codes of Good Practice (the Codes) in as far as Enterprise and Supplier Development (ESD) funds are concerned. Generally, entities spend between 40% and 60% of the 3% or 0.3% Net Profit After Tax (NPAT)/allocated budget of funds directed towards ESD.

Statement 400 is one of the three priority elements of B-BBEE Codes, which aims to strengthen local procurement, enhance local supplier development programmes and increase the financial support towards black owned entities.

The ESD element amongst others measures contributions invested towards supplier development and enterprise development initiatives intended to assist and accelerate the growth and sustainability of black owned enterprises. Measured entities annually have to spend 2% of NPAT for supplier development and 1% of NPAT on enterprise development. This is aligned to Section 2 (h) of the B-BBEE Act, which stipulates that the objectives of B-BBEE amongst others is to increase effective economic participation and black owned and managed enterprises, including small, micro and medium enterprises and co-operatives and enhancing their access to financial and non-financial support.

With the effects of COVID-19 on small businesses and black owned enterprises, there is a need to urgently implement workable initiatives to contribute to the support and relief of these enterprises in a quest to contribute to government’s Economic Reconstruction and Recovery Plan. ESD funds have a potential to uplift black enterprises and entrepreneurs and where there are obstacles in effectively deploying the funds for the desired impact, measures can be immediately implemented to unlock such obstacles in line with the objectives of the B-BBEE Act.

Therefore, the B-BBEE Commission appointed AFMAS Solutions (Pty) Ltd to determine how measured entities effectively implement ESD funds, the obstacles they encounter and proposed measures to unlock these obstacles.

## **1.1 Aim and Objectives of the Research**

The main aim and objective of the study is to ascertain how ESD funds can be implemented effectively in promoting the development and growth of black owned enterprises. In particular, the objectives of this survey can be summarised as follow:

- To determine the extent to which measured entities are able to implement the set Profit target for enterprise and supplier development.
- To determine the portion of the funds from the set NPAT target that measured entities have already deployed and that they may/are not able to implement.
- To assess the nature of the challenges that hamper the ability of measured entities from fully implementing the set NPAT target for enterprise and supplier development.
- To determine how the B-BBEE Commission can assist measured entities to fully implement the set NPAT target allocated for ESD.

The study findings provide an indication of compliance with the 3% of NPAT, or 0.3% of allocated budget, and inform the B-BBEE Commission in its decision-making processes whether there is a need for any specific interventions and/or recommendations to the Minister of Trade, Industry and Competition with regards to Statement 400.

## **1.2 Scope of the Project**

The study:

- Measures the extent that measured entities are implementing the NPAT targets set for enterprise and supplier development in line with Statement 400 of the generic/ sector codes.
- Determines the percentage of funds from the targeted NPAT as per Statement 400 of the generic/sector codes that measured entities have initiated and spent with beneficiary entities.
- Evaluates the shortfall percentage from the targeted NPAT funds as per Statement 400 of the generic/sector codes that measured entities have not been able to implement and direct towards ESD.
- Identifies the challenges faced by measured entities in implementing the requirements of Statement 400 of the generic/sector codes and make recommendations.

- Assesses how the B-BBEE Commission can assist measured entities to fully initiate and implement the set NPAT targets for ESD.

## 2. BACKGROUND

South Africa has a history of apartheid where race was used to control access to productive resources and access to skills. The country's history produced disparities in economic opportunities based on race resulting in many Black<sup>1</sup> people not enjoying the same opportunities as White people in the country. The legacy of apartheid's policies exists to this day, where the economy still excludes the Black majority from ownership/control of productive assets and the possession of advanced skills.

With the advent of democracy, the government has led efforts to level the economic playing field. The B-BBEE framework was formulated to bridge the gap between formal and substantive equality to ensure that all people in South Africa fully enjoy the right to equality in line with the country's constitution. The Constitution of the Republic of South Africa, adopted in 1996, guarantees all South Africans the right to equality and establishes a legal framework for equal treatment.

The government envisioned "broad-based black economic empowerment" as viable economic empowerment of all Black people, in particular women, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies.

The objectives of the B-BBEE strategy were to facilitate broad-based black economic empowerment by:

- increasing the number of Black people that manage, own and control enterprises and productive assets.
- facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises.
- human resource and skills development.
- achieving equitable representation in all occupational categories and levels in the workforce.
- preferential procurement for enterprises that are owned or managed by Black people; and

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<sup>1</sup> Section 1 of the B-BBEE Act has defined black people as "Africans, Coloureds and Indians who are citizens of the Republic of South Africa by birth or descent; or who became citizens of the Republic of South Africa by naturalisation before 27 April 1994 or on or after 27 April 1994 and who would have been entitled to acquire citizenship by naturalisation prior to that date. It is imperative to note that although other categories of people—e.g., youth, women, people living with disabilities, and people living in rural areas—are specifically targeted, the legislation requires these beneficiaries to be black as per the B-BBEE's Act's definition (Shai, Molefinyana & Quinot, 2019).

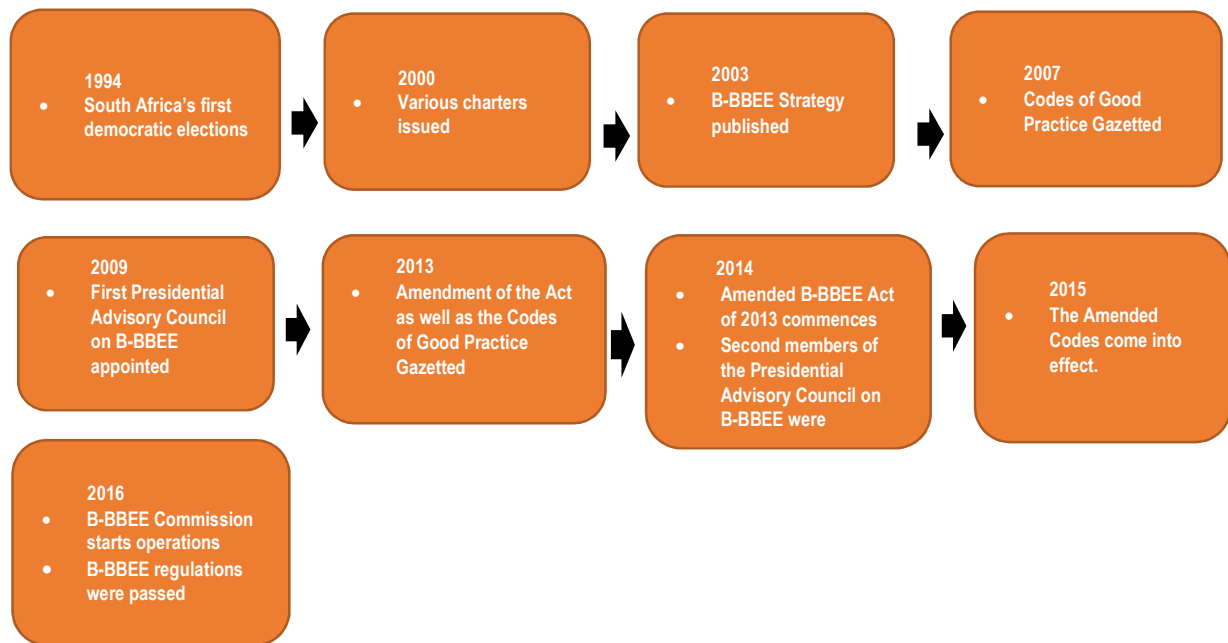
- investment in enterprises that are owned or managed by Black people (**the dtic**, 2016).

These goals were implemented to encourage active participation of much of the population in the economy in the belief that equal economic opportunities would ultimately benefit all South Africans in the long run. The governance of the B-BBEE policy was conducted through the following instruments:

- the B-BBEE Act, 2003 (as amended);
- the generic Codes of Good Practice on B-BBEE (B-BBEE Codes). The revisions to the 2007 version of the B-BBEE Codes were issued on 11 October 2013 and came into force on 1 May 2015; and
- certain sector-specific Codes (Sector Codes). An entity operating in a sector with a Sector Code will be governed by that Sector Code and not the Generic Codes

Figure 1 below summarizes South Africa’s transformation journey since the advent of democracy in 1994:

*Figure 1: South Africa’s Transformation Journey since the Advent of Democracy*



Source: Adapted from B-BBEE Commission (2022)

The Minister of Trade, Industry and Competition is empowered under the B-BBEE Act and the B-BBEE strategy document to create codes of good practice that describe measurement criteria, targets, audit requirements, and definitions for the industry. The codes may include the further interpretation and definition of B-BBEE. They can also include the interpretation and definition of different categories of Black empowerment entities; qualification criteria for preferential purposes for procurement and



other economic activities; indicators to measure broad-based black economic empowerment; the weighting to be attached to the measures of these indicators; guidelines for stakeholders in the relevant sectors of the economy to draw up transformation charters and codes of good practice for their sector; and any other matter necessary to achieve the objectives of the Act.

The Codes, which are issued under the B-BBEE Act, specify how B-BBEE must be measured in South Africa. A scorecard (measurement) approach is used to assess B-BBEE, in which points are assigned to different aspects of B-BBEE, such as ownership, management control, skills development, enterprise and supplier development (including preferential procurement), and socio-economic development, to arrive at a company's B-BBEE score. These indicators for measuring B-BBEE, as well as the weightings associated with them, are set out in the Codes.

## **2.1 National ESD Policy and the B-BBEE Act**

Enterprise and Supplier Development is not just a South African notion; it's a global movement that has proved to boost economies, diversify supply chains, and create jobs. The bulk of businesses and a sizeable share of employment in both developed and emerging economies are SMMEs. These enterprises, however, face many obstacles that prevent expansion, such as poor technological capabilities, limited human resource capacity, and restricted access to capital. The South African government has pushed ESD, which is now a key component of South Africa's national policy to create a more inclusive economy, to aid in the growth of this sector (Trialogue, 2020).

Small enterprises in South Africa suffer a wide range of difficulties that are rooted in the country's history of apartheid. Given the importance of the SMME sector as a major contributor to GDP, the South African government has attempted to advance it through a variety of social and legal channels since the country's transition to democracy, with varying degrees of success.

The South African Constitution, which was released in 1996, is the main driving force behind the laws and policies controlling black economic empowerment in the country. The Constitution directs procurement by mandating that it be done in accordance with a system that is fair, egalitarian, transparent, competitive, and cost-effective. It first establishes rules for equality and protection against disadvantage due to unfair discrimination. In addition, "*affirmative action to address the deliberate marginalization from economic, political and social power of black people, women and rural communities and to empower communities and individuals from previously disadvantaged sectors of society*" is provided for in a 1997 Green Paper on Public Procurement Reform (Shai, Molefinyana & Quinot, 2019).

The National Treasury's Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA) was the first piece of legislation to address the constitutional requirement for a procurement intervention. Each organ of state was required by the PPPFA to establish its preferred procurement point system. The PPPFA was put into effect by the Preferential Procurement Regulations, which were published in 2001. They also set forth the point system and criteria that are used for giving preferences when evaluating public tenders. It developed the 80/20- and 90/10-point systems, which assign 80 or 90 points to a bidder's price and 20 or 10 points to preference, based on the contract's worth and capturing the bidder's commitment to black economic empowerment. Generally, the tender with the most points must be chosen. As a prelude to the B-BBEE Act, the BBBEE integrated plan was published in the same year. This was followed by the B-BBEE Act 53 of 2003 that was administered by **the dtic** (Shai, Molefinyana & Quinot, 2019).

Enterprise and Supplier Development forms part of the B-BBEE legislation. The ESD program's goal, according to the B-BBEE Commission, is to *"create a conducive environment for the building of sustainable relationships between corporate South Africa and black entrepreneurs to facilitate access and transformation of value chains."* B-BBEE is a government program that aims to correct past wrongs and spread the nation's wealth among all races and genders, as well as promote growth, development, and entrepreneurial development. B-BBEE is the policy implementation through the B-BBEE Act (as Amended) and the Codes of Good Practice, which provide the foundation for ESD policies for big corporations.

The B-BBEE framework recognizes an ESD beneficiary as a small to medium sized business that has not yet fully developed from a capacity point of view. It is defined "as up and coming enterprises but not yet fully developed". Currently the B-BBEE scorecard is looking at developing small business with Black owners.

B-BBEE is made up of a variety of components aimed at boosting the proportion of Black people who manage, own, and control the country's economy, as well as reducing racially based economic disparities. The B-BBEE score of a measured entity is calculated using a scorecard technique, in which different components of B-BBEE are weighted according to a points system. A general scorecard is included in the general Codes, whereas sector-specific scorecards are available in the sector codes for individual sectors. The scorecards detail the various B-BBEE elements and sub elements against which businesses are assessed, as well as the targets that must be met for each element and sub element. The closer a company comes to achieving a certain target, the more B-BBEE points it will obtain (Bowmans, 2021).

The B-BBEE scorecard consists of five elements namely:

1. Ownership
2. Management Control
3. Skills Development
4. Enterprise and Supplier Development
5. Socio-Economic Development

The requirement is for both private and public sector entities to comply with the elements outlined in the B-BBEE legislation, with the exception of the ownership element for organs of state and public entities. In terms of a firm's score on the five elements of B-BBEE, the following table (table 1) is used to determine B-BBEE status. Each element's score is determined using the numerous scorecards. In practice, an accredited B-BBEE verification agent conducts annual verification and issues an annual B-BBEE certificate confirming the measured entity's B-BBEE status. The measured entity may use this certificate for business purposes, including for presenting offers to customers.

*Table 1: B-BBEE Recognition Levels*

BEE Status Level	Number of weighting points
Level 1	≥ 100 points
Level 2	≥ 95 but < 100 points
Level 3	≥ 90 but < 95 points
Level 4	≥ 80 but < 90 points
Level 5	≥ 75 but < 80 points
Level 6	≥ 70 but < 75 points
Level 7	≥ 55 but < 70 points
Level 8	≥ 40 but < 55 points
Non-Compliant	< 40 points

Source: *the dtic* (2019)

The Codes recognise three elements as priority elements, which is ownership, skills development, and enterprise and supplier development. Priority Elements are those to which a sub-minimum is applied. This means that if the company does not meet the sub-minimum score by 40%, they will be discounted by one B-BBEE level. As a result, there is a strong emphasis on ensuring that Priority Elements are met in order to avoid being penalized.

However, for the entities that are either state-owned or have no shareholding or equity structure that is capable of being measured against the requirements of the ownership element, the Codes have provided the specialised scorecard in Statement 004 to guide their B-BBEE measurement. These entities must apply for the Specialised Scorecard, which excludes black ownership from the measurement of determining compliance with the B-BBEE Act. This includes state owned enterprises

or entities that by nature do not have ownership that is capable of meeting the requirements for measurement of black ownership, such as public benefit organisations. Therefore, organs of state, public entities and enterprises owned by organs of state, companies limited by guarantee, not for profit companies (formerly section 21 companies), public higher education institutions and not for profit organisations (NPOs) would fall under Statement 004 as specialised entities that are measured on the Specialised Scorecard (B-BBEE Commission, 2021).

The essence of Enterprise Development (ED) is expressed in the provision of capital and support to small and medium-sized businesses in order to help them expand. This assistance can assist small enterprises in overcoming difficulties and increasing their market competitiveness, resulting in job creation and poverty reduction. Supplier development (SD) is a broad word, but according to the B-BBEE Codes, it is defined in South Africa as "*Enterprise Development that occurs specifically in the Measured Entity's supply chain.*" Through the supply of additional or extended contracts, the Measured Entity has the ability to significantly expand the revenue stream to the ED recipient.

Whereas SD is one of several strategic techniques accessible to businesses all over the world to assist and ensure local content sustainability or just improve supply chains, supplier development aids the achievement of high Preferential Procurement targets in South Africa by assuring the growth of capable suppliers in important sectors and is also supported through distinct enterprise development targets. SD helps local SMMEs become more capable of participating actively and successfully in the company's supply chain, which helps them to diversify their customer base indirectly (Simanye, 2014). Being part of a Supplier Development Program often opens funding prospects for recipients', as fixed contracts are generally a crucial criterion for funding (WRSETA, 2015).

ESD has a component of preferential procurement that aims to develop and diversify a company's supply chain while also promoting economic growth and job creation. All major corporations with a revenue of more than R50 million must assess themselves against the aforementioned elements in order to receive a B-BBEE rating and thereby comply with applicable legislation. Preferential Procurement assesses how much of a company's goods and supplies are purchased from B-BBEE-compliant suppliers and specified designated groups (e.g., Black Youth, Women, and People with Disabilities). Under the ED and SD categories of the enterprise and supplier development scorecard, precise targets have been specified for the measured entity to comply within each of the Codes. ED and SD are the top priority elements of the B-BBEE Scorecard (**the dtic**, 2019).

There is no 'hard legislation' in South Africa requiring a private entity to reach a given amount of B-BBEE or that Black people possess a certain percentage of equity in a business, save in some state licensing, permitting, and authorisation processes. In addition, there are no penalties for

disobedience. However, any company wishing to do business in South Africa must consider and develop its B-BBEE position, as an entity that does not have a good B-BBEE rating or does not strive to improve its B-BBEE rating may be hampered in the conduct of its day-to-day business with Government, state organs, and the private sector, in addition to the pressures from Government. Furthermore, depending on the restrictions imposed by sector-specific legislation, a company's B-BBEE rating and/or local ownership may be a decisive factor when applying for a state license, permit, or authorisation (Bowmans, 2021).

For the public sector, the B-BBEE Act in section 10 (1) mandates every organ of state and public entities to apply the relevant applicable code of good practice issued under the Act in the following areas:

- a) Determining qualification criteria for the issuing of licenses, concessions or other authorisations in respect of economic activity in terms of any law;
- b) Developing and implementing a preferential procurement policy;
- c) Determining qualification criteria for the sale of state-owned enterprises;
- d) Developing criteria for entering into partnerships with the private sector; and
- e) Determining criteria for the awarding of incentives, grants and investment schemes in support of B-BBEE.

Section 10 of the Act is mandatory and is difficult to implement to a practicable extent and was amended when the 2003 Act was amended.

In other industries, such as mining and telecommunications, minimum equity criteria are imposed or may be imposed under sector-specific legislation. However, the Codes are legally binding on all state and state-owned entities. This means that government will have to use the Codes to measure B-BBEE compliance when choosing suppliers, granting licences, or making concessions. Certain industries require an entity to have a specific percentage of Black ownership or B-BBEE level to receive and maintain a licence to operate (SERR Synergy, 2022). Also, a measured entity that fails to comply with the Codes may be found in violation of the B-BBEE Act, and the penalties set forth therein may apply, in that a natural or juristic person can be found guilty of fronting practice(s) under the B-BBEE Act and face a fine of up to 10% of annual turnover or a maximum prison term of ten (10) years. Furthermore, any natural or juristic person convicted of a B-BBEE Act violation will be barred from doing business with any state or public entity for a period of ten years from the date of conviction and will be listed on the National Treasury's tender defaulters record (B-BBEE Commission, 2019).

## **2.2 Statement 400**

Statement 400 is one of the elements of B-BBEE on which a measured entity's B-BBEE score is measured. It was gazetted by **the dtic** on the 11 October 2013<sup>th</sup> and, came into effect on 1<sup>st</sup> of May

2015 as part of the amendments to the generic Codes, and later amended on 31 May 2019. The Amended Code Series 400, Statement 400 codes of good practice on B-BBEE was published in terms of Section 9 (1) of the B-BBEE Amendment Act 2003, (Act No. 53 of 2003) as amended by Act 46 of 2013. The code provides general principles for measuring the extent to which: entities purchase goods and services from designated suppliers with high B-BBEE recognition levels (preferential procurement); and enterprises engaged in supplier development and enterprise development initiatives to help accelerate the growth and sustainability of enterprises owned by black people. The objectives of statement 400 were to:

1. Specify the scorecard for measuring enterprise and supplier development;
2. Specify the key measurement principles applicable to calculating preferential procurement contributions; qualifying enterprise development and supplier development contributions;
3. Define the principles applicable when calculating B-BBEE procurement spend and ED and SD spend; and
4. Indicate the formula for calculating the individual criteria specified in the enterprise and supplier development scorecard (**the dtic**, 2019).

Statement 400 altered how a company's B-BBEE status (or level) is determined, as the number of B-BBEE points required to obtain a specific B-BBEE level was increased. Table 2 provides a breakdown of the amended criteria for deriving a score for ESD as per statement 400.

Table 2 Amended scorecard on statement 400

Criteria	Weighting points	Compliance targets
<b>Preferential Procurement</b>		
B-BBEE Procurement Spend from all Empowering Suppliers based on the B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	5	80%
B-BBEE Procurement Spend from all Empowering Suppliers that are Qualifying Small Enterprises based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	3	15%
B-BBEE Procurement Spend from all Empowering Exempted Micro-Enterprises based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend.	4	15%
B-BBEE Procurement Spend from Empowering Suppliers that are at least 51% Black Owned based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	11	50%
B-BBEE Procurement Spend from Empowering Suppliers that are at least 30% Black Women Owned based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	4	12%
<b>Bonus points</b>		
B-BBEE Procurement Spend from Empowering Designated Group Suppliers that are at least 51% Black Owned.	2	2%
<b>Supplier Development</b>		
Annual value of all Supplier Development Contributions made by the Measured Entity as a percentage of the target	10	2% of NPAT
<b>Enterprise Development</b>		

Annual value of Enterprise Development Contributions and Sector Specific Programmes made by the Measured Entity as a percentage of the target.	5	1% of NPAT
<b>Bonus points</b>		
Bonus point for graduation of one or more Enterprise Development beneficiaries to the Supplier Development level.	1	
Bonus point for creating one or more jobs directly as a result of Supplier Development and Enterprise Development initiatives by the Measured Entity.	1	

Source: **the dtic** (2019)

Based on the sub-minimum and discounting principle, a Measured Entity must achieve a minimum of 40% of each of the total weighting points. Non-compliance to one or more of the threshold targets will result in the overall achieved B-BBEE status level being discounted (**the dtic**, 2019). Section 4.9 of Gazette #42496, Statement 400, encourages businesses to link their ED and SD programs with their supply chain needs. Enterprise Development, SD, and Preferential Procurement should all be linked in some way. An organization will be eligible for the two Bonus Points available under ESD if these three sub-elements are correctly aligned. These rules apply to all scorecards, including Large Enterprises, Qualifying Small Enterprises, and Specialized Enterprises. For instance, if a company supports a 51 percent 'Black'-owned EME, QSE, or Large Enterprise as part of its ED plan, the company will be eligible for the Bonus Points. When an organization includes an ED Beneficiary into its supply chain by procuring from them, additional Bonus Points are available. It's worth noting that such a graduation would elevate them to SD status rather than SD Beneficiary level. The reason for this is that whereas an ED Beneficiary is not a part of a company's supply chain, a SD Beneficiary is. To be eligible for the Bonus Points, an organization must show that before becoming a Beneficiary, an ED Beneficiary was not a part of its supply chain (Harding, 2020).

## 2.3 Measurement of ESD contributions and Net Profit After Tax (NPAT) Targets

A Measured Entity receives a score for the 'Supplier Development Contributions' indicator in proportion to the extent that it meets the compliance target for the indicator in the Supplier Development Contributions scorecard. According to **the dtic** (2019), the compliance target on the



scorecard is based on the average NPAT of the Measured Entity over the three financial years that precedes the measurement period and will be the basis for determining the targets unless:

- The Measured Entity did not make a profit on average over this three-year period; or
- The average net profit margin of the Measured Entity over this three-year period was less than a third of the industry norm net profit margin during the same three-year period.

In cases where the above applies, the indicative NPAT of the Measured Entity for the three financial years that precedes the measurement period will be the basis for determining the targets. The indicative NPAT is the revenue of the Measured Entity for the measurement period, multiplied by a third of the average industry norm net profit margin for the three financial years that precedes the measurement period. The industry norm net profit margin must be determined with reference to the quarterly statistics supplied by Stats SA or such other verifiable data that might be available for the applicable Sector. In the case that the industry norm net profit margin for the three financial years that precedes the measurement period yields a negative result then Qualifying Supplier Development Contributions of nominal value will earn the Measured Entity the full points under paragraphs 2.3.1 provided that the nominal value shall not be less than 50% of the previous year's target. In the case of a second measurement period, which yields a negative result the nominal value will be 50% of the previous year's nominal value and this will continue for any subsequent periods of negative results.

Based on **the dtic** (2019), qualifying SD contributions are measurable using the formula below:

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

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 **A** and **B** 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 for the Measurement Period. **C** is the latest B-BBEE Procurement Recognition Level of each Supplier of the Measured Entity that can be supported by a B-BBEE verification certificate (or sworn affidavit in the case of at least 51% or 100% Black Owned EME's and QSE's), that was valid at any time from the commencement of the measurement period up to the issuing of the Measured Entity's B-BBEE verification certificate. Besides the fact that only contributions that became payable within the measurement period will be recognised for inclusion in the Measured Entity's SD claim, it is expressly stated for the avoidance of doubt, that the NPAT for the measurement period itself does not form part of the calculation of the Target (**the dtic**, 2019).

Preferential Procurement Contributions to B-BBEE are calculated as below:

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

Where **A** is the calculated preferential procurement score as per the Preferential Procurement scorecard under statement CSC400 for the Measured Entity. **B** is the total B-BBEE Procurement Spend of the Measured Entity calculated for each of the indicators of the Preferential Procurement scorecard expressed as a percentage of the Total Measured Procurement Spend of that Measured Entity; **C** is the compliance Target for this indicator of the Preferential Procurement scorecard; **D** are the weighting points allocated to each of the indicators of the Preferential Procurement scorecard. Table 3 presents the most common types of contributions that a Measured Entity can contribute towards the identified ED or SD beneficiaries along with the benefit factor matrix that is applicable to both SD and ED contributions.

Table 3: The Benefit Factor Matrix

Qualifying Contribution type	Contribution Amount	Benefit Factor
<b>Grant and Related Contributions</b>		
Grant Contribution	Full Grant Amount	100%
Direct Cost incurred in supporting Enterprise and Supplier Development	Verifiable Cost (including both monetary and non-monetary)	100%
Discounts in addition to normal business practices supporting Enterprise and Supplier Development	Discount Amount (in addition to normal business discount)	100%
Overhead Costs incurred in supporting Enterprise and Supplier Development (including people appointed in Enterprise Development and Supplier Development)	Verifiable Cost (including both monetary and non-monetary)	70%
<b>Loans and Related Contributions</b>		
Interest-Free Loan with no security requirements supporting Enterprise Development and Supplier Development	Outstanding Loan Amount	70%
Standard Loan to Enterprise Development and Supplier Development Beneficiaries	Outstanding Loan Amount	50%
Guarantees provided on behalf of a beneficiary entity	Guarantee Amount	50%
Lower Interest Rate	Outstanding loan amount	Prime Rate – Actual Rate
<b>Equity Investments and Related Contributions</b>		
Minority Investment in Enterprise Development and Supplier Development Beneficiaries	Investment Amount	70%

Enterprise Development and Supplier Development Investment with lower dividend to financier	Investment Amount	Dividend Rate of Ordinary Shareholders – Actual Dividend Rate of Contributor
<b>Contributions made in the form of human resource capacity</b>		
Professional services rendered at no cost and supporting Enterprise and Supplier Development	Commercial hourly rate of professional services	60%
Professional services rendered at discount and supporting Enterprise and Supplier Development	Value of discount based on commercial hourly rate of professional services	60%
Time of employees of Measured Entity productively deployed in assisting beneficiaries	Monthly salary divided by 160	60%
<b>Other Contributions</b>		
Shorter payment periods for 2.2 of this statement (Supplier Development)	Percentage of invoiced amount multiplied by 15% (being approximating of the cost of short-term funding)	Percentage being 15 days less the number of days from invoice to payment. The Maximum points that can be scored is 15% of 10 points

Source: *the dtic* (2019)

According to **the dtic** (2019), a measured entity receives a score for ESD in proportion to the extent that it meets the compliance target. The compliance target of 3% of NPAT, or 0.3% of allocated budget, for indicator of ESD contributions is based on the average NPAT of the Measured Entity during the three financial years prior to the measurement period, unless:

- The measured entity's average net profit margin during this time was less than one-third of the industry average for the same three-year period.
- The measured entity did not, on average, earn a profit throughout the course of this three-year period.

Where, either of the factors above are present then the Indicative NPAT of the measured entity) for the three financial years that precedes the measurement period, will be the basis for determining the Targets. The NPAT for the measurement period itself does not form part of the calculation of the target. The Indicative NPAT is the revenue of the measured entity for the measurement period, multiplied by a third of the average industry norm net profit margin for the three financial years that precedes the measurement period. The industry norm net profit margin must be determined with reference to the quarterly statistics supplied by Stats SA or such other verifiable data that might be available for the applicable Construction Sector. Where the industry norm net profit margin for the three financial years that precedes the measurement period yields a negative result then Qualifying

Supplier Development Contributions of nominal value will earn the measured entity the full points under paragraphs 2.3.1 of the B-BBEE Act. Provided that the nominal value shall not be less than 50% of the previous year's target. In the case of a second measurement period which yields a negative result the nominal value will be 50% of the previous year's nominal value this will continue for any subsequent periods of negative results.

Following consultation, the following are the Generic Codes for calculating NPAT objectives under ED and SD:

The NPAT or average target applies unless an organisation:

- Did not make a profit over the past 12 months; or
- Has shown, on average over the last five years, a net profit margin which has been less than a quarter of the norm in the industry.

Under the General Codes for Large Enterprises using the NPAT calculation, targets are:

- 1% of NPAT for ED;
- 2% of NPAT for SD;

When an organization's NPAT is not available, each of the above must rely on the Indicative Profit Margin. The Indicative Profit Margin is the profit margin used in the preceding year, where the profit margin of an organization is at least one-quarter of the industry norm. Unless a specific Sector Code specifies otherwise, and in accordance with B-BBEE verification principles and techniques, the following applies:

**Step 1:**

Determine whether the contribution recognition claimed is for the measurement period only or whether it spans across multiple measurement periods.

**Step 2.1:**

If based on the measurement period only, compare the NPAT margin to the Industry Norm, which appears in the current StatsSA Quarterly Report.

**Step 2.2**

If based on multiple measurement periods, compare the average NPAT margin over the measurement periods used to the Industry Norm found in the latest StatsSA Quarterly Report.

**Step 3:**

If the NPAT margin is 25% or more than the industry norm, said NPAT figure applies.

**Step 4:**

If the NPAT margin is less than 25% of the industry norm, the target becomes turnover based. Calculate Indicative Profit Margin - NPAT/Turnover. The NPAT figure used must be the most recent NPAT - not older than five years - which is at least 25% of the industry norm.

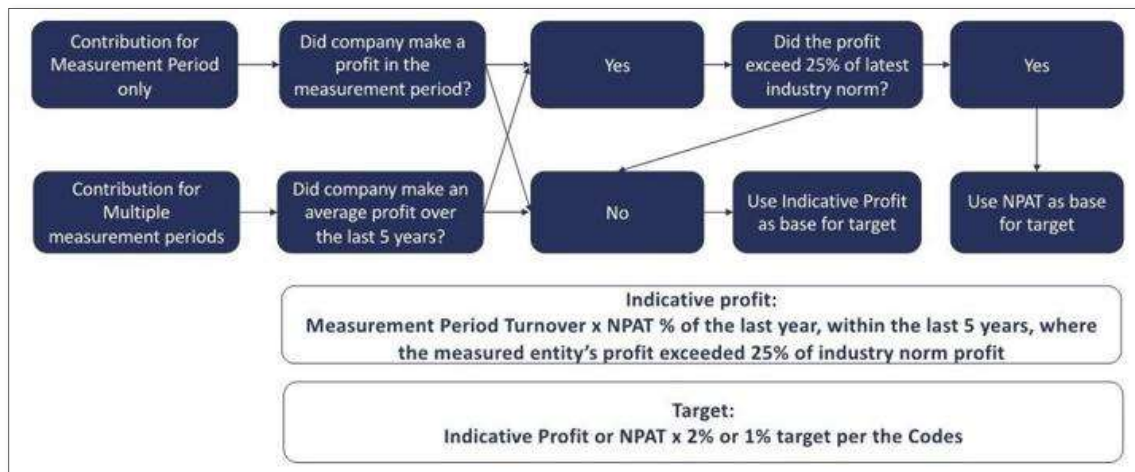
**Step 5.1:**

Slot Indicative Profit Margin into the formula element target  $(1\% \text{ or } 2\%) \times \text{IPM (Actual Figure and not 25\% of IPM)} \times \text{Turnover} = \text{New Target}$ .

**Step 5.2:**

If the NPAT margin is less than 25% of the industry norm and is older than five years, the target becomes 25% of the latest industry norm (The BEE Chamber, 2020).

Figure 2: Establishing base for ESD targets



Source: The BEE Chamber (2020)

The Codes have provided for the application of industry norms by applying an Indicative Profit Margin calculation to establish the real contribution in the instance where a measured company did not produce profit for that particular year. Indicative profit margin is defined as the profit margin in the previous year that is at least one quarter of the industry norm; for example, if the industry average is 4%, then NPAT over Turnover must be larger than or equal to 1% (calculated as  $0.25 \times 4\% = 1\%$ ). The average profit margin for the whole South African industry over a 12-month period was 4.54 percent in September 2019 (the most recent full statistics given by StatsSA as of February 2020). Naturally,

each sector has its own profit margin ratio, which is utilized to calculate the SED contribution for that industry (Tonkin, 2022). The Profit Margin ratios per industry over a rolling 12-month period are given in table 4 below.

*Table 4: Profit Margin ratios per industry over a rolling 12-month period*

Sector	Profit Margin Ratios
Mining and Quarrying	5,69%
Manufacturing Industry	3,70%
Electricity Gas and Water supply	6,39%
Construction	2,18%
Trade	3,73%
Transport Storage and Communication	2,55%
Real estate and other business services	12,39%
Community, Social and personal services	6,97%

Source: (Tonkin, 2022)

There are specific targets that have been set for the measured entity to comply with under the ED and SD categories of the ESD scorecard. These are specified in the Codes of Good Practice, which include the generic Codes that are applicable to all sectors that do not have a specific sector code approved and gazetted by the Minister, as well as sector Codes, that must be applied in the relevant sectors for which they were approved such as construction, property, tourism, transport etc. Table 5 below summarises these targets according to the type of Codes:

*Table 5: NPAT targets by sector*

Sectors	Elements	Generic Entity	Qualifying Small Enterprise
Generic Codes	Supplier Development	2% of Net Profit After Tax (NPAT)	1% of NPAT
	Enterprise Development	1% of NPAT	1% NPAT
Defense Sector Codes	Supplier Development	1% of NPAT	1% of NPAT
	Enterprise Development	1% of NPAT	1% of NPAT
Financial Sector Codes	Supplier Development	1% of NPAT	1% of NPAT
	Enterprise Development	1% of NPAT	1% of NPAT

ICT Sector Codes	Supplier Development	2% of NPAT	2% of NPAT
	Enterprise Development	3% of NPAT	2% of NPAT
Property Sector Codes	Supplier Development	2% of NPAT	1% of NPAT
	Enterprise Development	1% of NPAT	1% of NPAT
Agri-BEE Sector Codes	Supplier Development	(3% of NPAT for year 1 to year 4) thereafter 2% of NPAT	1% of NPAT
	Enterprise Development	1.5% of NPAT	1.5% of NPAT
Construction Sector Codes	Supplier Development	Contractors – 3% of NPAT BEPs – 3% of NPAT	Contractors – 3% of NPAT BEPs – 3% of NPAT
	Enterprise Development	Contractors – Ann. CSC 400 (C) BEPs – Ann. CSC 400 (C)	Contractors – Ann. CSC 400 (C) BEPs – Ann. CSC 400 (C)
Tourism Sector Codes	Supplier Development	3 % of NPAT	3 % of NPAT
	Enterprise Development	0.5 % of NPAT	0.5 % of NPAT
MAC Sector Codes	Supplier Development	2% of NPAT	1% of NPAT
	Enterprise Development	1% of NPAT	1% of NPAT
Transport Sector Codes (targets are set for each sub-sector)			
Bus Commuter Sub Sector Code	Enterprise Development	Generic Entity – 3% of NPAT Qualifying Small Enterprise – 3% of NPAT	
Coach Services Sub Sector Code	Enterprise Development	Generic Entity – 3% NPAT Qualifying Small Enterprise – 3% NPAT	
Taxi Industry	Enterprise	1% of payroll/3% of NPAT	

Sub Sector Code	Development	Taxi Owners - 2% of NPAT or 0.3% of Payroll
Road Freight Sub Sector Code	Enterprise Development	Generic Entity - 3% of NPAT Qualifying Small Enterprise - 2% of NPAT
Public Sub- Sector Code	Enterprise Development	National & Provincial DOT 3 years Target – 1% of discretionary spend Public Entities including SOEs & Agencies 3 Years Target – 3% of NPAT or 1 % of discretionary spend
Marine Transport and Services Industry Sub Sector Code	Enterprise Development	Generic Entity - 3% of NPAT Qualifying Small Enterprise - 2% of NPAT
Forwarding and Clearing Sub Sector Code	Enterprise Development	Generic Entity Investment in the Black owned enterprises – 3% of NPAT Investment in the Women-owned enterprises 1.5% of NPAT Qualifying Small Enterprise - 3% of NPAT
Rail Sub Sector Code	Enterprise Development	Generic Entity - 3% of NPAT Qualifying Small Enterprise - 1% of NPAT
Domestic Aviation Sub- Sector Code	Enterprise Development	Generic Entity - 3% of NPAT Qualifying Small Enterprise - 2% of NPAT

Source: B-BBEE Commission (2021)

A SD beneficiary is a company that is a component of the measured entity's supply chain (i.e. it is registered as a supplier in the measured entity's supplier database), but an ED beneficiary is not. When identifying an SD beneficiary, the measured entity should look to their supply chain to see if there are any existing black-owned EMEs or QSEs that they can help and develop, and when identifying an ED beneficiary, the measured entity should look to its supply chain to see if there are any entities that it can help and develop to become part of their supply chain. For the measured entity, this procedure has two benefits: (i) in developing a trustworthy current and future supplier, and (ii) gaining additional bonus points when the ED recipient graduates into a supplier. This will also help to restructure the value chain of the measured entity and make new entry easier. The measured entity must analyse and identify the needs of the beneficiary entity for both ED and SD beneficiary identification and engage into an ED or SD Agreement with the beneficiary entity outlining what support will be provided. Clear objectives, prioritized interventions, key performance indicators, and a concise implementation plan with clearly described milestones must all be included in the agreement (B-BBEE Commission, 2021).



### **3. LITERATURE REVIEW**

#### **3.1 International Definitions of Enterprise & Supplier Development**

Enterprise and Supplier Development are distinct concepts in the organisational and management literature (Pooe, 2016). However, for South Africa, the B-BBEE legislation refers to the ED and SD in a single concept, ESD. As a result, many firms in the country have a single policy, strategy, and structural arrangements in place to manage both company and supplier development programs and activities, effectively combining the two ideas.

International literature highlights different approaches to defining supplier development. The term "supplier development" was used by Leenders (1966) to describe the process by which manufacturers raised the number of qualified suppliers and improved supplier performance. Supplier development is defined as "a long-term cooperative effort between a purchasing firm and its suppliers to upgrade the suppliers' technical, quality, delivery, and cost capabilities and to stimulate continual improvements" (Watts and Hahn, 1993). To put it another way, supplier development refers to "any effort made by a buying firm and its suppliers to improve the supplier's performance and capabilities in order to meet the buying firm's supply needs" (Krause and Ellram, 1997). Supplier development, according to Wagner (2006), entails assisting a supplier in increasing the performance of their products and services or expanding their capabilities.

Many academics define supplier development as a long-term cooperative effort between a purchasing firm and its supplier to improve the supplier's performance efficiency and/or capabilities (Shokri, Alireza, Nabhani, Farhad and Hodgson, Simon, 2010). According to the literature, SD is differentiated by the buying firm's role in committing resources to a certain supplier either 'directly' or 'indirectly.' The 'direct' function involves the buying firm taking an active role and devoting human or capital resources to a specific supplier, whereas the 'indirect' role involves the buying firm devoting few or no resources to the individual supplier (Krause et al., 2000). Direct SD measures include on-site visits, education and training programs, bringing supplier employees to meetings, and the provision of money, loans, tools, equipment, or other pledged assets. The buying firm may provide incentives or mandate supplier improvement through supplier assessments, supplier evaluations, increased performance targets, or the promise of future business in indirect supplier development efforts (Wagner, 2006).

Any efforts made by the company to improve the supplier's product quality and financial performance are referred to as supplier development. On one hand, SD is regarded as an important construction block of the supply chain and a key element of a successful and competitive business. There has been

a focus on "supplier diversity" initiatives aimed at increasing the number of ethnic minority-owned firms that supply goods and services to both public and private sector organizations, either directly or as part of a larger focus on small businesses (Shah & Ram, 2006). On a worldwide scale, most corporations are dedicated to promoting supplier diversity in order to achieve UN Sustainable Development Goal (SDG) #5, which calls for gender equality and the empowerment of all women and girls. Related to this, SDG target 8.3 related to ED promotes development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage formalization and growth of micro-, small- and medium-sized enterprises including through access to financial services (ILO, 2022).

### **3.2 National Definition of Enterprise & Supplier Development**

Procurement is included in the area of ESD on the scorecard. It is a priority element, which implies that if 40% of the score is not met in each of these categories, the final verification score will be reduced by one level. Preferential procurement is defined by **the dtic** as "the procurement of goods and services from Empowering Suppliers as a percentage of total procurement" and enterprises are encouraged to buy from companies that have a high B-BBEE contribution level, as measured by their scorecard performance. When compared to the competitors in the market for delivering products and services, a provider with a high B-BBEE contribution level is more likely to be picked as a preferred supplier" (**the dtic**, 2019).

Enterprise development contributions are monetary or non-monetary contributions to Exempted Micro Enterprises or Qualifying Small Enterprises that are at least 51 percent black-owned and have a turnover of less than R50 million per year, with the goal of assisting these beneficiaries in their development, sustainability, and financial and operational independence. Supplier development contributions are monetary or non-monetary payments made to suppliers who are Exempted Micro Enterprises or Qualifying Small Enterprises with a turnover of less than R50 million per year, with the goal of assisting in the development, sustainability, and financial and operational independence of those beneficiaries. The grantor requires the beneficiary to provide a product or service.

Supplier Development is measured against a company's present supplier database, whereas ED is measured against organizations that aren't on the supplier database, such as start-ups and new entrants. An SD beneficiary must be a current or potential supplier of the firm during the financial period being measured. This must occur prior to the support being supplied, as the expenditure must be included in the procurement budget. The distinction with an ED beneficiary is that the beneficiary is not a supplier to the organization being measured. ESD towards Generic entities that are 51% Black owned based on the flow-through principle, can be recognised as ESD beneficiaries provided the

Measured Entity assisted the ESD beneficiary entity when they were still qualifying as a 51% Black Owned EME or QSE, with a 5-Year cap (the dtic, 2019).

### **3.3 Impact of Preferential Expenditure on Economies**

The promotion of B-BBEE is intended to redress racially based income and social service inequalities in the country. By design, the ESD initiatives can generate positive multiplier impacts in the domestic economy. Procuring from local small-to-medium companies (SMMEs) is widely acknowledged to provide considerable social and economic advantages to communities. Local procurement can stimulate economic activity and attract additional investment in addition to creating business for suppliers, both through suppliers engaging other suppliers for inputs and through the multiplier effects of local business employees spending some of their wages in their communities. Other advantages include improved employee and business owner/operator quality of life, spread of new technologies and innovation to other market participants, and attracting investment in social infrastructure (Esteves & Williams, 2014).

An economic multiplier effect can be employed in the examination of the need for ESD to characterize the influence that expenditure has on the economy, considering knock-on consequences. The process begins with a source of income and continues with how that income is spent and re-spent within a particular geographic area. Because more revenue is generated for local people, a higher proportion of money re-spent in the local economy indicates a higher multiplier effect. More money stays in the local or national economy, which means more jobs, greater pay, and more tax revenue for the government, all of which could lead to higher living standards.

There is also a global trend toward use of local content requirements where governments pursue a range of objectives with these policies, such as employment creation, development of specific sectors or industries, skills, and technology transfer. At a national level, procurement expenditure by significant companies will be made through contracts with suppliers and subcontractors who are either residents, owners, or tax-registered in the country where the expenditure is made. Local content refers to the percentage of procurement expenditure spent with local businesses, and it is an area that may be used to strategically grow national industries and create jobs. Many developing countries throughout the world have local content requirements for this reason. Companies' procurement practices are directly influenced by local content requirements and policies, which place a higher premium on the proper location. Meeting local content standards can be challenging when there are few or no local suppliers – or if the local suppliers are of poor quality – and investing in SD becomes a must. SD, while time and money consuming, can ensure that the local supply chain becomes efficient and productive, allowing the procurement firm to take advantage of the other cost

benefits of working in a developing country. The supplier development process, on the other hand, must be well-planned and implemented in order for this to succeed (Simanye, 2014).

Despite the fact that the South African government is increasingly looking to create local content regulations and has already done so for large tenders in sectors like rail and renewable energy, procurement in the country is also governed by the country's B-BBEE legislation. Preferential Procurement in South Africa, as part of the Codes and other Preferential Procurement legislation, is similar to local content regulations in other countries in that it forces firms to purchase from local suppliers. Preferential Procurement is distinguished by the requirement that these local firms be black-owned or have a high level of B-BBEE compliance, making it as stringent as requiring local content (Simanye, 2014). However, B-BBEE is not the same as local content, and both should therefore be prioritised to maximise the impact on previously disadvantaged people in South Africa.

### **3.4 International Experience with ESD**

Government pressure and legislative drivers to support local or preferential procurement and supplier growth are not unique to South Africa. As part of their goals to improve the economy and eliminate poverty, several governments put pressure on organizations to create Supplier Development Programs (SDPs). The Chevron program developed in Angola following the civil war, the Rio Tinto program developed in Canada, and the BHP Billiton program in Mozambique are some examples of where direct government pressure and/or regulatory frameworks have led to the establishment of SDPs (Simanye, 2014).

ExxonMobil is implementing the Local Supplier Development Program in Chad in collaboration with the IFC and the Chad Chamber of Commerce. The program aims to strengthen relationships between ExxonMobil and local suppliers by training suppliers on how to use a transparent local electronic procurement system, how to tender effectively, and how to improve their businesses so that they can meet ExxonMobil's high standards and stringent requirements. The program's goals are to: improve local SMMEs' capacity, skills, and technical competencies; integrate local SMMEs into the company's supply chain using the eProcurement system, which promotes a transparent and effective procurement process; provide ExxonMobil with a large pool of local suppliers from which to choose; and reduce long-term costs and stimulate the local economy by procuring from local suppliers (Simanye, 2014).

There are five stages to the program. To begin, the company must be prepared for the initiative; thus, this is the phase in which program strategies are devised and buy-in from all parties engaged in the program is acquired. The second phase entails informing and training SMMEs prior to the tendering

process so that they are aware of the company's procurement processes as well as the standards that must be followed. The third step includes training for SMMEs as well as tendering. The fourth phase entails providing SMMEs with feedback on successful and unsuccessful tenders, as well as aiding them in properly implementing successful contracts. In the final phase, SMMEs and the whole program are evaluated, and the results are fed back into a program improvement process. ExxonMobil recognized that a number of aspects that were crucial to the project's performance and achievement of its goals, including: upfront business buy-in; specific and suitable incentivisation at key levels within the firm; dedication and motivation of the supplier development implementation team; transparent communication about tendering prospects; interest, drive, and commitment to change from participating SMMEs (Simanye, 2014).

The IFC and Newmont Ghana Gold Limited collaborated on the Ahafo Linkages Program, a local procurement and supplier development program that focuses on capacity building and integrating local firms into the supply chain. This is accomplished by utilizing a technical and business skills mentoring strategy to assist local SMMEs in meeting Newmont's procurement standards and strict requirements. The program aims to build the capacity of local micro businesses and SMMEs so that they can compete in Newmont's supply chain as well as that of other large, regional, and national companies; strengthen the local economy and the company's commitment to sustainable development; and support the development of local businesses in communities. In terms of establishing a connections program, Newmont recognized a few critical components. The following are some of these elements: scoping phase, which includes an assessment of present conditions and SMME mapping; program design; management commitment; communication and expectations management, particularly with communities; organizational and support structures; program components; sustainability (Simanye, 2014).

Newmont identified a number of aspects that were crucial to the project's success and attainment of its goals, including securing a local expert and local communities in the design and scoping stages to ensure local content is properly incorporated in the program; reviewing the program design early; establishing a steering committee and involving management at all levels of the company to be champions in the program to ensure support and smooth implementation of the program. Developing a clear access to finance plan at the start of the program; focusing on certain sectors to maximize resources and build synergies among local businesses were also prioritised (Simanye, 2014).

BHP Billiton, Mitsubishi, the government of Mozambique, and the South African Industrial Development Corporation formed a \$2 billion joint venture in 1999 to build the Mozal aluminium smelter in Maputo. With the help of the IFC, initiatives to create SMMEs and connect them to the

supply chain began during the construction phase in 2001. Mozal chose to build a supplier development program called MozLink for the current operations phase as a result of this successful initiative during the construction phase. The initiative intended to develop competitive SMMEs with the capacity and abilities to cooperate successfully with Mozal and other large enterprises, which was developed through training and mentorship. The program's goals were to match supply chain opportunities to SMMEs with the right degree of competency and technical abilities; bridge the gap between SMMEs and Mozal's world-class standards; and improve SMMEs' standards, management skills, and experience. Using a training and mentorship strategy, the program focused on repeatedly producing batches of 15–20 SMMEs over a one-year period (Simanye, 2014).

The approach framework was divided into five phases the preparation phase is focused on developing the program strategy and gaining buy-in and commitment from all parties (SMMEs, Management, Mentors) involved in the program; the Assessment I and Workshop I phases were focused on identifying SMMEs shortfalls and correcting them using work plans and developing training modules for each specific SMME. Work plans and training modules were implemented during the Execution of the SMME Improvement Plan phase; the work plans and training modules were reviewed and evaluated during the Assessment II and Workshop II phases; and the Evaluation phase included impact evaluations of SMMEs and the entire program. BHP Billiton recognized a number of aspects that were crucial to the project's performance and achievement of its goals, including specific and suitable incentivisation at key corporate levels; dedication and motivation of the in-house supplier development implementation team; interest, drive, and commitment to change from participating SMMEs; and a well-planned and managed program. Mozal is one of the world's largest and most efficient aluminium smelters and is frequently used as a technical benchmark for other smelters. Since its inception in 2002, the project's annual procurement from local firms has risen to almost R1.5 billion from over 250 Mozambican SMMEs in 2007. The MozLink project effectively demonstrates that it is feasible to establish local suppliers while also constructing and operating a world-class business (Simanye, 2014).

In first world countries, Supplier Diversity has its origins in the American Civil Rights Movement which began to take effect in the 1970s and 1980s when President Richard Nixon approved preparations for a national Minority Business Enterprise contracting program (Diversity Business Blog, 2010).

US firms have frequently been at the forefront of "good practice" in terms of supplier diversity, primarily through the use of intermediary organizations such as the National Minority Supplier Diversity Council (NMSDC). The NMSDC was established in 1972 to promote procurement and commercial opportunities for minority firms of all sizes. It has offered a venue for large American firms

and minority business enterprises (MBEs) to create ties (Shah & Ram, 2006). Simultaneously, the US government encouraged disadvantaged businesses to form supplier partnerships with large private-sector buyers (Edmondson, Suh & Munchus, 2008). "Black capitalism<sup>2</sup>" was seen as a potential remedy for ghetto problems when in 1968 Presidential candidate Richard Nixon pledged to make government promotion of black capitalism the centrepiece of his civil rights campaign (Bates, 1997).

In the United Kingdom, a wide range of policy stakeholders are converged on the territory known as "supplier diversity" which is an attempt to expand the number of ethnic minority-owned firms that offer goods and services to both public and private sector organizations, either directly or as part of a larger focus on small businesses (Shah & Ram, 2006). The Race Relations Amendment Act, gave a legislative boost for diversity in public sector procurement. The "corporate social responsibility" goal, which is endorsed by many major corporations, adds to the need to reconsider procurement diversity concerns. There has been interest in establishing a European body with functions similar to those of the NMSDC in the USA. Research has found a number of attempts by local authorities to improve the flow of procurement opportunities to ethnic minority firms (within the existing legislative constraints) (Shah & Ram, 2006).

### **3.5 National Experience with ESD strategies**

ESD is not just a South African notion; it's a global movement that's proved to boost economies, diversify supply chains, and create jobs. The essence of ED is expressed in the provision of capital and support to small and medium-sized businesses in order to help them expand. This assistance is aimed at enabling small enterprises to overcome difficulties and increase their market competitiveness, which results in job creation and poverty reduction. Whereas, supplier development, according to the B-BBEE Codes, is defined in South Africa as "development that occurs specifically in the Measured Entity's supply chain." The Measured Entity has the ability to significantly expand the revenue stream to the ED recipient through the supply of additional or extended contracts. Being a part of a Supplier Development Program often opens funding prospects for the recipients', as fixed contracts are generally a crucial criterion for funding (WRSETA, 2015). As a result, SD has the potential to remove one of the most significant obstacles faced by small businesses - market access.

B-BBEE legislation envisages sustainable ESD program support with the following principles:

- Procurement of goods or services by the Corporate from participating SMEs that provides sustainable revenue streams.

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<sup>2</sup> The idea of Black capitalism meant Black control of companies/ institutions in the community

- To strengthen local procurement in order to help build South Africa's industrial base in critical sectors of production and value adding manufacturing, which are largely labour-intensive industries.
- To increase local procurement through capacity building achieved by incentivising appropriate local Supplier Development programmes by businesses supplying imported goods and services.
- To actively support procurement from black owned QSEs and EMEs by identifying opportunities to increase procurement from local suppliers in order to support employment creation.
- To support procurement from black owned and black women owned businesses in order to increase the participation of these businesses in the main stream economy.
- To promote the use of black owned professional service providers and entrepreneurs as suppliers.

Based on **the dtic** (2019), the most typical forms of contributions that a measured entity can make to the identified ED or SD Beneficiaries are listed below:

- (a) Grant Contribution
- (b) Direct costs incurred by the measured entity on behalf of the Beneficiary Entity, for example the purchase of a computer for the Beneficiary Entity.
- (c) Discounts in addition to normal business practice.
- (d) Professional services rendered by the measured entity to the Beneficiary Entity at no cost.
- (e) Overhead costs incurred by the measured entity on behalf of the Beneficiary Entity, for example providing free rental space to the Beneficiary Entity.
- (f) Loans on favourable terms.
- (g) Early payment of supplier.

From the literature, four South African case studies were carefully studied in this research because of their relevance to key learnings. The following sections offer a high-level analysis of each program, including an overview, the program's key objectives, what worked in the program, program barriers, and the critical success factors uncovered as espoused by the companies themselves.



## 3.6 Case Studies from the Literature

### 3.6.1 South Africa Case Study: Sun International

Sun International's ESD program identifies and invests in local procurement possibilities. Through the program, the group is committed to creating opportunities for all suppliers, especially B-BBEE compliant SMMEs. The program builds and maintains an efficient and equitable supply chain that is aligned to the company's strategic objectives supported by a strong governance framework. To support the programme, the company focus is on entrenching internal operational efficiencies and the principles of the ESD programme, shifting the ESD reporting focus from compliance to a broader social and economic impact, implementing ESD effectively with limited operational resources, capacity and knowledge base.

#### *Strategy/Goals*

- The company has invested R46 million in supplier development, R10.2 million in enterprise development. It has focused on improving efficiencies and streamlining processes, including:
  - introducing formal Business Development Support (BDS) into the beneficiary programmes
  - enhancing automated compliance management processes to ensure good corporate governance within the group's supply chain
  - launching a tender bulletin board on the corporate website to attract a wider variety of responses to our various sourcing opportunities for suppliers
  - reducing active non-compliant suppliers through stringent controls over existing and new supplier management, with procurement spend being redistributed within the supply chain, in accordance with the requirements of internal preferential procurement strategy.
- The ESD program of the organization discovers and assists enterprises in need of finance or other business development services, with the purpose of:
  - fostering sustainable business growth, creating jobs, and adding economic value
  - supporting the development of black-owned SMMEs
  - offering consistent and structured application of ESD projects
  - focusing on the sustainability of its beneficiary organisations
  - supporting South Africa's National Development Plan 2030
  - supporting strategic category management plans
  - achieving meaningful value through effective use of funding

## *Results*

- The group invested R46 million (2017: R34.5 million) on supplier development, including early settlements above the claimable value, thanks to process efficiency and a commitment to ESD.
- An additional R10.2 million was invested in enterprise development (2017: R9 million), enabling a pipeline of new business into the supply chain. Against the Tourism Code's requirement of 3.5 percent for the tourism sector, this investment represented 18.75 percent (2017: 11 percent) of net profit after tax.
- The company's overall measured procurement spend for the financial year surpassed R3.3 billion (R4.0 billion in 2017), with R3.04 billion coming from over 3 000 verified B-BBEE-compliant suppliers. This 92 percent valid spend compliance fell short of the group's 2018 goal of 95 percent. The target for 2020 was to achieve and maintain a 95 percent completion rate.
- The firm prefers to work with suppliers who support its goals and satisfy the ideal B-BBEE standard: black-owned businesses with a level 3 or higher rating. This ideal criterion was reached by 41% of group spending, exceeding their 40% objective for 2018. Their target for 2020 was to achieve and maintain a 50 percent participation rate. A 35 percent increase in black-owned SMME spending (2017: 14 percent) was accomplished, exceeding the 20 percent target. By 2020, the plan was to increase the annual target to 30%.

## *Critical success factors*

- The company insist on the highest level of ethical conduct throughout the supply chain, especially for suppliers. The internal supplier code is based on internationally recognized norms, concepts, and best practices. All suppliers must follow this code, which also complies with the group's code of ethics. Suppliers are expected to adhere to specified requirements in terms of labour conditions, human rights, and occupational health and safety, as well as demonstrate concern for reducing negative environmental impacts.
- Throughout the year, strict B-BBEE compliance procedures are implemented, including the suspension of a large number of non-compliant suppliers. When measured against internal KPIs (Black-owned spend, Black female spend, Level 1 to 3, Optimum spend, SMMEs and Valid B-BBEE spend), the controls had a good impact on supply chain transformation, and they were implemented as part of the preferential procurement plan to achieve optimal future compliance.

### **3.6.2 South Africa Case Study: Exxaro**

Exxaro announced ESD initiatives such as the ESD Loan Fund In 2018, which is administered by Tsys Fund Managers. According to Exxaro, they have always regarded themselves as more than a mining company. They invest in areas that have an impact on not only the success of their business, but also on the empowerment of the people, they work with and serve. Exxaro aspires to be a beneficial force for social and economic transformation. Exxaro aspires to improve the quality of life for people by investing in businesses that are not part of the mining value chain and that create jobs. Exxaro's investments are in non-financial and financial business assistance programs.

#### *Strategy/Goals*

- The ESD programme's total funding from its inception in 2018 to date is R438.1 million for 68 qualifying beneficiaries. Key demographics on the 68 beneficiaries are as follows:
  - 35.3% are majority youth owned.
  - 36.8% are at least 30% women owned.
  - 2.9% are majority owned by people with disabilities.
- Monitoring and evaluation of companies supported by the ESD programme is underway. Preliminary findings from a sample of 30 (14 in 2018, 16 in 2019) out of the 68 supported enterprises indicate that:
  - 1,230 jobs have been retained.
  - 958 new jobs were created.
  - Increase in turnover of R554.3 million was achieved.

#### *Results*

- Since its creation in 2018, the fund has awarded R367 million to 41 ESD beneficiaries in the form of 0% interest loans.
- The fund has assisted in the retention or creation of 1663 jobs, with youth-owned and women-owned businesses accounting for 29 percent and 47 percent of the recipients, respectively.
- The fund's impairment rate was 3% in 2020, but it escalated to 7% in 2021 as a result of the tough economic conditions imposed by the COVID-19 pandemic. According to Tsys Fund Managers' research, similar funds had an average impairment rate of roughly 15% in 2020, which escalated to 30% in 2021.
- Since its start, the fund has received R127 571 697 in loan repayments, which will be used to meet increased needs from the surrounding and host communities. This is the loan fund, as well as Exxaro's commitment to providing support to SMMEs that goes beyond compliance.

### *Critical success factors*

- Exxaro's ESD programs have been successful in part because of its comprehensive development strategy, which allows it to provide finance to the correct small firms. Some firms view ESD programs as stand-alone activities, offering finance to SMMEs but no business help – or perhaps providing both capital and support. Exxaro, on the other hand, provides holistic support that must accompany financial support to beneficiaries. It provides additional non-financial assistance to the beneficiaries such as helping them navigate challenges and capitalize on the opportunities they can exploit.
- The company strives for excellent working relationships with their communities, and operations generally operate in a peaceful manner, allowing them to invest more of their resources to communities. This makes it easier to provide targeted financial assistance and customized activities that lead to successful ESD responses. Exxaro, for example, designed the Contractor Development Programme to address the typical difficulties that many SMMEs confront, such as business fundamentals, operations management, and mentorship. Exxaro also partnered with the South African Institute of Chartered Accountants Enterprise Development (SAICA ED) to implement SAICA ED's Financial Excellence Programme, which allows its suppliers to learn about the financial management systems required to run effective operations and become more robust and sustainable as a result.
- It is critical to form and sustain connections with recipients in addition to skill development. Lines of communication should be kept open at all times, not just when businesses begin to fail on their debts. Large corporations can learn more about what ESD recipients require through regular discussions and engagements.
- Corporates are in an excellent position to satisfy these demands in many circumstances and being proactive can make the difference between a prospering firm and a vibrant community. In some cases, offerings may need to be adjusted to the beneficiaries' specific needs. Tsys has designed specific agricultural loan products for Exxaro's loan fund, for example, to fulfil the seasonal and risk requirements of agricultural beneficiaries. The insights and the tailored products that result from them are enabled by proactive stakeholder engagement and a real commitment to helping beneficiaries and applicants succeed.
- In this approach, the organization aimed to provide holistic support to these SMMEs - not just monetarily, but also through a whole suite of products. Without buy-in and commitment at the highest levels, none of this assistance and participation would be possible, which is another fundamental difference of this ESD program (Njenge, 2022).

### **3.6.3 South Africa Case Study 3: Accenture Global Diverse Development Programme (DSDP)**

Accenture runs a Global Diverse Development Programme (GSDP), one of the leading supplier diversity programmes in the world with a commitment to inclusive procurement practices, to create long-term value for clients and communities. The key objective of Accenture's GSDP is to increase the economic participation and growth of black owned SMMEs within its supply chain and the mainstream economy.

#### *Strategy/Goals*

- The DSDP includes 24 countries, generates a broad choice of suppliers, as well as complementary skillsets from the project contractors and access to the most innovative, responsive, and cost-competitive supply solutions for clients and stakeholders.
- The program takes advantage of Accenture's resources, such as its people, knowledge base, processes, technology, and worldwide network, to help participants grow. This is a type of investment that maximizes shared value. As a result, the ESDP helps communities flourish by generating additional businesses, jobs, and economic growth.

#### *Results*

- In the fiscal year ending 2020, the company invested over R65 million in development activities towards the 19 SMMEs who are current participants of ESDP Class II.
- In the same period, the procurement expenditure with black women-owned enterprises in South Africa increased to 39%, again exceeding the B-BBEE target of 12%.
- Additionally, the spend with black-owned-SMMEs was more than 52% against a target of 30%.
- The procurement expenditure in South Africa with black owned suppliers increased to 47% from 39% in the previous year, nearly reaching the target of 50% (Accenture, 2022).

#### *Critical success factors*

- According to Accenture (2022), the program's success can be attributed to the fact that it recognized that SMMEs needed developmental support and capacity building to succeed as suppliers. Thus, Accenture chose to guide and support them to realize business growth.
- Company and leadership training, mentoring, early payment to help with cash flow, business development support, access to the market through Accenture's network, and collaboration were critical for success of the ESD Program.

- The development interventions are tailored to each organization's specific needs based on the findings of a business evaluation to identify business gaps and developmental areas.

### **3.7 Obstacles in ESD Achieving Sustainable Impact in South Africa**

The B-BBEE code's main principle is that businesses must contribute 3% of their profit after tax to enterprise and supplier development, which includes skill development and infrastructure support. Literature has documented notable obstacles in companies using 3% of their profit after taxes to develop small business suppliers.

- There are cases where SMMEs are not necessarily ready to undertake the responsibility of delivering on a large scale. This manifests in SMMEs not meeting expectations on B-BBEE ratings, low aptitude of the owners and lack of a well-defined business plan, no proven financial history, and poor overall performance. Additionally, corporates prefer to collaborate with suppliers who understand the trade terms (pricing models, rebates etc.). As such, if an SMME intends to play a meaningful role in a corporation's supply chain, the necessary competitiveness (both in terms of cost and quality) must be there (Africa International Advisors, 2018).
- Supplier growth needs financial and human capital investment from the Measured Entity. Mentoring and training programs are being developed by large organizations with the resources to assist different suppliers in meeting the requisite standards. These programs have the added benefit of helping other purchasing organizations (Toikka, 2021). As a result, these investments raise expectations, and proper controls must be in place to ensure that the desired outcomes are realized (Krause et al., 2007). Because the Measured Entity must be convinced that investing in a supplier is justified, and vice versa, the outcomes are crucial. The supplier must be persuaded that the investments are in their best interests (Handfield et al., 2000). If suppliers do not receive the corresponding benefits, they may refuse to participate in the development process again. To construct the ESD program, it is necessary to identify and leverage a supply chain's preference purchase Key Performance Indicators (KPIs) by focusing the ESD program on these desired outcomes, SMMEs will be able to meet the corporation's non-negotiable supplier contracting standards, alleviating concerns and increasing the corporation's readiness to work with smaller suppliers (Khupe, 2022).
- Weak ESD strategy or lack of capacity to successfully drive ESD can be an obstacle. An example is where businesses set short-term ESD strategic targets instead of long-term ones, which is equivalent to taking a shotgun approach, with the company hurrying to meet as many of its ESD objectives as possible. A long-term approach is required for successful ESD strategy and implementation. This ideally can span three to five years, with the focus shifting away from

chasing a quick win to a long-term approach. This enables the company to gradually increase the effect and long-term viability of its ESD strategic imperatives. Implementation partners are also important in easing SMMEs' admission into the corporate supply chain by being purposeful in addressing the concerns of corporates who are hesitant to work with SMMEs (Khupe, 2022). Another obstacle is that many businesses develop an ESD strategy and then try to implement it on their own. However, this could sometimes be akin to being both a player and a referee at the same time. Hence, many corporates that try to develop and implement an ESD strategy find that they do not always have the depth and breadth of skills to execute it. Done right, this means teaming up with a knowledgeable and experienced ESD implementation partner that will bring on board a robust team of subject matter experts to ensure the realisation of the ESD strategy's objectives (Khupe, 2022).

- Verifying true ownership and proving the legitimacy of the business is a hurdle for the measured entity. Although enrolling in certification programs can help, there is still the possibility of fronting and misrepresentation. Finding minority-owned suppliers who meet quality, quantity, security, and safety standards can be difficult (Toikka, 2021).
- In the context of ESD, the buyer-seller connection is transactional and not always a cooperative relationship that benefits both parties with room for learning, growth, exposure, and incubation (Huruma Bantfu, 2021).

### **3.8 Best Practices, Principles and Critical Success Factors for Workable Implementation**

There is a development gap that needs to be filled in order for the ESD programme to have sustainable impact on supported SMMEs. According to a survey published by Creative Value Creation (Ganzevoort, 2017), SA corporations spend an estimated R26 billion on ESD, but only 16% of small and medium black-owned businesses are able to access it. Even fewer SMMEs take advantage of procurement opportunities attached to their spending. Below are the best practices and critical success factors for workable implementation of the ESD strategy:

- There is need for deliberate and well thought through management and planning for the ESD program. The absence of good planning ultimately results in program fail, leaving both parties feeling that the entire process does not live up to expectation in terms of the time, effort and resources expended to yield the desired tangible benefits (Khupe, 2022).
- On a local level, ESD programmes help businesses meet B-BBEE requirements. Yet, ESD programmes should never be viewed as a “grudge buy” or “tick box exercise”, simply done for the purposes of B-BBEE compliance or to demonstrate alignment with SDGs (Enterprise Supplier

Development, 2012). For many organizations, ESD strategies stem from the 'constraints of compliance'. Ganzevoort (2014) provided anecdotal evidence that many organisations in initialising their ESD strategy would focus narrowly on the cost to company and the scorecard points they receive in return. Typically, there is no reference to transformation, empowerment, or development. Rather, a deliberate effort should be made to ensure that ESD brings real benefits to both corporates and SMMEs, thus the critical need for ESD programmes to be aligned with broader business objectives. Other than just seeking to improve B-BBEE ratings, companies must identify sound reasons for embarking on ESD such as:

- lowering expenses; resolving major quality issues; establishing new supply avenues;
- Improving the beneficiaries and sponsoring organization's business alignment;
- Creating a product or service that doesn't exist on the market;
- Creating competition for a high-priced product or service that has a monopoly on the market (Enterprise and Supplier Development, 2012).

To be successful, programs must be tailored to the various stages of the entrepreneur's lifecycle, including introducing entrepreneurs to the concept of business, and assisting them in developing their ideas into executable businesses; assisting entrepreneurs in taking their business ideas to the first level of commercialisation; assisting entrepreneurs in getting their businesses off the ground and generating revenue; and advancing entrepreneurs to the next level of business.

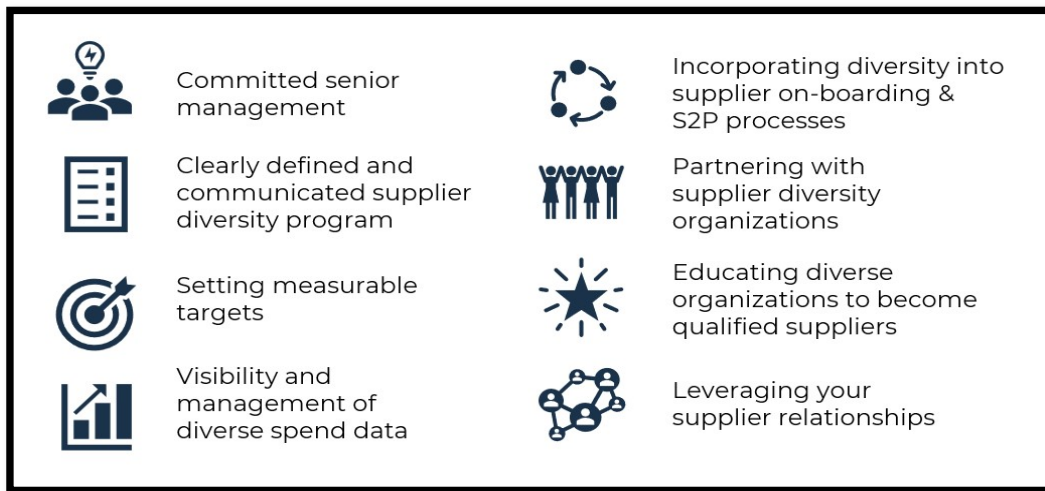
According to Raizcorp (2022), many businesses face difficulties in developing SD programs that are tailored to their specific needs. They have trouble connecting their SD funds to a significant and long-term preferential procurement impact on their B-BBEE scorecards. Corporates must carefully and effectively spend ED funds in order to achieve real, long-term impact while also advancing the company's long-term goal. They require assistance in establishing and implementing customized ED programs.

When developing an ESD strategy, organizations must shift their attitude to focus on long-term connections and innovation rather than the legacy of the lowest-cost provider. Alternatively, organizations might continue to use the clinical reactive procurement method or use strategic planning to supplier development, resulting in greater diversity. According to Ganzevoort (2014), an organization's initial attitude when implementing an ESD strategy is critical in deciding the outcome.

The success factors have been summarized in figure 3 below:



Figure 3: Critical success factors for ESD



Source: Toikka (2021)

Steps to a successful ESD program include:

- Obtain senior management commitment by having them personally sign off on the company's ESD goals and metrics.
- Establish a supplier diversity program with concrete goals that is well defined and communicated.
- If Measured Entities communicate their efforts, diverse merchants or diversity-related groups will learn about them, which may prompt them to contact the entity for business.
- The Measured Entity must gain a deeper understanding of the information provided by their vendors. According to the 2018 ESD survey conducted by Impact SA (2021), over 22% of corporate organizations did not know the impact of their ESD initiatives on their SMMEs, which impedes further growth. Supplier identification and categorization can be made easier with cloud-based spend analysis systems. The collation of information about suppliers is made easier by digitization.
- Ongoing monitoring and tracking of cost in each different supplier category.
- The organization can employ consultants or agencies that specialize in diversity who can assist them in expanding their network by introducing diverse vendors.
- The measured entity needs to integrate diversity into the on boarding, sourcing, and payment processes of suppliers.
- Consider providing an instructional session to assist diverse business owners in navigating the company's supplier qualification process.

- The measured entity must make the most of their supplier relationships. By informing existing suppliers of the company's diversity goals, suppliers will be able to look for diverse options further down the chain. As the company works with a variety of suppliers, they may be able to gain access to new networks of diverse partners that they would not have had access to otherwise.

## **4 METHODOLOGY**

### **4.1 Research Methodology**

The research used both primary and secondary data for the analysis. Primary data was sourced from the principal survey and key informant interviews that were conducted as part of the research. Secondary data on annual turnover information was derived from the dataset of B-BBEE assessments conducted by the B-BBEE Commission.

The research adopted a mixed research design approach that allowed for the inclusion of both qualitative and quantitative methods. The quantitative method entailed the gathering and analysis of survey data. The method entailed a systematic empirical investigation of observable phenomena via statistical, mathematical/computational techniques. It allowed for the numerical representation and manipulation of observations for the purpose of describing and explaining phenomena as reflected by the observations (Babbie, 1998; Given, 2008).

Whereas the quantitative research and analysis referred to the quantification of observations with the purpose of generalisation or determining trends, the qualitative research refers to the non-numerical examination and interpretation of observations for an in-depth understanding and discovering of underlying meanings and patterns of relationships. In qualitative research, non-numerical data is collected and analysed to better comprehend concepts, opinions, or experiences (McLeod 2017).

Pope and Mayes (1995) define qualitative research as the "development of concepts which helps us to understand social phenomena in natural (rather than experimental) settings, giving due emphasis to the meanings, experiences, and views of the participant". The quantitative method complements the qualitative quality of the in-depth debate by allowing for measurement and objective comparison. By using a mixed-methods approach, it can help to overcome the limits of each methodology (Malina, Norreklit & Selto, 2011:6). In the mixed methods approach adopted in the study, there is equal treatment and presentation of both quantitative and qualitative methods for a more comprehensive understanding of the issues explored.

The first phase of the research entailed the collection of quantitative data through administering a survey. A survey design “provides a quantitative description of trends, attitudes, and opinions of a population, or tests for associations among variables of a population or a sample thereof” (Creswell and Creswell 2017:207). The primary purpose of the survey was to collect relevant data to answer the key objectives of the research. To do this, a range of semi-structured questions was employed. The survey was administered to representatives of several companies registered on a database provided to the research team by the B-BBEE Commission. The survey design was selected as it required relatively quick turnaround times for data collection (Creswell and Creswell 2017:211).

For the second part of the research, both focus group sessions and semi-structured key informant interviews were used. The focus group method is “based on structured, semi-structured, or unstructured interviews... [and] allows the researcher/interviewer to question several individuals systematically and simultaneously” (Babbie & Mouton 2010:322). A semi-structured interview is “a verbal interchange where one person, the interviewer, attempts to elicit information from another person by asking questions offering participants the chance to explore issues they feel are important” (Longhurst 2003:103).

In a research design where a mixed method approach is applied, the principle of triangulation applies. This principle refers to the ordering and interpretation of data secured from different sources and methods (including all evidence with a bearing on specific research questions to ensure valid, reliable, and comprehensive answers to the research questions).

## **4.2 Study Design**

### **4.2.1 Research Population**

For this study, the research population included measured entities as registered on the B-BBEE Commission's dataset.

### **4.2.2 Research Sample**

The research population for the survey component initially consisted of 223 local entities registered on the B-BBEE Commission database. However, after removing duplicates and measured entities that have since closed, this number was reduced to 184. Establishing the sample size for a research population is imperative in controlling for the margin of error to be expected in quantitative data analysis. With the aim to generalise findings derived at from a smaller sample population to the larger research population the margin of error is a measure that shows how many percentage points results from the sample population might differ from the entire research population.

Although a 95% confidence level, which translates into a 5% margin of error, is an academic standard, a 90% confidence level, thus 10% margin of error, in the case of smaller research populations is considered acceptable. In the case of this study, a sample size of 65 was required to ensure a 90% level of confidence and thus an acceptable 10% margin of error in calculations. This target was just exceeded with the successful completion of 68 interviews.

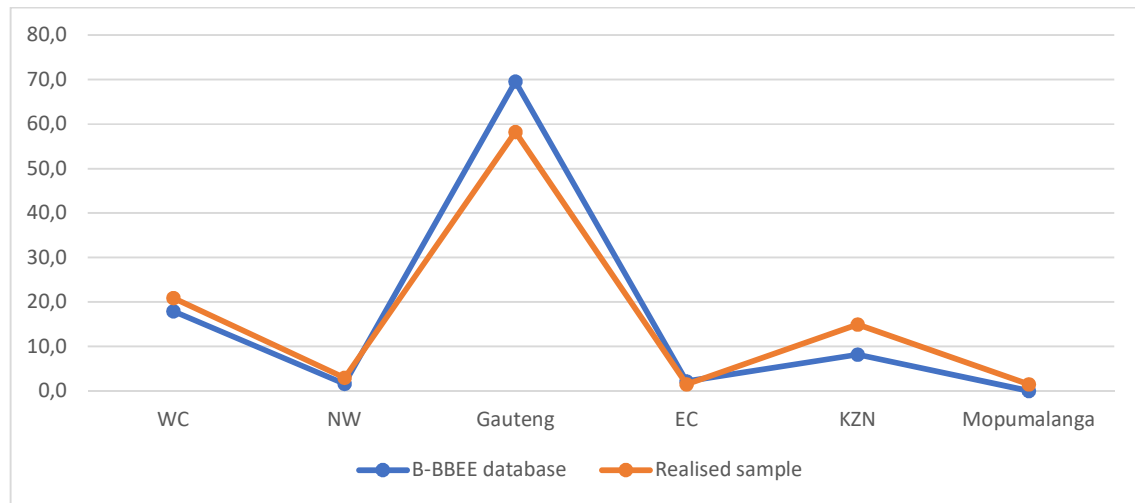
For the survey component, an online questionnaire was designed, and a link was emailed to all measured entities captured on the database provided by the B-BBEE Commission. Realising the challenges involved in an electronically based survey of which a low response rate is one, it was decided not to select a sample but rather to email an invitation to participate in the survey to all 184 measured entities on the dataset.

For the key informant interviews and focus group sessions, a purposive sampling method was used. Purposive sampling is defined as sample selection "on the basis of knowledge of a population, its elements, and the purpose of the study" (Babbie & Mouton, 2010:193). In-depth interviews were conducted with purposefully (strategically) selected respondents within a selected sample of measured entities in South Africa.

### 4.2.3 Sample distribution and representation

In selecting the sample and completing the fieldwork care was taken to ensure, as far as was possible, an equal provincial distribution of respondents in the sample as measured against the sampling frame (measured entities captured on the B-BBEE Commission database). Although the exact distribution was not possible, a similar distribution was achieved ensuring a representative provincial distribution of measured entities in the sample (Figure 4).

Figure 4: Provincial distribution of sample and sampling frame compared



### 4.2.4 Response Rates

The study set out to complete 65 survey questionnaires<sup>3</sup> and after much effort was successful in completing 68 interviews. Unfortunately, one survey questionnaire was very poorly completed and was subsequently excluded from the analysis.

Recruiting participants to participate in the research proved very difficult and time consuming. This is attributed to two main factors, that is (i) the fact that many people are working from home and (ii) the difficulty to obtain contact information for participants because of the Protection of Personal Information Act 24 of 2013 (POPIA).

Due to the continuing Covid pandemic many offices have not returned to full capacity yet with employees continuing to work from home. Consequently, it has proven very difficult to engage with employees with email the only communication method available. Response to email have been very poor. As a result of the POPIA legislation, office administrators are not allowed to convey any other

<sup>3</sup> Refer to research sample for detail on the sampling strategy.

contact details such as personal cell phone numbers to the research team that would allow them to contact employees at their homes that now function as their offices. As a mitigation strategy the research team reverted to face-to-face interviews, driving to offices to reach respondents in an effort to reach the targets set by the sample.

#### **4.2.4.1 Data Collection**

The survey was designed as an on-line questionnaire of which the link was emailed to measured entities as per the email addresses provided by the B-BBEE Commission. The semi-structured interviews with the principals/representatives took place either via zoom or where possible through face-to-face engagements.

The research also utilized secondary data provided by the B-BBEE Commission tracking approximately 200 entities in the period 2018-2021. The dataset included data on entity information, B-BBEE assessment, as well as variables such as annual turnover, size of entity, sector, ED and SD contributions for two years.

#### **4.2.4.2 Data Collection Tools**

Two data collection instruments were employed for data collection: a structured on-line questionnaire for measured entities and a semi-structured questionnaire for key informants (see Appendices A and B). The semi-structured questionnaires were designed to facilitate a discussion where the researcher followed a list or predetermined questions, which guide them to remain on course during the interview. However, the questionnaires also provided flexibility for the researcher to probe for further clarity where required.

To address the objectives of the research, the researchers constructed the questionnaires around both perceptions and indicators to ESD. The key focus of the questionnaires was on (although not limited to) the following issues:

- Measure the extent that measured entities are implementing the NPAT targets set for enterprise and supplier development in line with Statement 400 of the generic/ sector codes.
- Determine the percentage of funds from the targeted NPAT as per Statement 400 of the generic/sector codes that measured entities have initiated and spent with beneficiary entities.
- Evaluate the shortfall percentage from the targeted NPAT funds as per Statement 400 of the generic/sector codes that measured entities have not been able to implement and direct towards enterprise and supplier development.
- Identify the challenges faced by measured entities in implementing the requirements of Statement 400 of the generic/sector codes and make recommendations.

- Assess how the B-BBEE Commission can assist measured entities to fully initiate and implement the set NPAT targets for enterprise and supplier development.

### 4.3 Data Analysis

Data analysis is the process of transforming raw data, such as participant responses and observation notes, into a cohesive and relevant representation of the subject under investigation. The survey data was analysed using SPSS and descriptive statistics were produced and presented in the form of tables and graphs. The qualitative responses were analysed using content and thematic analysis. To analyse the data collected from the qualitative methods, the researcher applied the methods of content and thematic analysis. The essence of both content and thematic analysis is the approach of identifying themes in the responses of the participants to analyse the data. In the case of the key informant interviews and focus group sessions, thematic analysis was used to identify themes or patterns that emerged from the transcripts. The researcher applied content and thematic analysis to different parts of the surveys to analyse the data acquired from the two questionnaires. The researcher followed the six phases of conducting thematic analysis put forth by Braun and Clarke (2006:89–96) which have been duplicated below:

*Figure5: Six Phases of Conducting Thematic Analysis*



*Source: Madyibi (2021)*

According to this framework and for each question, the first step for the researcher was to familiarize themselves with the data collected during the interviews. The second step entailed grouping together comparable responses, interesting responses, and responses that mostly addressed the research questions. The study focused on semantic codes, in which the meaning derived was limited to the respondents' stated responses. The third step involved the search for themes where the researchers organised the initial codes into themes. The following step involved the establishment of relationships between themes, combining similar themes together. After that, the researcher defined and names the themes based on their essence. Finally, the findings were presented under themes using figures and responses from the participants.

To estimate the value of ESD expenditure in South Africa, the secondary B-BBEE assessment data was used. The research manipulated annual turnover data to calculate the ESD target based on the 3% target and a 4.54% average profit margin for the entire South African Industry over a 12-month period (BEE Ratings, 2022). The formula to determine overall estimate ESD spend was:

$$ESD\ Target = Annual\ Turnover * 4.54\% \textit{ Average Profit Margin} * 3\% \textit{ Target}$$

#### **4.3.1 Triangulation**

Through the utilization of both the quantitative and qualitative research approaches, representing different aims, foci and strengths, the principle of triangulation, that is, the incorporation of both these designs in a single study, allowed for a multi layered and nuanced description and understanding of the phenomena under observation.

#### **4.3.2 Ethical Considerations**

The researchers explained the research project and objectives of the study to all the respondents. The anonymity and confidentiality of all respondents were respected.

#### **4.3.3 Informed Consent**

All study participants, particularly the survey respondents, were provided with information regarding the aim and objectives of the investigation. The researcher presented a written document detailing the research project and aims to the participants. The participants voluntarily agreed to take part in the study.

#### **4.3.4 Anonymity and Confidentiality**

Although anonymity and confidentiality are sometimes used interchangeably in research, Hennink et al. (2011:71) differentiates between the two. Confidentiality refers to the fact that the information shared between the researcher and the participant remains private. To maintain confidentiality, the original responses were only accessible to the study team, and the data is retained in a secure location. The identities of the representatives and the names of the agencies were kept confidential in this study.



## 5 FINDINGS

This section reports on the findings from the case study interviews and survey.

### 5.1 Case Studies

The chapter starts by highlighting three specific case studies to get an insider's perspective of what is working and what is not working for specific companies/entities, the challenges they encounter in implementing ESD and recommendations to the B-BBEE Commission in this regard. Each of these cases offers a unique insight into different organisations, offering insights into the diverse set of experiences encountered. The study reports the insights and comments as made by the specific company under study. The research goes a step further to provide more context if the anecdotal evidence is not aligned to developments on the ground, do not project or apply across other companies or the industry. The section closes with a summary on the key points identified from these studies.

#### Case Study 1

The case study focused on a local bank that has successfully implemented their ESD strategy. The bank highlighted an advantage over other corporates in that the bank was able to embed its ESD strategy into its core business in a way in which other corporates were not easily able to do. The bank was/is able to leverage what they do for SMMEs to drive their ESD strategy. The bank has successfully worked on the following:

- The bank identified their commodity purchases and has driven successful transformation in the supply of these commodities.
- Has made progress in scaling some black owned and black female owned debt collection businesses.
- Has done successful transformation in the area of marketing.
- Has done successful transformation in the area of evaluations.

The bank's recently revised ESD strategy aims to find new areas of opportunity where the bank can make significant impact. The key focus areas are on untransformed segments/ or commodities and untransformed industries. It is focused on key economic problems that need unlocking. The bank has spent money in scaling business development support to make it accessible to everybody so that development doesn't happen in pockets. Other focus areas include:

- The bank is focused on the accounting industry which is still viewed as untransformed with few big players.
- The bank has successfully run a pilot to scale up black owned and black female owned accounting practices that can serve SMMEs in the mid-core utilizing technology to scale their businesses and to connect them to markets.
- The bank is working with youth, and early start-ups, basically ideation, providing grant finance, focusing on the youth category, especially the most vulnerable group which is the 18-year to 25-year-olds.
- The bank is developing social enterprises who are, in and of themselves solving problems for society because the banks cannot get directly involved in service delivery in the banking space. The bank has done quite a lot of work with mainly township and rural-based social enterprises because according to them, that's where the problems exist.
- The bank has also made inroads in providing funding for franchising. The bank is trying to presently build a structure for black entrepreneurs which will effectively fund franchises for these entrepreneurs.

#### ***Challenges in ESD expenditure***

Some of the challenges the bank faces go to the heart of the regulatory framework and speaks directly to some of the regulatory constraints:

- Whilst the bank focuses on its supply chain for some ESD initiatives, the supply chain for the bank given that it operates in the financial services sector, is not a job creating intensive sector. There is a lot of potential to impact Tier 2 companies by making available programs to own suppliers and putting the programs above the line so that participants can apply in a transparent and inclusive process for everybody.
- The bank can give non-recoverable support to both ED and SD beneficiaries, but the bank can't give funding support to ED beneficiaries. This means that the bank can only give additional funding to Business-to-Business models. This neglects all the Business-to-Consumer businesses which are the employment generators. This is a significant constraint in the deployment of funds for the bank. The bank could create more jobs if it could fund Business-to-Consumer models as this is where the black community economy businesses and entrepreneurs are. So, saying the bank can't fund them makes it difficult to implement ESD strategies.
- The respondent also indicated that meeting ESD requirements are sometimes very difficult to execute because of new legislation around consent to speak to people as well as processing of data. For example, the bank is not allowed to speak to their suppliers if they're not banked with

the bank because banks don't get consent to market their material at a supplier level, since they only have consent at the level of their own operations. In terms of the ability to execute, there is a need for awareness of legislation such as Protection of Personal Information Act 4 of 2013 (POPIA). Due to such legislation, the operating environment has become very constrained around how the bank is allowed to communicate and process information and marketing, and what they are allowed to speak to people about. The respondent indicated that ESD implementation has become complex, even for simple activities like telling bank suppliers what the bank can do for them and how the bank can source and select because of the new legislation.

- When a supplier gives out information, the bank is not allowed to use that information for anything outside of procurement. They're not allowed to use that information to go and give them ESD. The legislation is fairly challenging since the other legislation that businesses have to comply with often conflicts with the B-BBEE regulations. For example, a bank has to comply with treating customers fairly, equal opportunity for all, etc. Yet at the same time, the bank must give preferential treatments to meet B-BBEE Targets. The respondent mentioned that it becomes difficult trying to navigate this landscape.
- Banks have to be very careful around how they implement ESD because of all the rules involved. The bank sends communication about ESD opportunities to everyone since the bank is not allowed to send communication to suppliers asking them to apply directly.
- On the funding side, figuring out how to incorporate additionality is quite complex from a bank's perspective. Banks deploy money based on Reserve Bank requirements and because of NCAA, the bank must operate under an accredited funder's license. The respondent mentioned that "the bank is not allowed to do additionally because its deposit holders' money, even when done under a developmental context, the funding still needs to sit on a balance sheet somewhere". The bank must therefore off-balance sheet many initiatives, effectively meaning that the bank would offer preferential rates to suppliers who have existing lending with the bank which goes through as ESD contributions.

***What is working and what is not-working***

- The bank is very structured when it comes to the bank's ESD program. The bank does not view the ESD strategy from a compliance perspective.
- Once the bank identifies an ESD opportunity it undertakes a full feasibility assessment before it commences with anything. What the bank does differently is to first understand the problems associated with a particular program/initiative, then the bank will bring a specialist business development support partner on board, and together the bank will design/ run a theory of change program.

- The bank does very rigorous sourcing and selection of ESD beneficiaries. The bank does its business diagnostics before embarking on a program because the bank is very clear that bank programs are designed to solve a specific need for a specific industry size. In an intervention, the bank would have multiple layers of support. The bank will use the business diagnostic to create a growth strategy for each business which would then be supported by a mentor, sometimes a coach for the entrepreneur and then by various specialists, or the bank will bring in a strategic consultant who can help businesses in a very bespoke way. It will also run very comprehensive boot camps and run beneficiaries through training with mentors whilst the bank measures performance.
- The bank gets involved in multiple aspects that the suppliers need support in and offers long-term support instead of short-term initiatives. For example, the respondent mentioned that a three-month accelerator program is not going to move the needle – as one can't say a program created jobs or built revenue growth after three months.
- The bank's intervention is targeted and heavily invested in potential suppliers.
- According to the respondent, the bank has driven meaningful impact through focus on the right metrics - sustainable job creation/ capacity building. This approach contrasts with many other business development service providers who are just selling programs with the impact being the number of people trained, not the number of businesses fundable, nor the number of jobs created.
- The respondent mentioned that what the bank finds working is being intentional around where the bank thinks the bank can move the needle and then doing relevant research measuring interventions properly. The bank is also very rigorous around measurement and measures every conceivable indicator like revenue, profits, jobs, business maturity in terms of best practice on the strategy. The bank also measures investment readiness and how many beneficiaries got funding. This gives the bank a lot of credibility with bank stakeholders.
- According to the respondent, the bank leadership has a passion for ESD which gives the company more latitude in driving such programs. This allows the bank to spend more than the bank's target. According to the respondent, the bank has amazing stakeholders who are deeply invested in driving ESD.
- The bank has very diverse beneficiaries which helps the programs' success. At present the bank is supporting approximately 400 beneficiaries in different programs.
- The bank uses an intense media strategy to invite beneficiaries to apply for their programs. The bank deploys social media, and other media tools to advertise their programs to a broad segment of the population. This includes the public sector as well. However, it was noted that local

government never responds to these calls but continues to state that the bank is doing nothing in their region.

- According to the respondent, the bank is good at adhering to procedures and standards. Since ESD started, the bank has never had a problem with the B-BBEE Commission or the ESD.
- The bank always customizes ESD strategy for the local environment. In contrast, some companies drive international models that do not cater for the contextual basis of South Africa. The bank has seen international companies approach locals to give mentorship which doesn't work due to the lack of appreciation of the local context. The respondent mentioned that the bank uses local environments and tries to design new initiatives where it makes sense.
- The company has a high standard of measuring the impact of its programs. The bank is very close to the IRS measurement framework in terms of net jobs created. The bank also focuses on what a decent job is, calculations on how revenue growth is measured, and how sustainable all things are.

#### ***Recommendations to the B-BBEE Commission***

- The respondent has indicated that considering the current economic environment, limiting ESD to Business-to-Business initiatives limits the impact that can come from Business to Customer initiatives, where more job creation happens.

#### **Case study 2**

The organization has been successful in driving ESD spending targets mainly due to it being a board mandate to achieve the required B-BBEE level every year. Every year, there's a mandate to get the full points for ED and SD, and bonus points. The entire supply development claim comes from the work that the company does with small black owned CMTs (factories in its own supply chain). The company drives initiatives to create jobs locally within manufacturing. The company is constantly trying to identify and work with small players in the supply chain. The company ensures that that is where the entire supplier development claim comes from to meet B-BBEE requirements. The company offers either grants, loans or donations of machinery depending on the support required on a case-by-case basis. The company also takes on the role to support beneficiaries from an operational and financial capacity perspective to ensure that the business is thriving and sustainable. The company works with the Clothing Bank to develop sports in underprivileged communities through merchandise return donations. It also works with small black owned designers and has an ED system that creates a pipeline of potential suppliers.

### ***Challenges/obstacles***

- The respondent felt that the spirit of the code and the spirit of ESD is really great in ensuring job creation and sustainable small business development. However, the respondent mentioned that it is the practical implementation that is difficult. Suppliers generally have more long-term relationships with the company and according to the respondent can be on board in the company books. However, the difficulty arises with ED beneficiaries who are not in the company's books. The company would want ED investment to go towards someone or an entity who can become a supplier one day. However, that is not an easy find. It is easier to find a supplier than it is to find an ED beneficiary. In addition, ideally a company wouldn't want to keep someone as an ED beneficiary. According to the respondent there is always pressure to get an ED beneficiary, grow them, develop them, make them a supplier, and then again, look for another ED beneficiary. Hence, ED tends to be a little bit more challenging in terms of identifying beneficiaries and suppliers.
- The respondent also mentioned that it is difficult to get information on eligible black and black woman owned suppliers for consideration for the ESD partnership. It is difficult to find many small black owned, black women owned suppliers or suppliers within designated group ownership that you can have on your books continuously. According to respondents, there are companies out there that are charging corporate fees to find these small black owned suppliers.
- According to respondents, it is sometimes challenging to working with smaller suppliers as they may not be able to scale at the level that is required to support big retailers. This makes it difficult to source locally, and especially from B-BBEE companies because of scaling constraints within SMMEs.

### ***What is working***

- The board of the company has given the mandate to achieve a required B-BBEE level which allows the company to weave the B-BBEE requirements into business as usual. The company ensures that B-BBEE is not a grudge purchase or an add-on to what they do but structures it into its normal operations such that attaining the required level is business as usual for them.
- Identifying an ESD partner or facilitator from the procurement side in terms of identifying black owned and black women owned suppliers.
- Undertaking gap analysis to identify specific needs of beneficiary suppliers and stepping in to assist when needed in all operational aspects works for this company. For example, where a brand-new supplier could be small and black owned but lack the exposure or experience in terms of dealing with a big business, the company undertakes a gap analysis for the beneficiary and helps these

companies to register with the bargaining council, also steps in to ensure that the machinery that they are using is up to standard. In some cases, beneficiary suppliers need mentoring, or financial assistance in the form of loans or grants. The company will ensure that the day the company pulls out of supporting the beneficiary, the beneficiary company will be able to survive and be a sustainable business in a very broad sense, which helps in terms of job creation and local manufacturing.

- Success can be attributed to the wealth of knowledge, skill, and expertise in developing small businesses. In this case, the head of manufacturing has decade's long experience in the industry and has been able to build a highly skilled and effective team within the company. Due to this, the team has been able to deliver high quality projects or initiatives with factories.
- Good engagement with the B-BBEE Commission. Though the company has engaged the B-BBEE Commission a few times a year on average, the B-BBEE Commission has been able to provide the required support within acceptable turnaround times. The company normally reaches out with questions on audit, templates and would receive confirmation if their submissions are received as well as a letter advising on focus areas. The B-BBEE Commission's website has been helpful in providing updates.
- The company employs different strategies across their three main businesses within the company to ensure compliance across all of these.
- According to the respondent, it's a challenge to find an ED beneficiary to develop and ensure that in about a year or two years' time, they can then become a supplier. Teamwork and close cooperation with different teams across the business helps to identify an ED beneficiary every year who has the potential of becoming a supplier in a year or two.

#### ***Recommendations to the Commission***

- The B-BBEE Commission could build and maintain a database of potential suppliers and help ensure that their B-BBEE credentials are in order. This will ease the difficulties of getting information on eligible black and black woman owned suppliers for consideration for the ESD partnership. The B-BBEE Commission could lead a formal ESD program across the different categories and have small black owned suppliers on hand. The database could be centrally housed within the B-BBEE Commission and could potentially be categorized according to the products that SMMEs produce or the services that they sell. Even if the database is not housed by the B-BBEE Commission, the B-BBEE Commission can verify some of the information on it.
- It was noted by the respondent that the percentage requirement of black owned and black women owned ownership is currently set too high, with a recommendation of relaxing this a bit in the short run.

- A suggestion was made about scraping the ED to SD bonus points and instead giving 2 points for job creation, given the SA context.

### **Case study 3**

The company hasn't met NPAT spending targets last year but is hoping to achieve the target this year despite difficulties. The company earmarks suppliers for SD and went through a very vigorous selection process in terms of product, supply capability, and organisation. The company spent R36 million this year on ESD with contributions exceeding R50 million. The company fails to utilize the full NPAT allocation due to difficulty in identifying the suppliers that are 51% black owned that can provide the company with the product in the right volumes with a set cadence. An observation made is that the challenge highlighted is one of the core purposes of ESD which is to provide support to black-owned SMMEs to enable them to operate and scale up in a sustainable way.

### ***Challenges/obstacles***

- The company procures very large volumes from a lot of the suppliers such that smaller EME and QSE suppliers that are 51% black owned suppliers struggle to produce those volumes. The respondent noted that this is where the company experiences a lot of difficulty in supplier development. The company is working very closely with the Clothing Federation of South Africa to try and promote South African operations to upskill SMMEs to provide the volumes.
- It is difficult for the company to identify the suppliers that are 51% black owned that can provide the company with the product in the right volumes with a set cadence. This has resulted in the company failing to utilize the full NPAT allocation.
- The company provides loans to cotton farmers so that they can procure seed and fertilizer, in growing cotton. Even though the company does not use cotton directly in its supply chain, it is used in the supply chains of its clothing suppliers. In this regard, the company has been engaging **the dtic** as well as the B-BBEE Commission to say that this must be recognized because it's within the value chain of the products procured by the company. The company has stated that to date the codes doesn't cater for or recognize this intervention as procurement spend on ESD.

### ***What's working***

- The company has a list of programs and initiatives they are working on regarding ESD
- The company works very closely with the cotton cluster in South Africa where they develop and get the cotton into their supply chain.
- The company works with the Clothing Bank and the Clothing Box program, which are large organizations in South Africa.



- The company manages to put suppliers through a 24-month program which empowers them to become successful entrepreneurs. Several suppliers qualify for supplier development through the company. It invests in those companies and works very closely with these companies to upscale.
- Engagement with the B-BBEE Commission has been good with very good response rates from the B-BBEE Commission. The B-BBEE Commission has been very responsive to questions and queries and doing an absolutely fantastic job in this regard according to the respondent.

#### ***Recommendations to the B-BBEE Commission***

- On skills development, the respondent felt that there is a lot of work that needs to be done in this regard. Looking at skills development, the government considers NQF levels, but the company requires merchants and buyers, skills that are not based on those frameworks of the NQF levels. If the BEE scorecard for skills development could be structured appropriately, that would add so much more potential and growth and improve the employment in the country. The company has engaged with the relevant SETAs to design programs that can speak to their needs.

## **5.2 Lessons from the Case Studies**

The main challenges highlighted by the case studies are:

- The regulatory framework needs to be tweaked to enhance ESD. A one-size fits all methodology for B-BBEE scoring does not work. It is not plausible to completely achieve the objectives set out on the B-BBEE scorecard if a one size fits all approach is applied the way it is being applied now. The research discovered lack of understanding that B-BBEE legislation provides for separate compliance requirements for public and private entities. Public entities are rated based on a Specialised scorecard that excludes black ownership from the measurement of determining compliance with the B-BBEE Act which drove non-compliance.
- There are challenges in finding and working with smaller suppliers, as they may not be able to scale at the level that is required to support big companies making it difficult to source locally, and especially from B-BBEE companies. Despite this obstacle being raised, the research notes that the purpose of ESD is to identify the gaps or constraints for the suppliers in scaling up in order to provide ESD support that allows them to develop. The most common obstacle highlighted is that the beneficiaries are not ready to scale up in having proper financial systems, strong financial management structures, sound business plans. The purpose of ESD is to provide that kind of support for them to start operating competitively and productively in a sustainable way. If the supplier already has the basic structures of being a supplier in place and display the potential for

growth, measured entities have an opportunity to support them further and develop their capability so that they can scale up their supply or get into joint ventures with another suppliers.

The research observed that ESD does not just succeed by simply establishing the supplier development procedures.

- There is need for a deliberate ESD strategy where entities employ a forward-thinking and holistic approach that is tied to improving a supplier's performance, reducing costs, and resolving serious quality issues.
- ESD is a resource-intensive process, it should be undertaken with selected suppliers from which real business benefit can be derived. Entities should seek to identify where resources are best allocated, prioritize supplier buy-in and collaboration, and plan to achieve continuous and anticipatory improvements, which result in a long-term competitive advantage.
- Entities need to analyse, evaluate, and appreciate their own organisation's corporate objectives and business needs. ESD projects that are undertaken must be in support of the purchasing and supply management strategy which, in turn, supports the organisational strategy.

Recommendations for the B-BBEE Commission include:

- The B-BBEE Commission could build and maintain a database of B-BBEE compliant suppliers. The database will benefit the entities as they will be able to ascertain available suppliers without undergoing lengthy and cumbersome vetting processes. This will ease the difficulties of getting information on eligible black and black woman owned suppliers for consideration for ESD partnerships. The database could be centrally housed within the B-BBEE Commission and potentially categorized according to the products that SMMEs produce or the services that they sell. Even if the database is not housed by the B-BBEE Commission, the Commission can verify some of the information in it. Legislative requirements can also be published on the portal to help companies meet compliance requirements and can give a platform to register products and service. This will ease the burden of looking for suppliers through finding shortlisted and pre-vetted suppliers which will save them time. The database will immensely benefit entities that don't have eligible suppliers in their systems as well as for those seeking ED beneficiaries. This will ensure that the B-BBEE credentials of companies are in order. This will ease the difficulties of getting information on eligible black and black woman owned suppliers for consideration for ESD partnerships. The database could be centrally housed within the B-BBEE Commission and potentially categorized according to the products that SMMEs produce or the services that they

sell. Even if the database is not housed by the B-BBEE Commission, the Commission can verify some of the information in it.

## 5.3 Findings from the Survey

The following section presents the key findings from the survey.

### 5.3.1 Survey population

Sixty-eight measured entities responded to the call to participate in the research study. One response was very poor and was subsequently excluded from the data analysis.

Table 6 shows the survey population to include participants fall within the generic B-BBEE sector code. Fifteen percent represent the *financial* sector.

*Table 6: Sector distribution amongst respondents according to B-BBEE sector codes*

B-BBEE sector codes	Frequency	Percentage
Financial	10	15
ICT	4	6
Property	4	6
Agri-BEE	3	5
Construction	2	3
Tourism	3	5
Integrated Transport	2	3
Generic	39	58
Total	67	100

Table 7 shows the survey population according to the Standard Industrial Classification (SIC) codes. According to this analysis, 21% of the entities that participated in the survey are from the sector *Finance, Insurance, Real Estate and business services* with 18% in *General Government*. Thirteen percent are in the *Manufacturing sector* another 12 % from the *Community, Social and Personal Services* sector with lower representation by the other sectors. Of the 9% that classified as *other*, four are companies that specialise in Information and communication technology, one is a safety and security specialist, one implements projects in agriculture and economic development.

Table 7: Sector distribution amongst respondents according to SIC codes

Sector Industrial Codes	Frequency	Percentage
Finance, insurance, real estate, and business services	14	21
Wholesale and retail trade, catering, and accommodation	6	9
Manufacturing	9	13
General government	13	19
Transport, storage, and communication	3	5
Community, social and personal services	8	12
Construction	2	3
Agriculture, forestry and fishing	5	8
Mining and quarrying	1	2
Other	6	9
<b>Total</b>	<b>67</b>	<b>100</b>

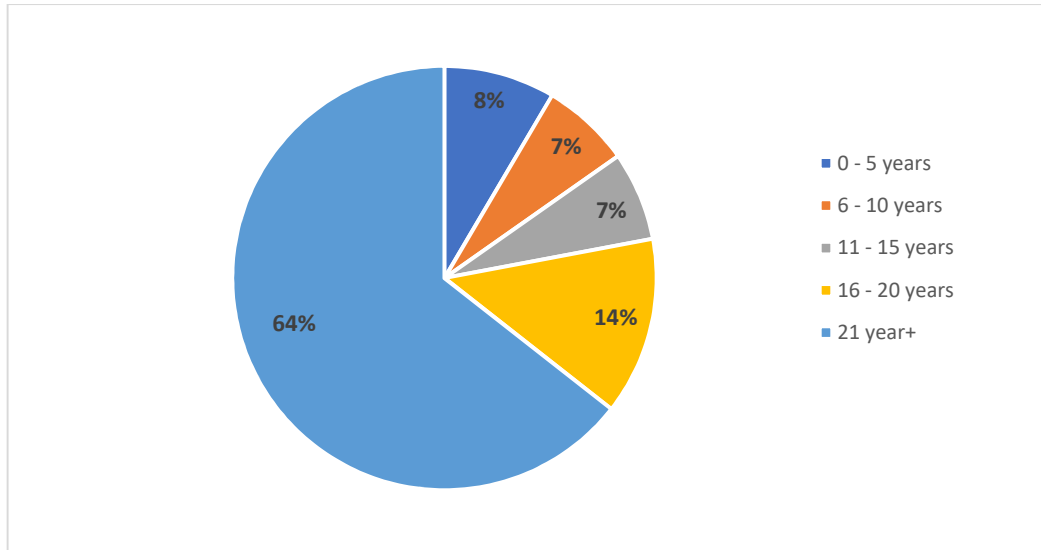
Fifty eight percent (N=39) of participating entities are situated in Gauteng, followed by 20% (N=14) situated in the Western Cape, 15% (N=10) in Kwa Zulu Nata, 3% (N=2) in the North West Province and 2% (N=1) in the Eastern Cape and Mpumalanga respectively (Table 8)

Table 8: Geographic distribution of responding companies

Province	Count	Percent
Gauteng	39	58
Western Cape	14	21
KZN	10	15
North West	2	3
Mpumalanga	1	2
Eastern Cape	1	2
<b>Total</b>	<b>67</b>	<b>100</b>

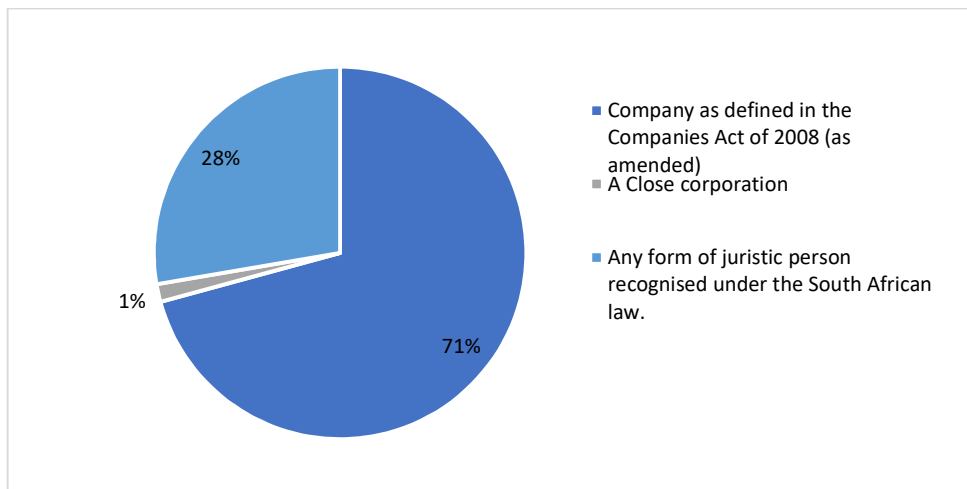
The greater portion (64%, N=38) of entities have been in operation for twenty-one years or more. Fourteen percent (N=8) have been in operation between 16 and 20 years and another 8% (N=5) between five years or less. Seven percent (N=4) have been in operation between six to ten years or eleven to fifteen years respectively (Figure 6).

Figure 6: Number of years in operation



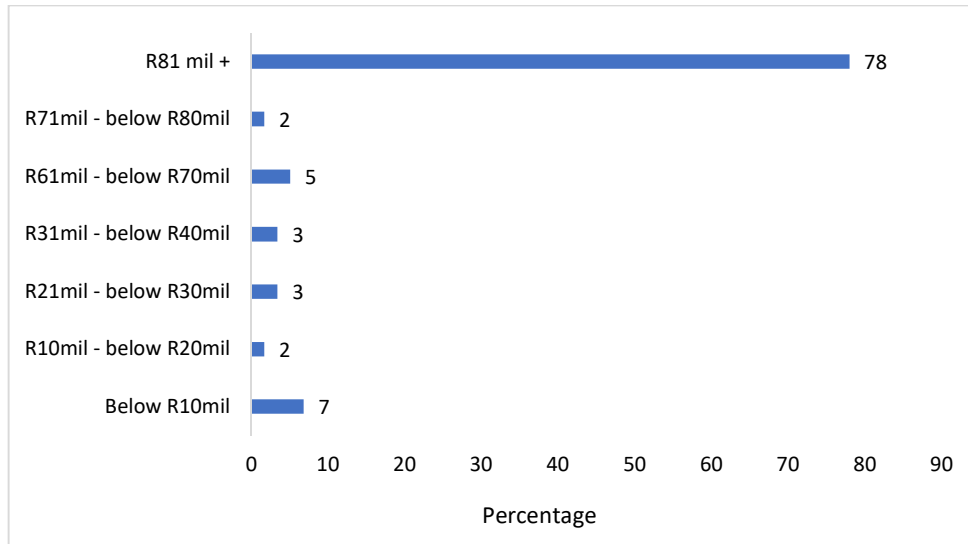
Seventy one percent (N=46) of the measured entities that responded to the survey, are companies as defined in the Companies Act of 2008. Twenty eight percent (N=18) are registered as a form of juristic person recognised under the South African law. Only one entity is registered as a closed corporation (Figure 7).

Figure 7: Type of entity



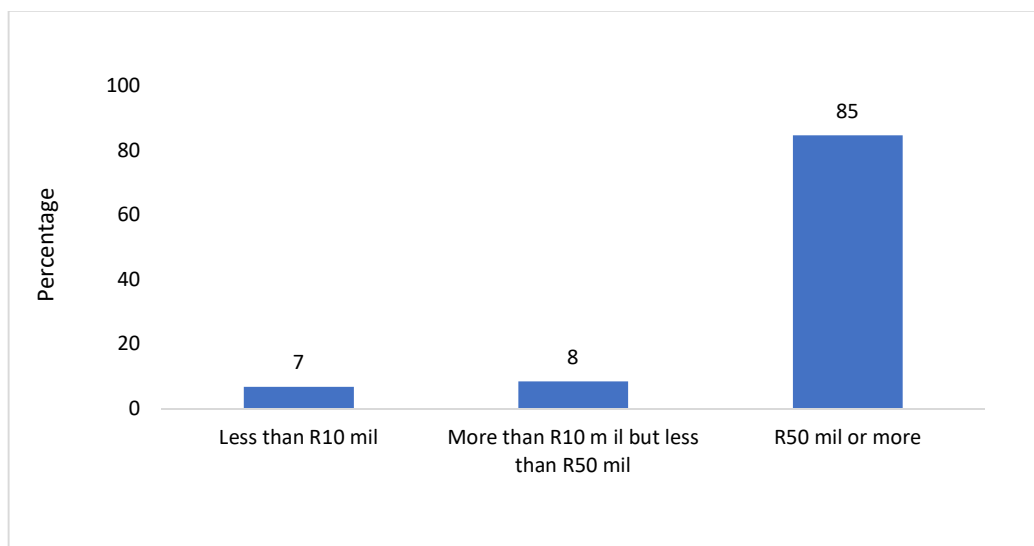
The largest portion (78%, N=46) of companies reported an annual turnover of more than R81 million for the past financial year. Seven percent (N=4) reported a turnover of below R10 million (Figure 8).

Figure 8: Annual turnover in last financial year



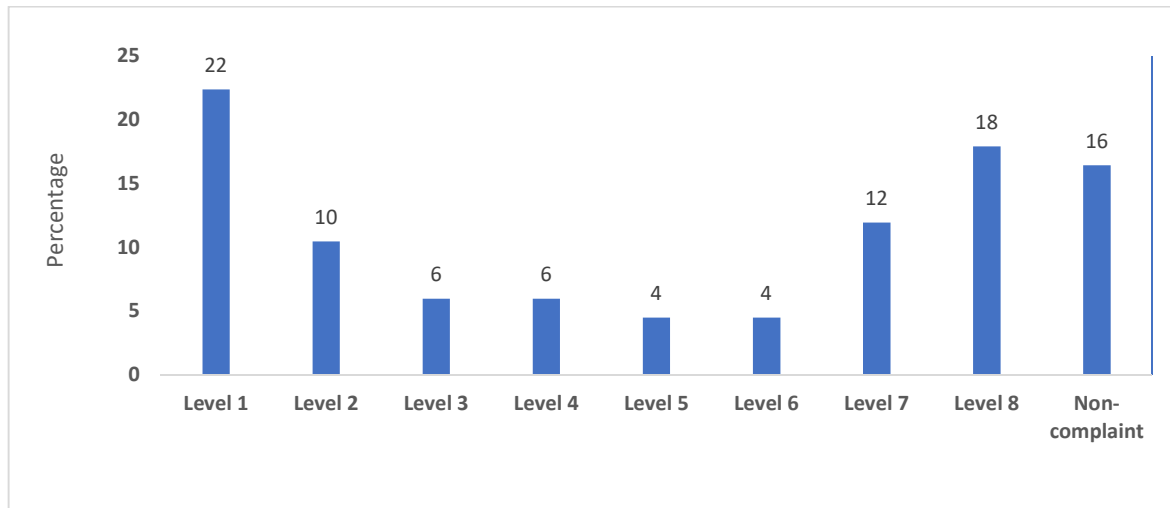
Considering the annual turnover in terms of EME and QSE industry thresholds figure 8 shows that 81% (N=50) of the measured entities have budgets that exceed both these industry thresholds with an annual turnover of more than R50 million. Only 7% (N=4) of the participating entities reported a turnover of less than R10 million for the past financial year with another 9% (N=5) that reported an annual turnover of more than R10 million but less than R50 million (Figure 9).

Figure 9: Annual turnover in terms of industry (EME & QSE) thresholds



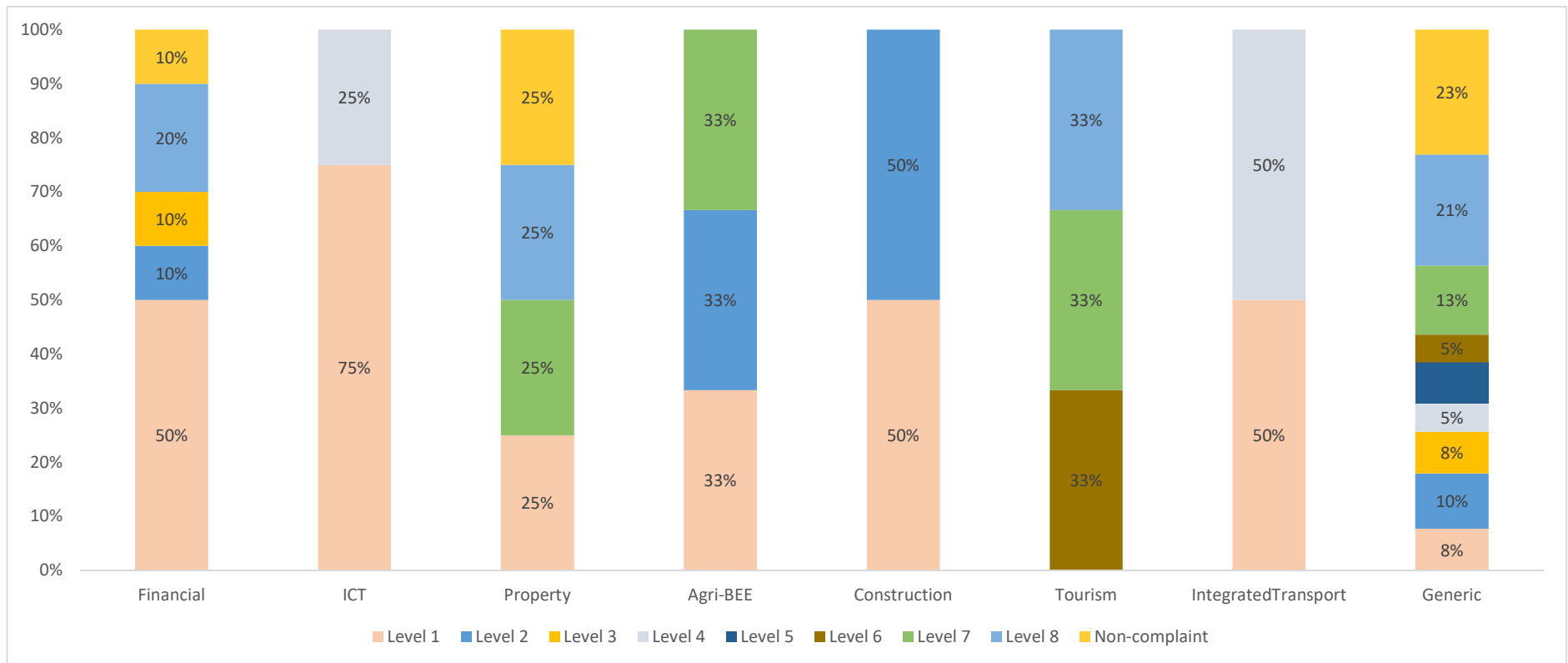
The B-BBEE status levels of the entities varied across participating entities with 22% (N=15) reporting a Level 1 status, followed by 18% (N=12) that are at a Level 8 status and another 12% (N=8) Level 7. Sixteen percent (N=11) are reported as non-compliant. (Figure 10).

Figure 10: B-BBEE status level of responding companies



Considering the B-BBEE status level of entities by B-BBEE sector codes, the largest variance in status level is noted for organisations within the *generic sector codes* (N=39). ICT entities show the largest portion of level 1 status with 75% of the entities in this category classified as such. Fifty percent of entities in the financial, construction and transport industries carry a level 1 B-BBEE status (Figure 11).

Figure 41: B-BBEE status level by B-BBEE sector codes





Analysing the B-BBEE status level of entities by SIC sector codes, the largest variance in status level is noted for organisations within the *finance, insurance, real estate, and business services* (N=14). Seventy three percent of *general government* entities, 9% of *community, social and personal services* and 18% of *finance, insurance, real estate, and business services* are non-compliant (Figure 12).

Figure 52: B-BBEE status level by SIC codes

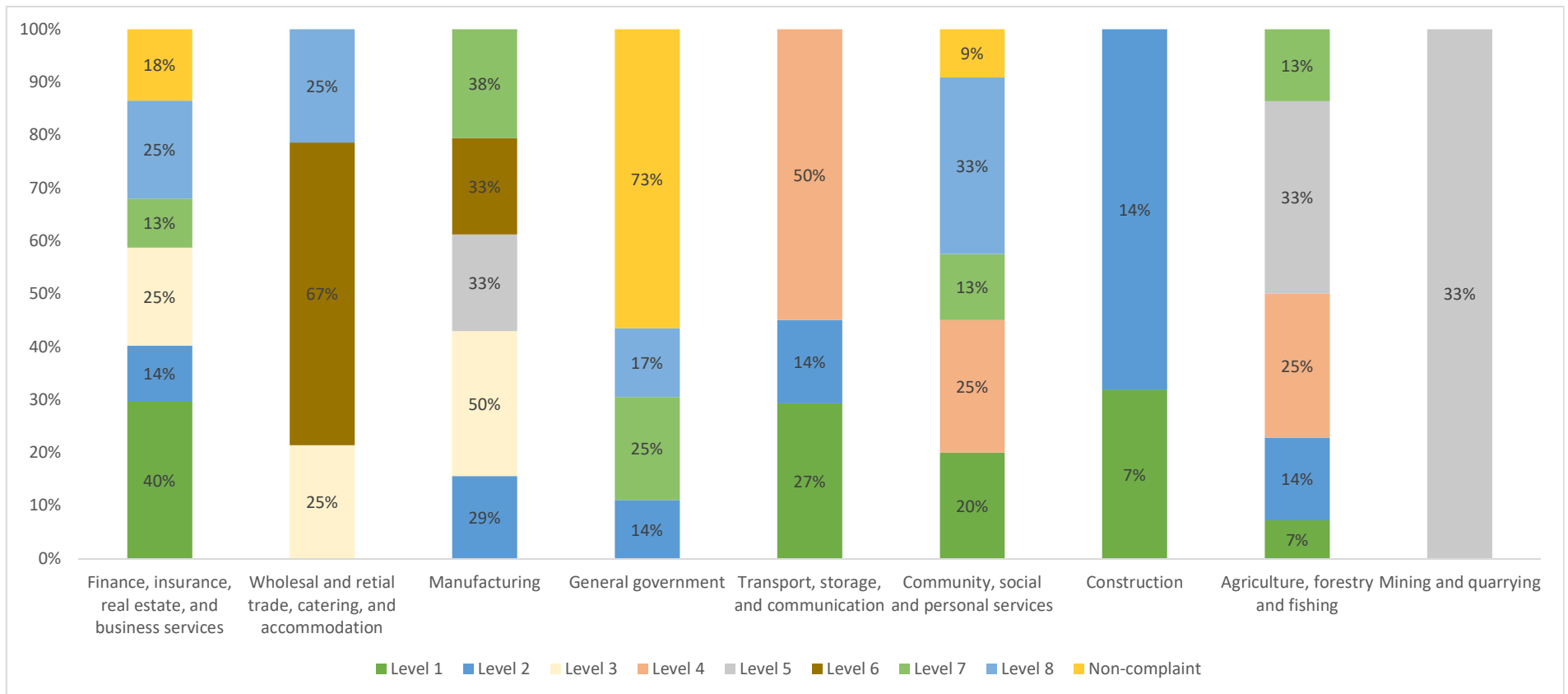
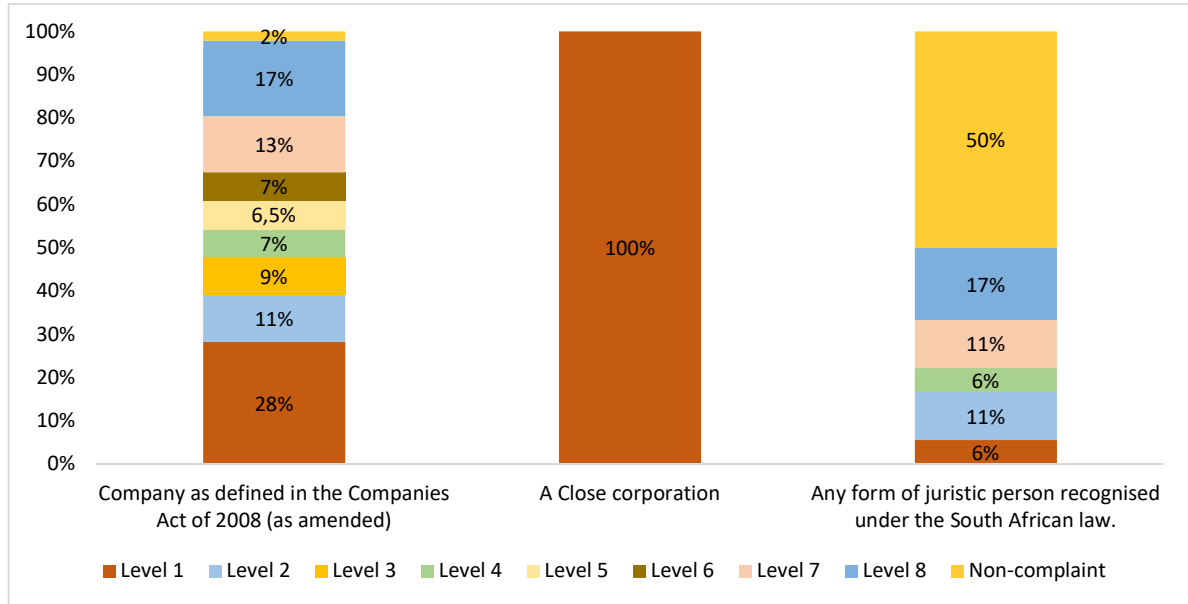


Figure 13 presents the B-BBEE status level of measured entities in terms of its nature of registration. Twenty eight percent (N=13) with another 17% (N=8) at a Level 8. The one company registered as a Closed Corporation reported a level 1 B-BBEE status level.

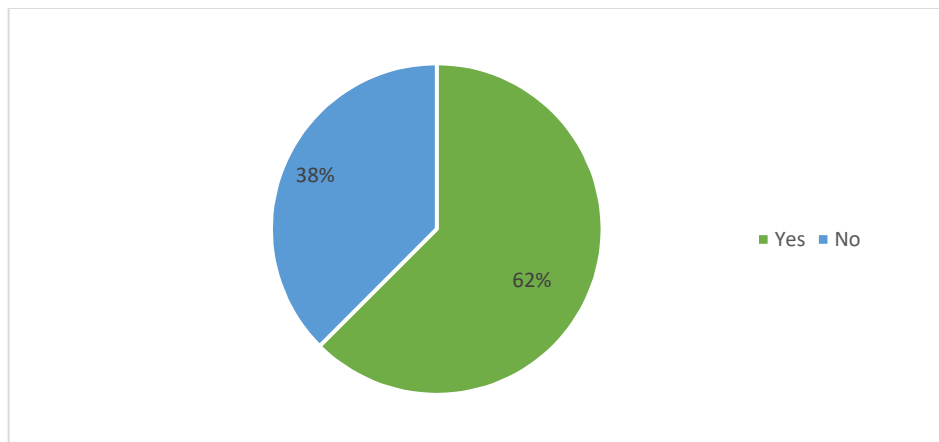
Figure 13: B-BBEE status level by nature of registration



### 5.3.2 Nature of ESD Strategy

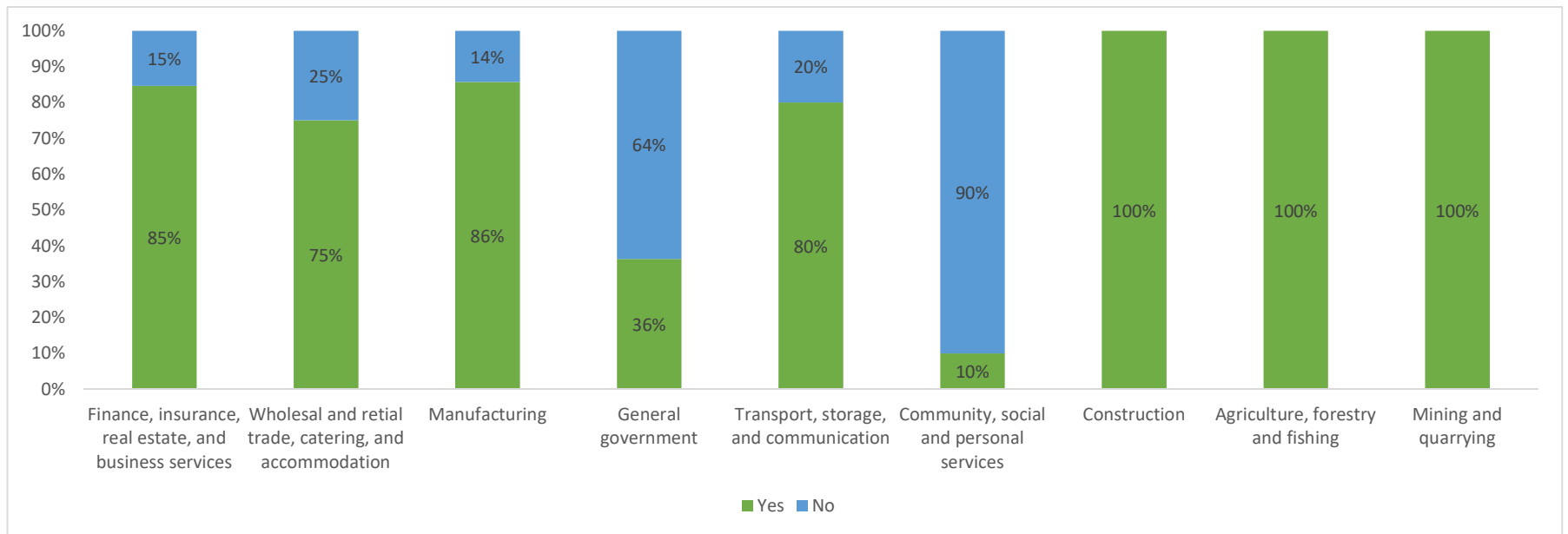
Asked if the entity has a clearly defined ESD strategy, 62% confirmed that they do (Figure 14). Analysed according to the B-BBEE sector classification, the analysis found this to be true for all entities in the *Property* and *Construction sectors* (100% respectively) as well as 80% (N=4) of entities within the *Financial sectors* (80%, N=5). Companies within the *ICT sectors* had the lowest rate of positive responses to this question (33%, N=1).

Figure 4: Company has a clearly defined ESD strategy



Analysed as per the SIC sector codes, figure 15 found only two sectors not to constitute a majority entity that not have a clearly defined ESD strategy. These sectors are community, social and personal services sectors where 90% (N=9) of entities do not have a strategy and the general government sector where 64% (N=7) of entities do not have a clearly defined ESD strategy.

Figure 5: Company has a clearly defined ESD strategy by SIC codes



Analyses as per the B-BBEE sector codes confirm the above trends, with only the tourism sector found to exhibit a majority (67%) of entities that do not have a clearly defined ESD strategy. The generic category shows a nearly 50% split to those who do and those entities that do not have a clearly defined ESD strategy (Figure 16). This is to be expected given that public entities resort under this category within this classification.

Figure 6: Company with clearly defined ESD strategy by B-BBEE Sector codes<sup>4</sup>

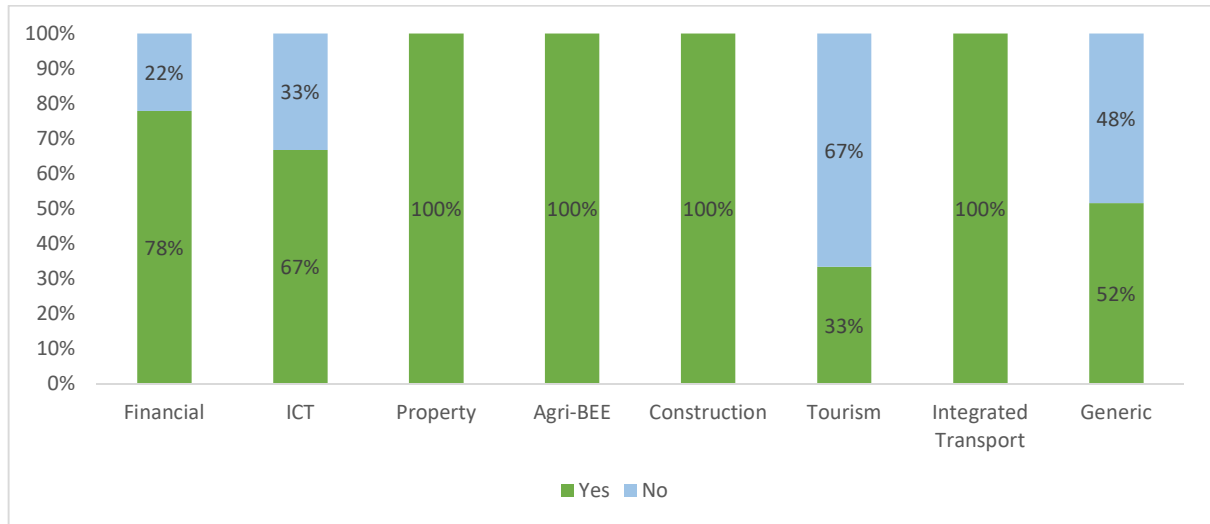
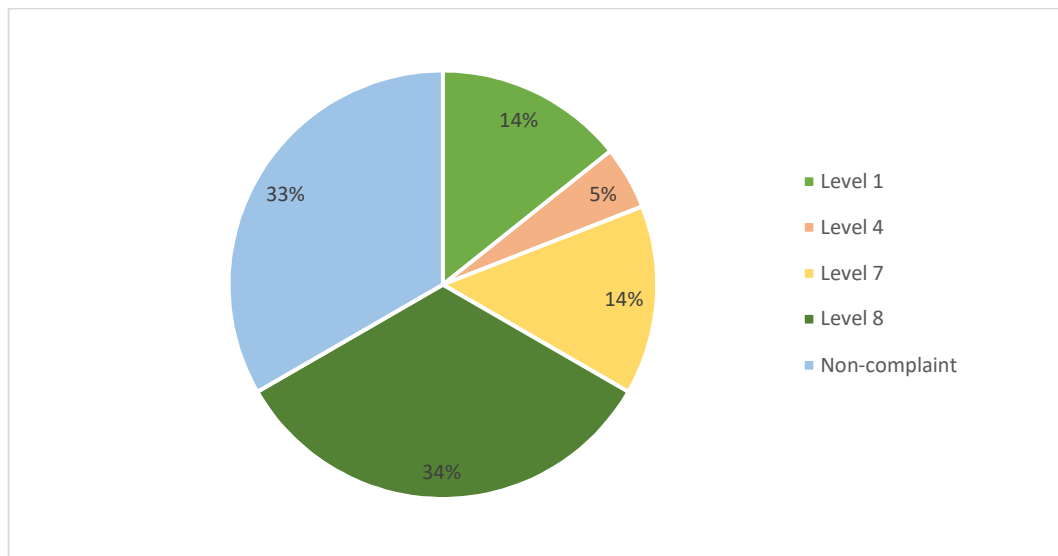


Figure 17 shows the B-BBEE status level for those entities that indicated not to have a clearly defined ESD strategy (N=21). The analysis shows the majority (34%; N=7) of these entities to have a Level 8 status with another 33% (N=7) that are non-compliant of which all are government entities.

Figure 6: Entities that do not have a clearly defined ESD strategy by B-BBEE status level (N=14)



<sup>4</sup> Please note that the Construction sector is only represented by one entity

Examining the relationship between the existence of a clearly defined strategy and the allocated budgets for both supplier and enterprise development the analysis found all entities that indicated to have an ESD strategy to also have had an allocated budget for Supplier Development in the past financial year<sup>5</sup>.

Considering available budgets for enterprise development according to the NPAT targets near to equal portions of measured entities reported budgets between R101 000 – R999 999, R1 million – R5 million and R21 million or more. For most of these entities budgets for supplier development ranged between R1 to R5 million (35%) or above R21 million (30% respectively). Pertaining to those entities that indicated not to have a clearly defined ESD strategy (N=7), only two had an allocated budget for Supplier Development. In both these cases the budget was below R100 000.

Considering the allocated budgets for Enterprise development<sup>6</sup>, 12% of the entities that did indicate to have a clearly defined ESD strategy did not have an allocated budget for this development function for the past financial year. For those that did indicate the allocated budget, the analysis found an equal distribution of 20% for the following budget ranges, R101 000 – R999 999; R1 mil – R5 mil and R21 mil and more. For those that do not have a clearly define ESD strategy, two companies had an allocated budget of less than R100 000 and one a budget of more than R21 million for this function.

Table 9 presents a summary of the type of contributions that constitute the entity's ESD strategy. From the responses ESD strategies were found to mostly include monetary support by means of grant contributions (45% of entities). An equal portion of entities (34% respectively) was found to include *mentoring programmes* and *the early payment of suppliers* as part of their ESD strategy.

Considering the number of interventions that generally constitute the ESD strategy of measured entities, table 10 shows the number of interventions that generally constitute the ESD strategies of the measured entities. On average, ESD strategies were found to consist of 2.28 interventions. The majority (33%) of strategies consist of only one intervention with 18% of strategies consisting of two interventions and another 12% of four. Eleven companies were found not to make use of any of the predefined strategies, these interventions ranged from training to other monetary interventions that seem more sector specific.

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<sup>5</sup> Only twenty-three entities (response rate of 34%) indicated the specific budgets for Supplier Development.

<sup>6</sup> Only twenty-five entities (response rate of 37%) indicated their specific budgets for Enterprise development.

Table 9: Type of ESD strategy applied (multiple response set)

		Responses		Percent of Cases
		Count	Percent	
ESD strategy applied	Grant contribution	26	17%	46%
	Incurring direct costs on behalf of the Beneficiary Entity	17	11%	30%
	Discounts in addition to normal business practice	9	6%	16%
	Rendering of professional services at no cost	16	11%	29%
	Mentoring programme at no cost	19	12%	34%
	Incurring overhead costs	15	10%	27%
	ESD strategy: Loans on favourable terms	17	11%	30%
	Early payment of supplier	19	12%	34%
	ESD strategy	15	10%	27%
<b>Total</b>	<b>153</b>	<b>100%</b>	<b>273%</b>	

Table 10: Number of interventions that constitute ESD strategies of measured entities

Number of interventions	Frequency	Percent
None	11	16%
One	22	33%
Two	12	18%
Three	4	6%
Four	8	12%
Five	5	8%
Six	1	2%
Eight	4	6%
<b>Total</b>	<b>67</b>	<b>100%</b>

Tables 11 and 12 present the type of ESD strategies as per the B-BBEE sector codes as well as the SIC codes. From table 11 the preference for the grant contributions according to the B-BBEE sector codes is confirmed for the *financial, ICT, Agri-B-BBEE, construction, transport and tourism* sectors.

Table 11: Type of ESD strategy (multiple response set) by B-BBEE sector codes (column percentage)

	Financial	ICT	Property	Agri-BEE	Construction	Tourism	Integrated Transport	Generic	Total count
<b>Grant contribution</b>	88%	67%	50%	100%	100%	33%	100%	29%	26
<b>Incurring direct costs on behalf of the Beneficiary Entity</b>	13%	33%	50%	50%	100%	33%	100%	27%	17
<b>Discounts in addition to normal business practice</b>	13%	33%	50%	50%	0%	33%	0%	9%	9
<b>Rendering of professional services to the Beneficiary Entity at no cost</b>	25%	33%	25%	50%	0%	33%	0%	29%	16
<b>Mentoring programme for the Beneficiary Entity at no cost</b>	38%	0%	75%	50%	100%	33%	0%	29%	19
<b>Incurring overhead costs on behalf of the Beneficiary Entity</b>	25%	33%	75%	100%	100%	33%	0%	15%	15
<b>Loans on favourable terms</b>	50%	67%	50%	0%	0%	33%	0%	24%	17
<b>Early payment of supplier</b>	25%	0%	50%	50%	0%	33%	0%	38%	19
<b>Other</b>	25%	0%	50%	0%	0%	67%	0%	27%	15
<b>Total count</b>	8	3	4	2	1	3	1	34	56
<b>Percentages and totals are based on respondents.</b>									

Table 12 presents the preferred type of ESD strategies as per SIC sector. The different sectors are shown to apply a range interventions as part of their strategies of which monetary support in different forms in combinations and preferences feature strongly followed by mentoring and professional services.

Table 12: Type of ESD strategy (multiple response set) by SIC codes (column percentages)

SIC sector codes	Finance, insurance, real estate, and business services	Wholesale and retail trade, catering, and accommodation	Manufacturing	General government	Transport, storage, and communication	Community, social and personal services	Construction	Agriculture, forestry and fishing	Mining and quarrying	Total count
Grant contribution	75%	40%	43%	27%	80%	10%	100%	50%	100%	26
Incurring direct costs on behalf of the Beneficiary Entity	25%	60%	29%	0%	60%	20%	100%	50%	100%	17
Discounts in addition to normal business practice	25%	40%	14%	0%	20%	10%	0%	25%	0%	9
Rendering professional services at no cost	25%	80%	29%	18%	20%	20%	0%	25%	100%	16
Mentoring programme at no cost	50%	80%	14%	9%	20%	20%	100%	50%	100%	19
Incurring overhead costs on behalf of the Beneficiary Entity	42%	40%	14%	0%	20%	10%	100%	75%	100%	15
Loans on favourable terms	50%	60%	71%	0%	40%	10%	0%	0%	0%	17
Early payment of supplier	33%	80%	71%	18%	0%	10%	0%	50%	100%	19
Other	33%	20%	0%	46%	0%	40%	0%	25%	0%	15
<b>Total count</b>	12	5	7	11	5	10	1	4	1	56



Percentages and totals are based on respondents

Table 13 in turn presents the findings for the types of ESD strategies as per B-BBEE status level of entities. From this table a range of strategies are applied by organisations that constitute both monetary and mentoring programmes.

Table 13: Type of ESD strategy (multiple response set) by B-BBEE status (column percentage)

	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Level 7	Level 8	Non-complaint	Total count
<b>Grant contribution</b>	58%	75%	67%	33%	67%	100%	38%	30%	20%	26
<b>Incurring direct costs on behalf of the Beneficiary Entity</b>	33%	50%	67%	67%	33%	100%	0%	20%	10%	17
<b>Discounts in addition to normal business practice</b>	17%	0%	0%	0%	33%	67%	13%	20%	10%	9
<b>Rendering of professional services to the Beneficiary Entity at no cost</b>	42%	25%	0%	0%	67%	67%	38%	20%	10%	16
<b>Mentoring programme for the Beneficiary Entity at no cost</b>	50%	75%	0%	33%	33%	67%	13%	30%	20%	19
<b>Incurring overhead costs on behalf of the Beneficiary Entity</b>	42%	25%	33%	33%	33%	67%	25%	20%	0%	15
<b>Loans on favourable terms</b>	42%	25%	67%	0%	33%	67%	25%	30%	10%	17
<b>Early payment of supplier</b>	17%	25%	67%	33%	67%	67%	50%	40%	10%	19
<b>Other</b>	8%	0%	33%	33%	33%	0%	25%	40%	50%	15
<b>Total count</b>	12	4	3	3	3	3	8	10	10	56

Percentages and totals are based on respondents.

Asked to indicate which contribution they would prefer to include in their ESD strategy, entities responded to mostly prefer monetary support by means of grant contributions and/or early payment of suppliers with 33% of entities indicating these to be part of ESD strategy. This is followed by a preference for *mentoring programmes* (32% of entities) and offering *professional services to beneficiaries at no cost* (26%).

Table 14: Preferred ESD Contributions (Column %)

		Responses		Percent of Cases
		Count	Percent	
Preferred ESD Strategy	Grant contribution	18	15%	33%
	Incurring direct costs on behalf of the Beneficiary Entity	9	8%	17%
	Discounts in addition to normal business practice	6	5%	11%
	Rendering of professional services to the Beneficiary Entity at no cost	14	12%	26%
	Mentoring programme for the Beneficiary Entity at no cost	17	14%	32%
	Incurring overhead costs on behalf of the Beneficiary Entity	13	11%	24%
	Loans on favourable terms	13	11%	24%
	Early payment of supplier	18	15%	33%
	Other	12	10%	22%
	<b>Total</b>	<b>120</b>	<b>100%</b>	<b>222</b>

Grants and the early payment of suppliers was strongly motivated by responding entities as a method to support cash flow and thus as a direct benefit for the suppliers investing in the development and future sustainability of suppliers. Although it was also indicated as an 'easy' way of support as it limits involvement with the beneficiary and is easy to administer. Mentoring was ascribed as a valuable intervention in that it builds the skills base and professional capacity of suppliers.

Box1: Preference for early payments & Mentoring, respondents quotes

Grants

*"Allows for the independent development of beneficiaries without direct involvement by the company"*

*"Ease overhead cost and lessen the burden on staff salaries"*

*"It allows flexibility in the way in which the funds are deployed, it allows access to skills through an intermediary whilst funding operational expenses"*

*"Limited involvement with the beneficiary and less admin"*

*"We prefer contributions that will result in long term sustainability and contributions that promote financial and operational independence of the beneficiary entities"*

Early payments

*"....., early payments has a direct and tangible benefit for the suppliers."*

*"It's our experience that the one thing small businesses need most of all is cash flow so for us this is priority."*

*"We hire out performance venues to theatre production companies therefore the infrastructure is already available for support, and we pay suppliers early to assist with cash flow"*

*"We also pay EME and QSE services providers within a period of 7 days to for the purpose of easing cash flow and allowing beneficiaries to focus on business growth drivers"*

Mentoring

*"Although grants and loans are given to the beneficiaries, they still require additional support like mentorship, accelerator programmes, oversee or monitor their progress, business assessment risk analysis, professional assistance."*

*"... they give support on site by mentoring them in implementing infrastructural projects."*

*"Assistance which ensure the sustainability of the beneficiary and leads to increased operational and financial capacity are more favourable."*

*"We find the most beneficial support which creates the most impact in terms of revenue growth, profit growth, improvement in business maturity and job creation is access to non-traditional funding combined with deep bespoke BDS programmes and coaching."*

Subsequent to testing the most preferred contribution to include in an ESD strategy, respondents were asked to indicate the least preferred contribution. Table 15 below shows the answer to this question with the majority of respondent indicating *loans on favourable terms* (45% of respondent) followed by *grant contributions* (34% of respondents) as the least preferred contributions.

This finding seems inconsistent with the above findings with the most preferred method of support, i.e. *grant contributions*, found here to exhibit a near equal portion of agencies that does not support this method. However, this finding suggests that there is a clear split among respondents with one part preferring this strategy and the other that does not. *Loans on favourable terms* scored the highest in terms of the least preferred ESD strategy (45% of agencies) compared to only 24% that support this method of support.

The perception pertaining to mentoring seems rather strong though with 32% that prefer this mode of support compared to only 16% that indicated not to prefer it.

Table 15: Least preferred ESD Contributions

		Responses		Percent of Cases
		Count	Percent	
Least preferred ESD strategy	Grant contribution	13	17%	34%
	Incurring direct costs on behalf of the Beneficiary Entity	9	12%	24%
	Discounts in addition to normal business practice	7	9%	18%
	Rendering of professional services to the Beneficiary Entity at no cost	7	9%	18%
	Mentoring programme for the Beneficiary Entity at no cost	6	8%	16%
	Incurring overhead costs on behalf of the Beneficiary Entity	9	12%	24%
	Loans on favourable terms	17	23%	45%
	Early payment of supplier	7	9%	18%
	Total	75	100%	197%

Motivating the undesirability of loans and on favourable terms and grants, responses could be grouped in two categories. The first group of responses alluded to grants and loans as poor business practice and not adding to the sustainability of a business. The second group indicated that they themselves do not have the financial capacity or mandate, in the case of public entities, to support suppliers with grants and/or loans.

Box 2: Preference for early payments & Mentoring, respondents' quotes

Loans

*"Loans put pressure to a business that is trying to thrive."*

*"Repayments are troublesome to manage."*

*"Splurging of cash should be avoided especially for companies who are struggling."*

*"We have not control over how the money is spend"*

*"We don't want to burden companies with debt that needs to be repaid."*

*Companies [measured entities] don't always have cash available for such loans [for development support]*

*"The item selected is a least preferred choice as we are not allowed to do loans to suppliers. Entity is not a Financial Institution"*

Grants

*"Grants are often misappropriated."*

*"We are not in the business of grant sponsoring."*

*"We are a public entity that receives a Grant to fulfil a specific mandate in terms of the Cultural Institutions Act."*

*"Grant contributions are difficult due to the capping prescribed by the Codes"*

*"Grants are a once off contribution whereas loans are more sustainable" and "Grants are only recognisable for one year as opposed to loans."*

### 5.3.3 Selection of Beneficiaries

Entities were asked to indicate the criteria they apply to select both ESD beneficiaries. In the selection of supplier development beneficiaries, the most important criteria applied in selection (64% of entities) is the *relevance of services and/or products delivered* by the applicant. This is followed by the *B-BBEE rating* and *overall positive performance* of prospective beneficiaries (57% and 55% respectively) [table 16].

Table 16: Criteria for selection of Supplier Development Beneficiary (multiple response set)

		Responses		Percent of Cases
		N	Percent	
Criteria for selecting	B-BEEE rating	30	57%	57%
	Relevance of services and/or products delivered	34	64%	64%
	Quality of services and/or products delivered	24	45%	45%
	Well defined business plan	8	15%	15%
	Proven financial history	14	26%	26%
	Overall positive performance	29	55%	55%
	Other	11	21%	21%
Total	150	100%100%.	283%	

Table 17 presents the criteria employed for the selection of supplier development beneficiaries as per the respective sectors. Consistent with the findings presented in table 16 above, the analysis confirms that across the B-BBEE sectors, industries consistently consider the above identified criteria when selecting a supplier development beneficiary, that is *relevance of services and/or products delivered*, *B-BBEEE rating* and *overall positive performance*

This observation is the same when criteria for selection of supplier development beneficiary is consider per SIC sector code (table 17)

Table 17: Criteria for selection of Supplier Development Beneficiary (multiple response set) by B-BBEE sector codes (column %)

	Financial	ICT	Property	Agri – BEE	Construction	Tourism	Integrated transport	Generic	Total count
<b>B-BEEE rating</b>	57%	100%	50%	50%	100%	67%	100%	52%	30
<b>Relevance of services and/or products delivered</b>	71%	100%	75%	100%	100%	67%	100%	55%	34
<b>Quality of services and/or products delivered</b>	43%	50%	75%	50%	100%	33%	100%	39%	24
<b>Well defined business plan</b>	29%	50%	0%	0%	0%	0%	0%	15%	8
<b>Proven financial history</b>	29%	50%	50%	0%	100%	33%	0%	21%	14
<b>Overall positive performance</b>	86%	100%	50%	50%	100%	33%	0%	49%	29
<b>Type of entity (EME/QSE)</b>	29%	0%	0%	0%	0%	33%	0%	24%	11
<b>Total count</b>	7	2	4	2	1	3	1	33	53
<b>Percentages and totals are based on respondents.</b>									

Table 18: Criteria for selection of Supplier Development Beneficiary (multiple response set) by SIC sector codes

	Finance, insurance, real estate, and business services	Wholesale and retail trade, catering, and accommodation	Manufacturing	General government	Transport, storage, and communication	Community, social and personal services	Construction	Agriculture, forestry and fishing	Mining	Total
<b>B-BEEE rating</b>	55%	100%	43%	18%	100%	56%	100%	75%	100%	30
<b>Relevance of services and/or products delivered</b>	73%	80%	86%	27%	100%	44%	100%	75%	100%	34
<b>Quality of services and/or products delivered</b>	55%	80%	71%	0%	75%	44%	100%	25%	0%	24
<b>Well defined business plan</b>	18%	40%	29%	0%	50%	0%	0%	0%	0%	8
<b>Proven financial history</b>	36%	40%	29%	9%	50%	22%	100%	0%	0%	14
<b>Overall positive performance</b>	73%	100%	71%	18%	75%	22%	100%	50%	100%	29
<b>Type of entity (EME or QSE)</b>	18%	0%	0%	55%	0%	33%	0%	0%	0%	11
<b>Total</b>	11	5	7	11	4	9	1	4	1	53
<b>Percentages and totals are based on responses.</b>										



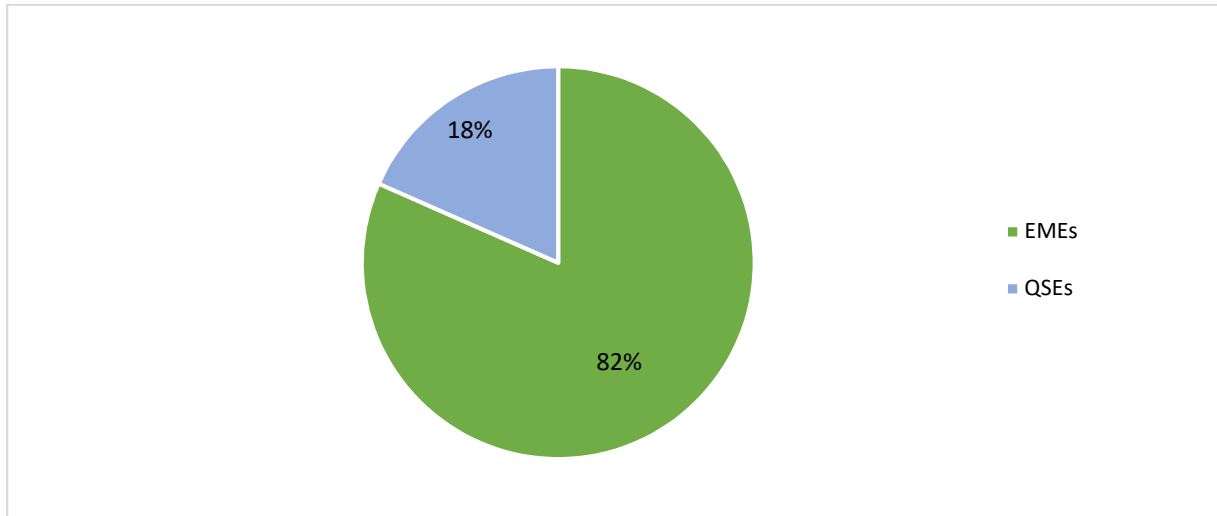
Pertaining the selection of beneficiaries for enterprise development, *relevance of services and/or products* again scored as the most applied selection criteria by entities (applied by 50% of entities). This was followed by the *B-BBEE rating* (44% of entities) and *type of entity* (42%) [table 19].

Table 19: Criteria for selection of Enterprise Development Beneficiaries (multiple response set), column %)

		Responses		Percent of
		N	Percent	Cases
<b>Criteria for selection of Enterprise</b>	B-BBEE rating	23	44%	44%
	Relevance of services and/or products	26	50%	50%
	Quality of services and/or products delivered	20	39%	39%
	Well defined business plan	14	27%	27%
	Proven financial history	9	17%	17%
	Overall positive performance	12	23%	23%
	Type of entity (EME or QSE)	22	42%	42%
	Other	16	31%	31%
<b>Total</b>		142	100%	273%

Asked about the type of ESD beneficiary they prefer to support, 82% (N=31) indicated they prefer to support EMEs (Figure 18). All respondents that indicated a preference to support EMEs supported attributed their preference to a commitment by the company to support small business and to help them to grow. One entity responded that their company prefers to develop a personal relationship with their suppliers and experience the bigger companies as generally more impersonal and thus their preference to support EMEs. Another note that EMEs are generally more eager to accept the support provided while supporting these entities *“require smaller amounts of money”*.

Figure 7: Type of ESD entities prefer to support



Figures 18 and 19 show the preference for EME’s as beneficiaries of enterprise and supplier development programmes to extend nearly all the sectors, whether organised according to the B-BBEE sectors or the SIC sector codes. Within the B-BBEE sector codes it is only the ICT sector (N=2) an equal split is indicated for either EME or QSE development partners. Considering the SIC sector codes, the equal split in preference for either EMEs or QSEs is also shown for the *manufacturing* (N=6) and *transport, storage and communication* (N=2) sectors

Figure 8: Preferred type of ESD entity by B-BBEE sector codes

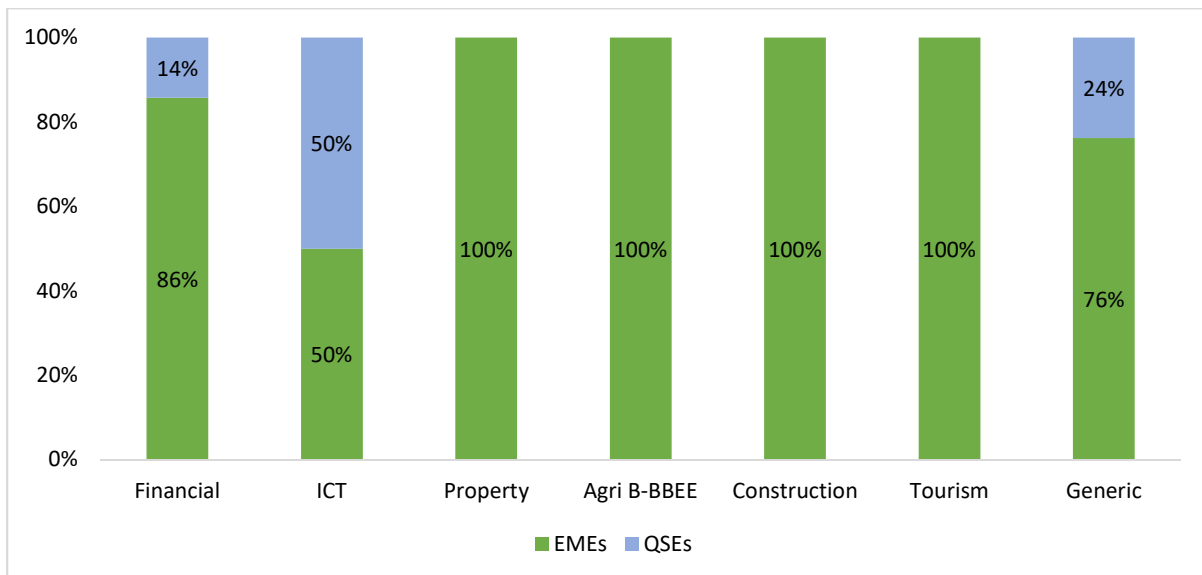
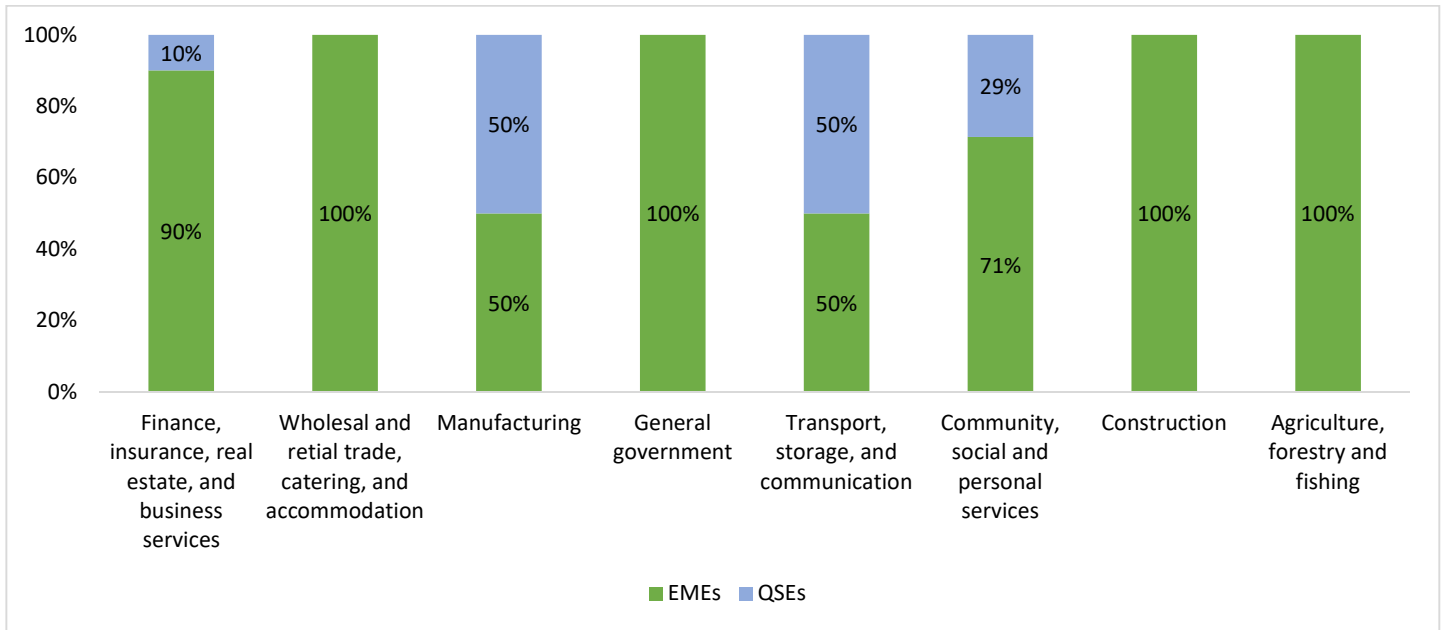
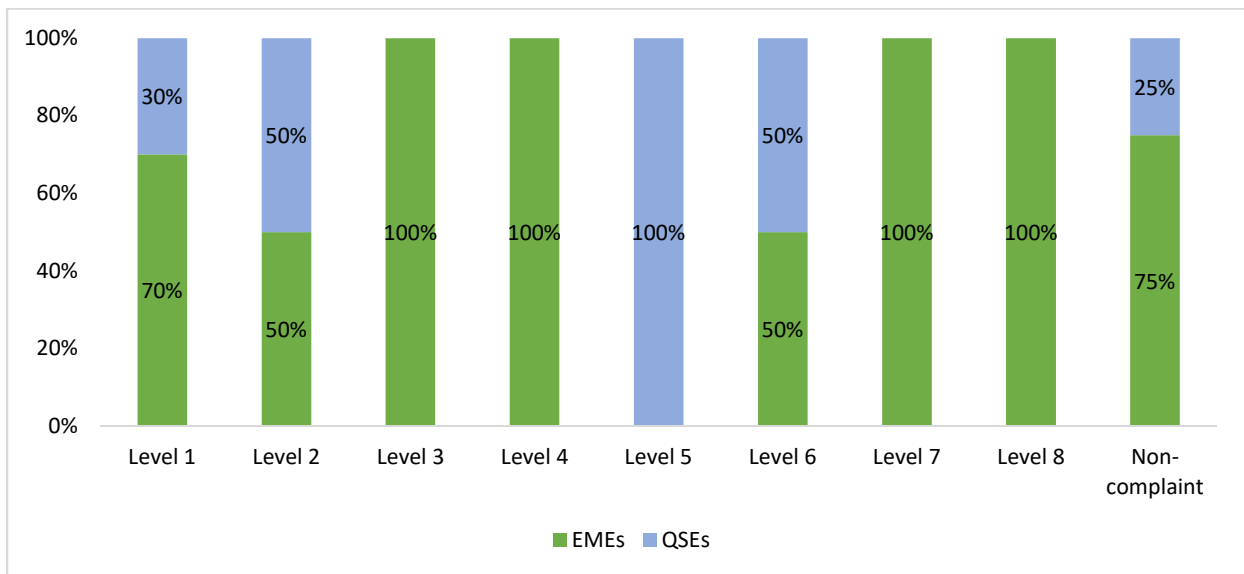


Figure 9: Preferred type of ESD entity by SIC sector codes



Considering preference for the type of ESD beneficiaries by B-BBEE status level, figure 20 shows a preference for EMEs noted by measured across most levels except for the entities with a level 2 and six status (N=2 respectively) that shows an equal split in preference and the one level 5 entity.

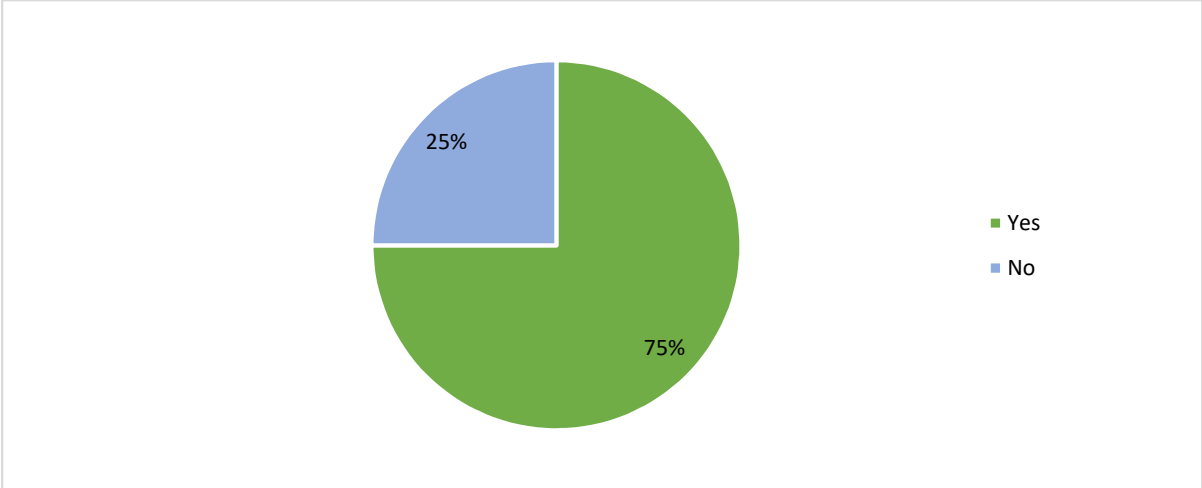
Figure 10: Type of ESD entities prefer to support by B-BBEE status level



The development relationship between supplier and enterprise development beneficiaries and the measured entities are for the most part based on a formally defined agreement. Seventy five percent of participating entities indicated that they engage in the ESD relationship by means of a formally defined agreement (figure 21).

These formal agreements are in most cases (41%, N=19) compiled and finalised through a process of discussions and negotiations between the company and the EME. Thirty two percent of entities (N=15) employ agreements based on a generic format applied to all ESD relationships. Agreements between EMEs and public entities are based on policies set by the larger government body.

Figure 11: EME relationship based on formally defined agreement



Asked about the content of formal agreements, the survey found that 74% of entities include Key Performance Areas in the agreements, 63% define a comprehensive implementation plan with milestones, 61% define key performance areas and 55% state the priority interventions that will constitute the ESD relationship (table 20).

Asked about the length of the ESD relationship, responses showed substantial variation not only in general but also in how enterprise development is approached compared to supplier development with the latter generally associated with a longer relationship. However, in terms of a general overview the responses did show that most entities commit for a relationship of 12 months (18%). Fourteen percent reported that ESD relationships are generally based on a period extending one year but terminating at three years. In the case of only three entities was the period of the ESD relationship indicated to constitute less than one year.

Table 20: Aspects included in formal ESD agreements (column %)

		Responses		Percent of Cases
		Count	Percent	
Aspects included in the agreement	Clear set of objectives	28	29%	74%
	Priority interventions	21	22%	55%
	Key Performance areas	23	24%	61%
	Comprehensive implementation plan with milestones	24	25%	63%
<b>Total</b>		96	100%	253%

In those cases where there is no formal agreement in place to structure the development relationship or partnership with the EME (25%, N=13), entities responded that the development relationships they have are evaluated on a case-to-case basis and founded on good and long-standing relationships.

Commenting on the challenges experienced in selecting ESD beneficiaries the following challenges were noted:

- **Financial and operational ability and stability of suppliers**

Respondents noted that it is challenging to find beneficiaries that show the required capacity, size and available resources to partner with.

*“Financial and operational stability leading to possible closure.”*

*“Finding suppliers that can slot into our business needs at competitive pricing and size.”*

*“Sustainability of the business, business and management skills is a weakness.”*

- **ESD fatigue exasperated by limited resources available within the entity to support applicants**

Although entities are willing to support applicants it is not always possible due to their own limited resources. Businesses are struggling to remain afloat, and corporate budgets are not increasing due to slow economic growth.

*“We struggle to get engagement from suppliers due to ESD fatigue. Additionally, the spend is always capped on B2B businesses to corporate budgets which are not increasing – economic growth rate is low. The deployment of the targets into tier 1 is challenging simply due to the mismatch between real economic growth and capacity of FR suppliers to absorb funding vs targets growth.”*

*“Limited resources available to support all qualifying black owned entities.”*

- **Lack of required skills based in South Africa**

The representation of some highly specialised companies is relatively small in South African and thus some companies are forced to partner mainly with foreign companies. In a similar vein, entities also commented on limited black owned companies with the technical capabilities required for their industry (which is highly specialised).

*“The proportion of total measured procurement spend for black owned suppliers is disproportionately low compared to white owned B-BBE non-compliant suppliers.”*

*“We have a relatively small nuclear industry in South Africa and as a Regulator our biggest commodity is skills most of whom are sourced internationally if they are not part of us or tertiary education institutions.”*

*“Some of our suppliers are foreign due to the specialized services required.”*

- **Lack of documentation and tax-compliance**

Applicants with incomplete documentation and not being tax compliant was an issue raised by some entities.

*“The lack of financial history for start-up entities for ED makes it difficult to ascertain whether they will be successful or not.”*

*“Funding applications are not sufficient or are not of the right quality”*

- **Dependency created in the support of the entity - negatively affecting their objective to grow as an independent business**

There was concern raised by the participants regarding the predictability of success of the support programme. This was based on two observations. The first is the willingness and ability of the development beneficiary to buy into the support relationship. If there is a lack of buy-in and will from the beneficiary, the support relationship is doomed to fail. The second point highlighted by the entities is the danger of growing dependent on the entity, both for funding and business.

*“They turn to lose focus in terms of having to pitch for business cases to the departments or starting to rely on the funder to give them business rather than having to pitch to other corporates for business ventures.”*

- **Public entities' lack of understanding their mandate to participate in ESD programmes driving non-compliance**

Anecdotal evidence from both the survey and case studies reveals a perception that public entities/government departments do not have a mandate for ESD spending. This is particularly problematic for public entities as this has an impact on their rating and evaluation at the hand of the B-BBEE Commission.

*"It is not our mandate and therefore not part of our KPI's and annual performance plan for which we receive funding for."*

Whereas in fact, the B-BBEE Act through the codes requires both private and public sector entities to comply with the elements outlined in the B-BBEE scorecard. In contrast to 3% NPAT expenditure on ESD for private entities, public entities are expected to spend 0.3% from the allocated budget for ESD. A specialised scorecard that excludes black ownership from the measurement of determining compliance for public entities. Moreover, section 10 (1) of the B-BBEE Act mandates every organ of state and public entity to apply any relevant code of good practice issued in terms of this Act must as far as is reasonably possible.

- **Internal challenges experienced by entities**

Some respondents attributed challenges in their efforts for ESD to internal processes that are delayed and subsequently delays in the implementation of ESD initiatives. Another challenge noted is the lack of sufficient budgets to facilitate ESD initiatives.

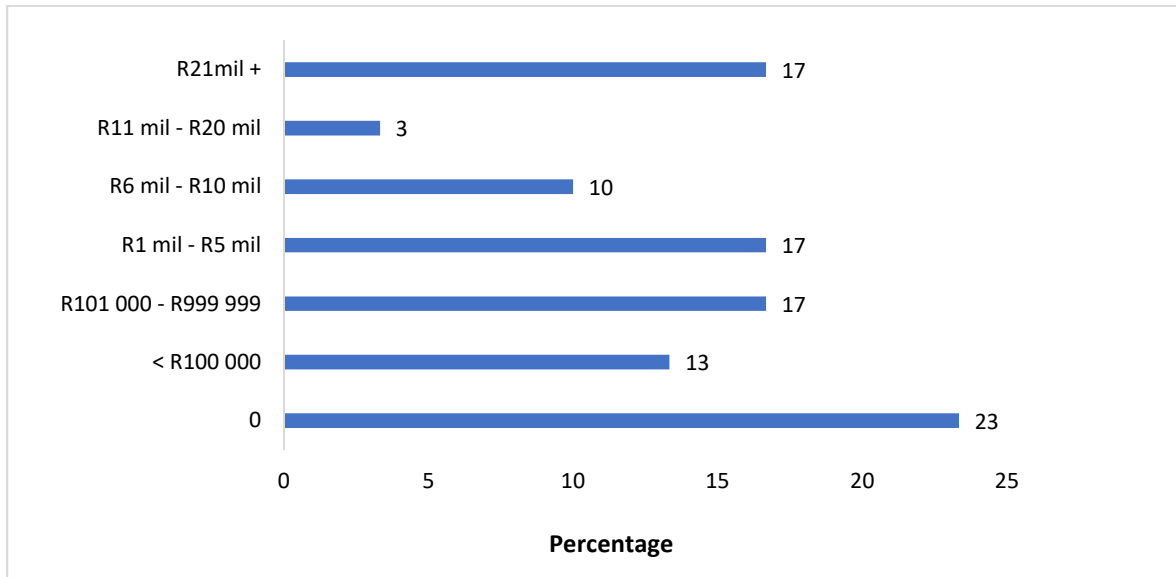
To facilitate better access to Supplier and Development Beneficiaries, the following suggestions were put forward:

- Make available a reliable and current database/registry of vetted companies that is sector specific
- In the case of public enterprises, there is a need for clear policies and regulations that is specific to this sector
- Develop incubator projects that can filter out and grow promising projects
- Make the target spend more realistic
- Set up an ESD program with the task to find and match suitable beneficiaries

### 5.3.4 Spending of funds from NPAT target

Figure 22 presents a summary of the available budget for Enterprise development derived from the NPAT target for entities that completed the survey. Twenty-three percent (N=7) reported to have had no budget for enterprise development in the past financial year. Seventeen percent (N=5) had budgets between the following categories respectively, R101 000 – R999 999, R1 million – R5 million and R21 million or more.

Figure 12: Available budget for Enterprise development spending in past financial year



Considering the budget allocated for enterprise development in terms of the annual turnover of entities as per the EME and QSE industry thresholds the survey found that of the three entities that reported an annual turnover of less than R10 million for the past financial year one had no budget for enterprise development, one spent less than R100 000 and the other spent between R6 and R10 million on such a partnership. Of those entities that showed an annual turnover of more than R50 million (N=26), the majority (23%) had not budget for enterprise development, 31% had a budget below R1 million rand for enterprise development, and 19% had a budget of between R1 million and R5 million. Fifteen percent had a budget of R21 million or more (Figure 23).



Figure 13: Budget for Enterprise development and annual turnover in terms of EME and QSE industry thresholds

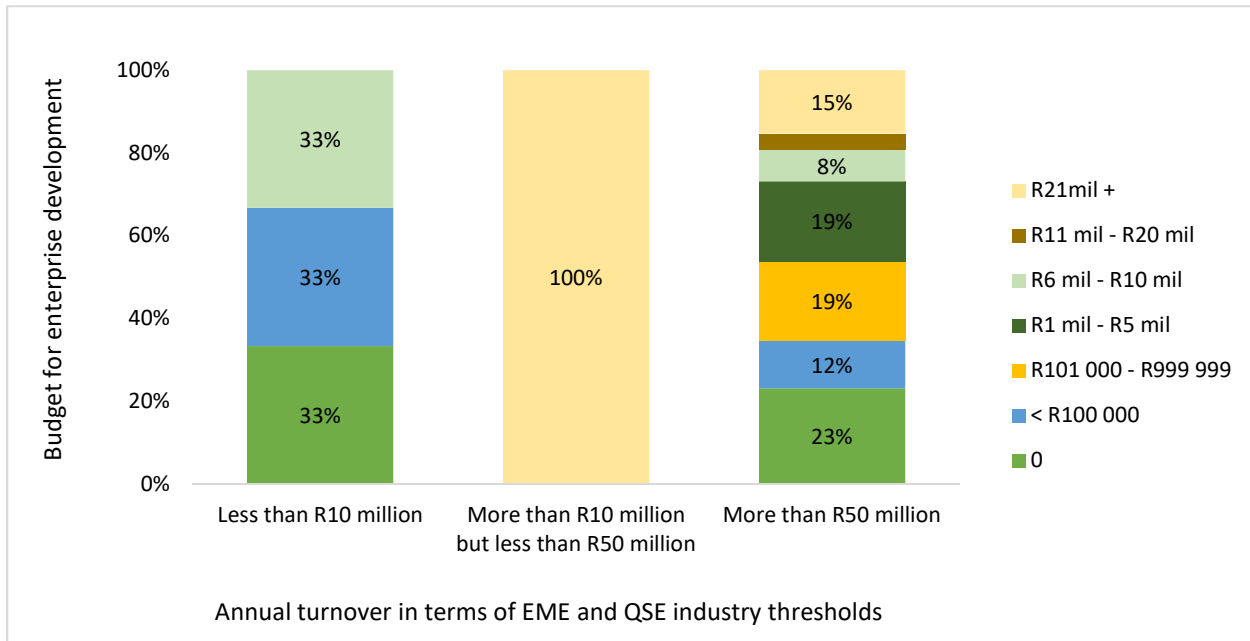
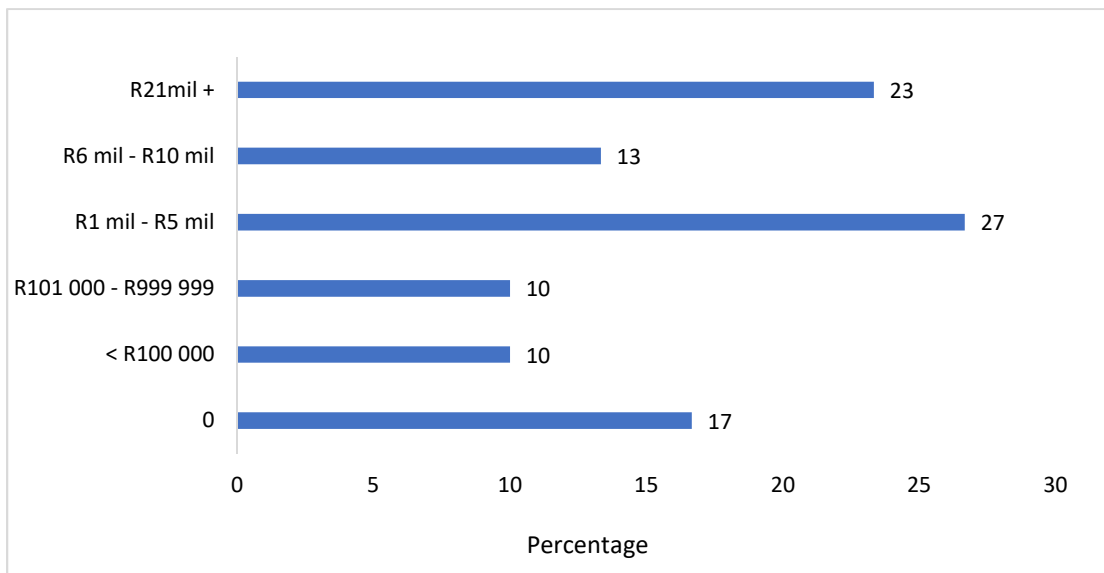


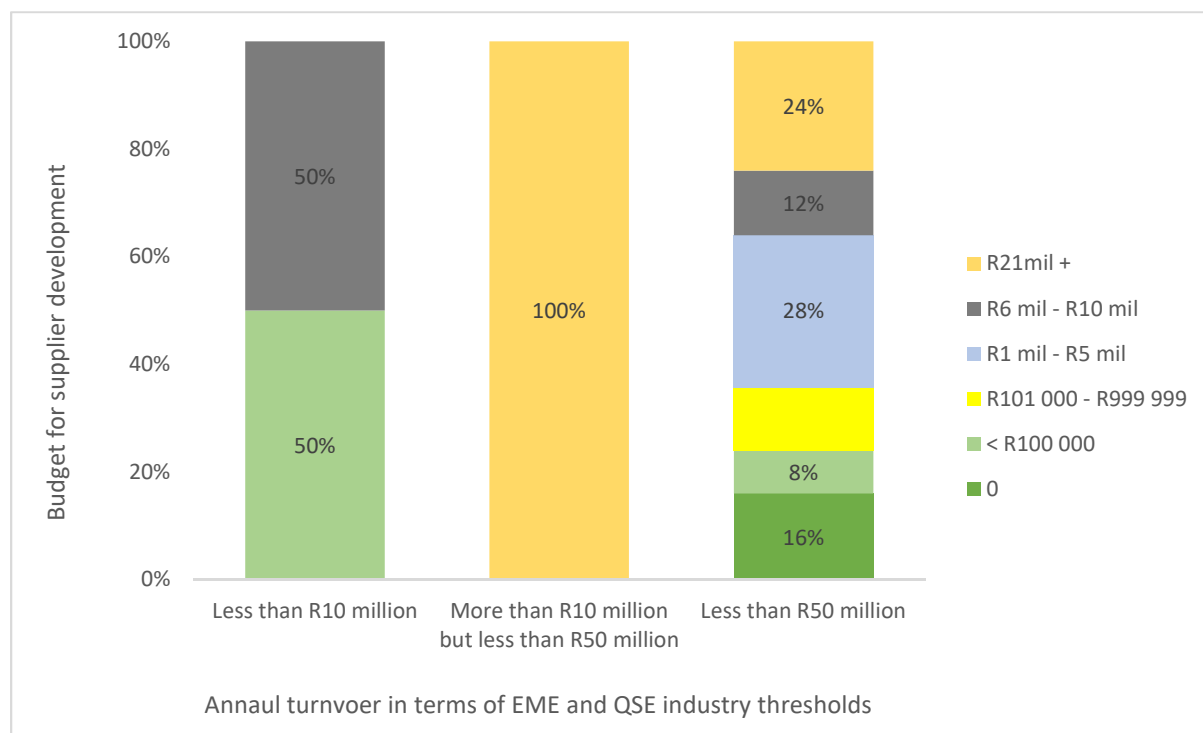
Figure 24 presents a summary of the available budget for Supplier development derived from the NPAT target for entities that completed the survey. Twenty seven percent (N=4) reported a budget of between R1 million to R5 million with another 23% that had an allocated budget of R21 million or more for the past financial year. Seventeen percent (N=5) reported to have had no budget for the past financial year with another 14% that had a budget of between R6 million and R10 million.

Figure 14: Budget for Supplier development spending in past financial year



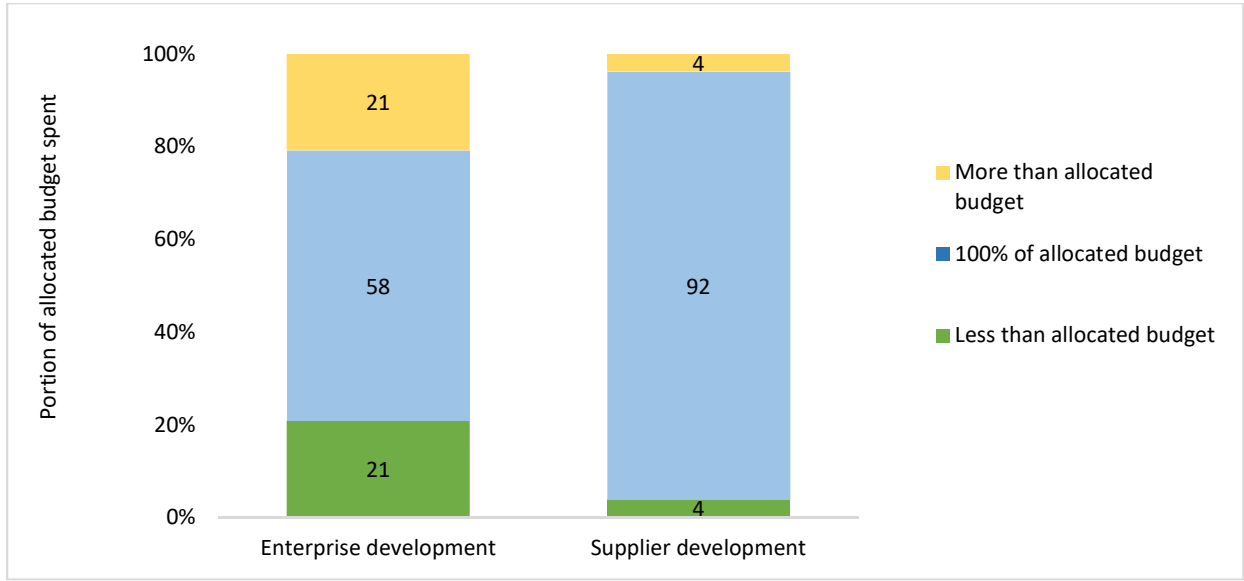
Considering the budget allocated for supplier development in terms of the annual turnover of entities as per the EME and QSE industry thresholds the survey found that of the two entities that reported an annual turnover of less than R10 million for the past financial year one had no budget for enterprise development and the other spent between R6 and R10 million on such a partnership. Of those entities that showed an annual turnover of more than R50 million (N=25), sixteen percent indicated to have had no budget for supplier development. However, 28% spend between R1 million and R5 million on supplier development with another 24% who spent R21 million or more on supplier development in the past financial year (Figure 25).

Figure 15: Available budget for Supplier development and annual turnover in terms of EME and QSE industry thresholds



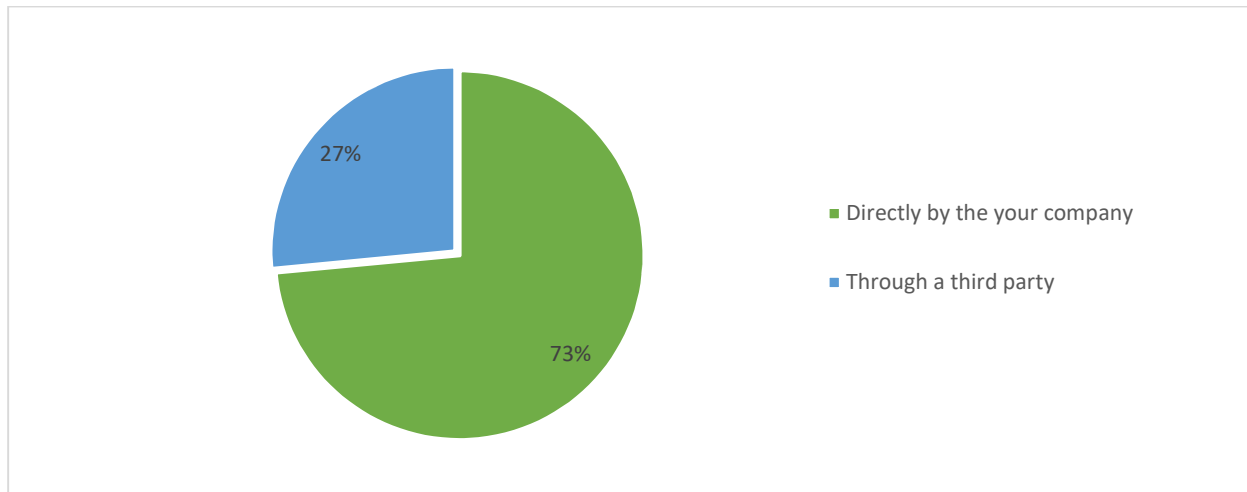
Measuring the portion of the available funds that was allocated, 58% of the 26 entities with a budget for supplier development indicated to have spent their whole budget in the past financial year with 21 percent that spent more than the allocated budget. Of the 24 entities that declared a budget for supplier development, 92% indicated to have spent their entire budget (Figure 26).

Figure 16: Portion of ESD budget allocated



Asked about the preferred method to implement their ESD funds, 73% responded that they prefer to implement directly through their own company. Twenty seven percent indicated to prefer the implementation of the funds via a third party (Figure 27).

Figure 17: Preferred method for implementing ESD funds



Considering challenges experienced in implementing NPAT targets, entities were requested to offer suggestions on how the B-BBEE Commission could assist companies to fully implement these targets. The following suggestions were put forward by the respondents.

- Devise mechanisms (such as an updated website) that would ensure that companies have access to current information and resources such as B-BBEE affidavit templates.
- Develop a database with pre-screened qualifying entities to engage with for ESD
- Allow for broader discretion in beneficiary selection provided black owned SMMEs are being supported and funds are being deployed.
- Simplify the reporting of indirect costs interventions (non-financial support offered to EMEs and QSEs)
- Then specifically for government departments/public sector, policies are required that compel all organs of state to set aside budgets and specify how these can participate in ESD. B-BBEE Commission to consider engagements with government entities on this issue to ensure proper compliance with the ESD element.

## 5.4 Findings from Secondary Data

The report tracks data on entities that were approached and provided information each year between 2018 and 2021. Within this time period, responses were collected for 699 entities of the 752 that had opportunities to provide their information. There was a decline in the number of entities who were approached and provided information in 2020 period likely due to COVID-19 impact on businesses. The impact persisted into 2021 where only 168 from the 215 entities who had an opportunity to provide their information responded (Table 21).

*Table 21: Number of entities that were approached vs those who provided information*

Year	Number of entities that were approached	Number of entities that provided information
2018-19	167	166
2019-20	202	198
2020-21	168	167
2021-22	215	168
<b>Total</b>	<b>752</b>	<b>699</b>

In the report, entities were considered based on their classification as EMEs, QSEs or EME, QSE and Large entities, determined by their annual turnover. According to **the dtic** (2019), any enterprise with an annual Total Revenue of R10 Million or less qualifies as an EME, a Measured Entity with an annual Total Revenue of between R10 million and R50 million qualifies as a QSE. Any enterprise with an annual Total Revenue of R50 Million and more qualifies as a Large Enterprise. Further bifurcation of the entities was based on

the nature of the company operations into Agri-BEE, Construction, Financial Services, Forestry, Generic, ICT, Integrated Transport, Mining, Property, Specialized and Tourism.

Considering entity size by sector over time, large entities constituted the bulk (88%) of the survey respondents. 10% of the entities were QSEs in size followed by 2% which were EMEs. Out of the large entities, the majority (38%) are in the generic sector, 16% are in financial services and 12% in the specialized sector. However, the least constituted sectors within large companies' segment were forestry and mining with 1 entity in each of the two sectors (Table 22).

*Table 22: Entity size by sector in 2018-19*

<b>Sector</b>	<b>EME</b>	<b>Large</b>	<b>QSE</b>	<b>Total</b>
Agri-BEE		8	1	9
Construction		5		5
Financial Services	1	23	4	28
Forestry		1		1
Generic	2	55	7	64
ICT		13		13
Integrated Transport	1	7		8
Mining		1		1
Property		11		11
Specialized		17	4	21
Tourism		5		5
<b>Total</b>	<b>4</b>	<b>146</b>	<b>16</b>	<b>166</b>

Despite an increase in the number of respondents, the composition of the entities by sector and size in 2019-2020, was similar to the previous period (Table 23).

*Table 23: Entity size by sector in 2019-20*

<b>Sector</b>	<b>EME</b>	<b>Large</b>	<b>QSE</b>	<b>Total</b>
Agri-BEE		8		8
Construction		6		6
Financial Services	2	23	3	28
Forestry		2		2
Generic	3	53	5	61
ICT	1	18	1	20
Integrated Transport	1	8		9
Mining		2	2	4
Property		17	1	18
Specialized		37	2	39
Tourism		3		3
<b>Total</b>	<b>7</b>	<b>177</b>	<b>14</b>	<b>198</b>

There was a decline in the number of respondents in the period 2020-2021, reflected in a decline in total number of responses. In the face of declines in the representation of large entities and EMEs, there was an increase in QSEs in this period compared to the other years under review (Table 24).

*Table 24: Entity size by sector in 2020-21*

<b>Sector</b>	<b>EME</b>	<b>Large</b>	<b>QSE</b>	<b>Total</b>
Agri-BEE		4	2	6
Construction	1	6		7
Financial Services	1	15	5	21
Forestry		1		1
Generic		46	7	53
ICT		14		14
Integrated Transport	2	4		6
Mining		2	1	3
Property	1	13		14
Specialized		32	6	38
Tourism		4		4
<b>Total</b>	<b>5</b>	<b>141</b>	<b>21</b>	<b>167</b>

In the 2021 period, there were roughly the same number of respondents and compositions compared to 2020 as reported in Table 25. Similar to the distribution in the other years under review, the majority were large entities in the specialized and generic sectors and minimum representation for mining sector.

Table 25: Entity size by sector in 2021-22

Sector	EME	Large	QSE	Total
Agri-BEE		6	1	7
Construction		6		6
Financial Services	1	15	3	19
Generic	1	44	3	48
ICT		11		11
Integrated Transport	1	6		7
Mining		1		1
Property		10	1	11
Specialized	4	50	3	57
Tourism		1		1
<b>Total</b>	<b>7</b>	<b>150</b>	<b>11</b>	<b>168</b>

In terms of annual turnover, the highest amounts of turnover were reported in the generic and financial services sectors. ICT and Integrated transport sectors reported significant turnover as well as the highest average turnover. Mining and forestry sectors reported the lowest annual turnover and a similar pattern was evident across the mean, min, max turnover and the 3% target (Table 26).

Table 26: Annual turnover in 2018-19 (in ZAR millions)

sector	sum	mean	min	max	3% target
Agri-BEE	ZAR 86,000	ZAR 9,560	ZAR 30.4	ZAR 26,000	ZAR 117
Construction	ZAR 61,600	ZAR 12,300	ZAR 8,540	ZAR 21,800	ZAR 84
Financial Services	ZAR 356,000	ZAR 12,700	ZAR 0.1	ZAR 128,000	ZAR 320
Forestry	ZAR 1,820	ZAR 1,820	ZAR 1,820	ZAR 1,820	ZAR 2
Generic	ZAR 717,000	ZAR 11,200	ZAR 0.6	ZAR 145,000	ZAR 977
ICT	ZAR 238,000	ZAR 18,300	ZAR 22.2	ZAR 70,100	ZAR 325
Integrated Transport	ZAR 235,000	ZAR 29,300	ZAR 5.0	ZAR 129,000	ZAR 215
Mining	ZAR 2,460	ZAR 2,460	ZAR 2,460	ZAR 2,460	ZAR 3
Property	ZAR 16,900	ZAR 1,530	ZAR 249	ZAR 8,440	ZAR 23
Specialized	ZAR 27,200	ZAR 1,300	ZAR 23	ZAR 13,500	ZAR 37
Tourism	ZAR 16,600	ZAR 3,330	ZAR 16	ZAR 14,000	ZAR 23
<b>Total</b>	<b>ZAR 1,760,000</b>	<b>ZAR 10,600</b>	<b>ZAR 0.1</b>	<b>ZAR 145,000</b>	<b>ZAR 2,130</b>

There was an overall decline in annual turnover in 2019 compared to the prior year. However, there are no significant changes in the sector performance on turnover and ESD target (Table 27).

Table 27: Annual turnover in 2019-20 (in ZAR millions)

sector	sum	mean	min	max	3% target
Agri-BEE	ZAR 65,200	ZAR 8,150	ZAR 22.3	ZAR 25,900	ZAR 89
Construction	ZAR 40,500	ZAR 6,750	ZAR 202	ZAR 10,800	ZAR 55
Financial Services	ZAR 319,000	ZAR 11,400	ZAR 0.1	ZAR 68,600	ZAR 434
Forestry	ZAR 2,530	ZAR 1,260	ZAR 926	ZAR 1,600	ZAR 3
Generic	ZAR 460,000	ZAR 7,550	ZAR 2.5	ZAR 150,000	ZAR 627
ICT	ZAR 118,000	ZAR 5,900	ZAR 42	ZAR 86,600	ZAR 161
Integrated Transport	ZAR 169,000	ZAR 18,800	ZAR 5	ZAR 49,700	ZAR 230
Mining	ZAR 16,100	ZAR 4,010	ZAR 8.6	ZAR 15,400	ZAR 22
Property	ZAR 76,900	ZAR 4,270	ZAR 3.8	ZAR 46,000	ZAR 105
Specialized	ZAR 94,500	ZAR 2,420	ZAR 18.6	ZAR 23,100	ZAR 129
Tourism	ZAR 2,500	ZAR 834	ZAR 176	ZAR 1,500	ZAR 3
<b>Total</b>	<b>ZAR 1,360,000</b>	<b>ZAR 6,890</b>	<b>ZAR 0.1</b>	<b>ZAR 150,000</b>	<b>ZAR 1,860</b>

There was an improvement in annual turnover performance in 2020 compared to 2019 driven by positive performance in the generic sector. However, there was a noticeable decline in the annual turnover reported in the forestry, integrated transport and mining sectors partly associated with the impacts of COVID-19 (Table 28).

Table 28: Annual turnover in 2020-21 (in ZAR millions)

sector	sum	mean	min	max	3% target
Agri-BEE	ZAR 113,000	ZAR 18,900	ZAR 10	ZAR 63,700	ZAR 154
Construction	ZAR 59,300	ZAR 8,470	ZAR 3	ZAR 20,800	ZAR 81
Financial Services	ZAR 241,000	ZAR 11,500	ZAR 2	ZAR 49,700	ZAR 328
Forestry	ZAR 81	ZAR 81	ZAR 81	ZAR 81	ZAR 0
Generic	ZAR 785,000	ZAR 14,800	ZAR 0	ZAR 157,000	ZAR 1,070
ICT	ZAR 218,000	ZAR 15,600	ZAR 1	ZAR 151,000	ZAR 297
Integrated Transport	ZAR 89,200	ZAR 14,900	ZAR 4	ZAR 46,800	ZAR 122
Mining	ZAR 3,390	ZAR 1,130	ZAR 21	ZAR 3,300	ZAR 5
Property	ZAR 27,900	ZAR 1,990	ZAR 5	ZAR 12,000	ZAR 38
Specialized	ZAR 310,000	ZAR 8,160	ZAR 4	ZAR 199,000	ZAR 422
Tourism	ZAR 28,700	ZAR 7,180	ZAR 7	ZAR 15,600	ZAR 39
<b>Total</b>	<b>ZAR 1,880,000</b>	<b>ZAR 11,200</b>	<b>ZAR 0</b>	<b>ZAR 199,000</b>	<b>ZAR 2,550</b>



There was a slight decline in overall turnover performance in 2021 most likely due to persisting impacts of COVID-19. Despite the overall decline in overall performance, there were marked increases in turnover in the ICT and mining sectors. The specialized sector remained stable during this period. However, there were significant declines in turnover for the financial services, integrated services and generic sectors (Table 29).

*Table 29: Annual turnover in 2021-22 (in ZAR millions)*

sector	sum	mean	min	max	3% target
Agri-BEE	ZAR 75,100	ZAR 10,700	ZAR 9	ZAR 31,700	ZAR 102
Construction	ZAR 55,100	ZAR 9,190	ZAR 258	ZAR 21,900	ZAR 75
Financial Services	ZAR 143,000	ZAR 7,540	ZAR 4	ZAR 60,700	ZAR 195
Generic	ZAR 676,000	ZAR 14,100	ZAR 0	ZAR 115,000	ZAR 921
ICT	ZAR 305,000	ZAR 27,800	ZAR 53	ZAR 179,000	ZAR 416
Integrated Transport	ZAR 37,700	ZAR 5,380	ZAR 5	ZAR 16,700	ZAR 51
Mining	ZAR 127,000	ZAR 127,000	ZAR 127,000	ZAR 127,000	ZAR 174
Property	ZAR 21,100	ZAR 1,920	ZAR 8	ZAR 12,800	ZAR 29
Specialized	ZAR 308,000	ZAR 5,410	ZAR 0	ZAR 204,000	ZAR 420
Tourism	ZAR 5,690	ZAR 5,690	ZAR 5,690	ZAR 5,690	ZAR 8
<b>Total</b>	<b>ZAR 1,760,000</b>	<b>ZAR 10,400</b>	<b>ZAR 0</b>	<b>ZAR 204,000</b>	<b>ZAR 2,390</b>

Figure 28 displays a visual of annual turnover by sector over the time period under review. The generic sector reported the highest levels of annual turnover across all the years under review. Despite a decline in 2019, the sector reported consistently high annual turnover compared to other sectors. Financial services, ICT and Specialized sectors also reported significant annual turnover over the time period under review and especially in 2020 and 2021. The sectors reporting the least turnover are forestry, mining and tourism. Considering the composition of annual turnover by sector, the generic sector was the most dominant sector across the entire period under review peaking in 2020. The second most dominant sector in 2018 and 2019 was the financial services sector though the contribution declined in 2020 and was surpassed by specialized and ICT sectors in 2021 (Figure 29).

Figure 18: Annual turnover from 2018-2021 by sector (in ZAR millions)

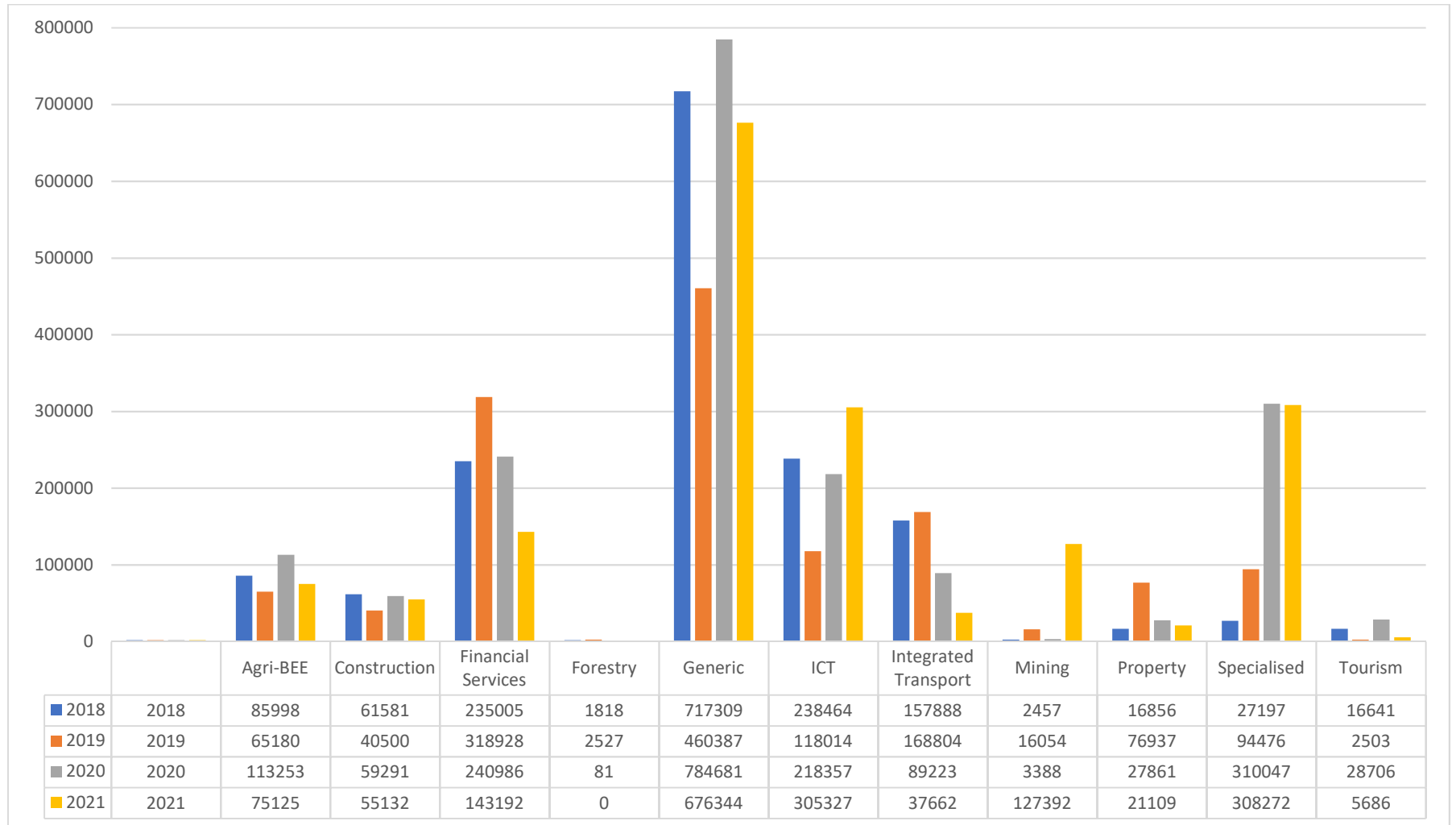
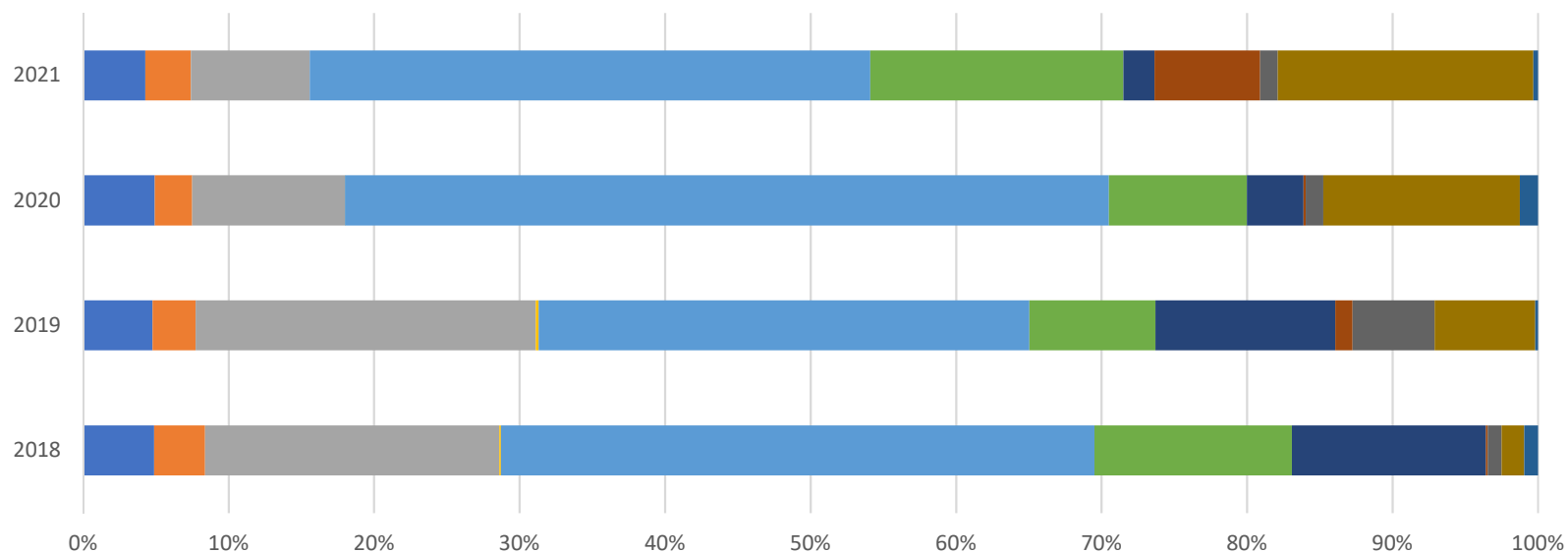


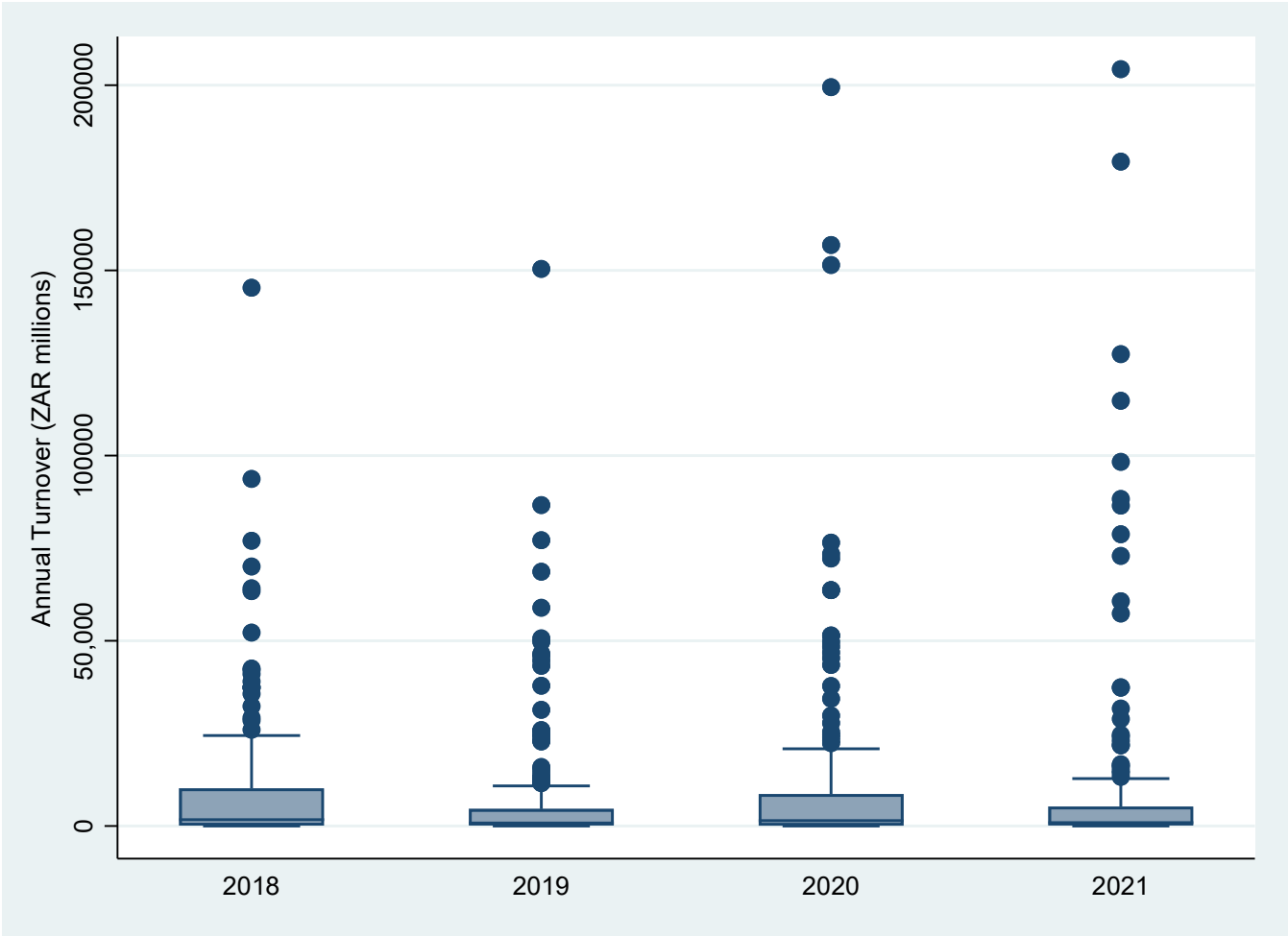
Figure 19: Annual turnover from 2018-2021 – composition by sector (in ZAR millions)



	2018	2019	2020	2021
■ Agri-BEE	86,0	65,2	113,3	75,1
■ Construction	61,6	40,5	59,3	55,1
■ Financial Services	355,6	318,9	241,0	143,2
■ Forestry	1,8	2,5	0,1	0,0
■ Generic	717,3	460,4	1205,7	676,3
■ ICT	238,5	118,0	218,4	305,3
■ Integrated Transport	234,3	168,8	89,2	37,7
■ Mining	2,5	16,1	3,4	127,4
■ Property	16,9	76,9	27,9	21,1
■ Specialised	27,2	94,5	310,0	308,3
■ Tourism	16,6	2,5	28,7	5,7

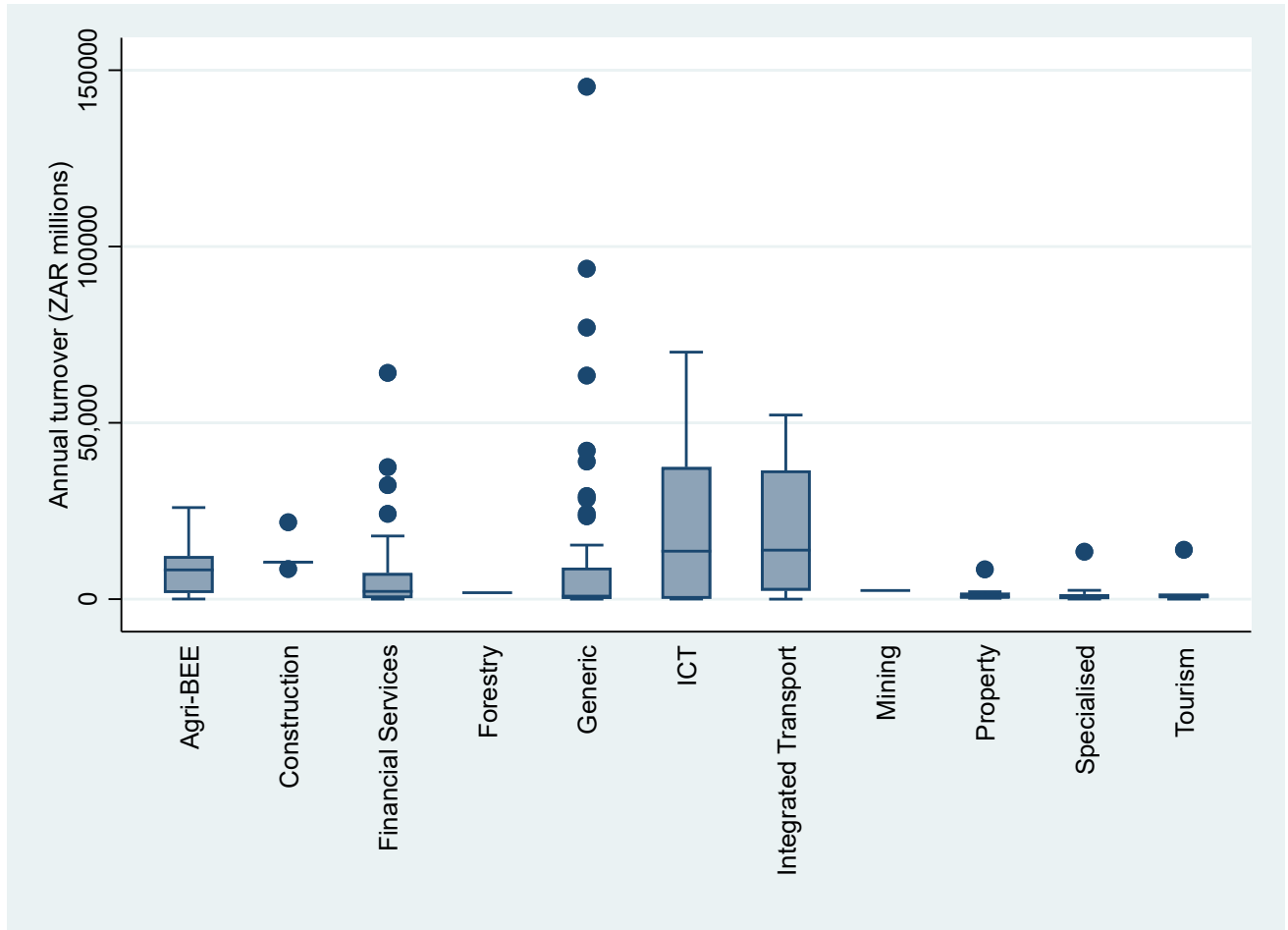
Figure 30 displays the distribution of annual turnover by year. Despite the presence of outliers, the level of annual turnover is generally clustered around similar amounts at entity level. This is more pronounced for 2019 and 2021. In 2018, a higher proportion of entities reported higher amounts of turnover compared to the rest of the period under review. In general, 2019 and 2021 periods saw depressed turnover information despite significant number of entities coming across as outliers. This reflects noticeable variation

Figure 20: Distribution of annual turnover over time – 2018-2021 (in ZAR millions)



The distribution of annual turnover by sectors in the same period shows greater variability in annual turnover in the ICT and integrated transport sectors. A significant number of entities within these sectors reported higher annual turnover compared to the rest of the sectors (Figure 31).

Figure 21: Distribution of annual turnover by sector from 2018-2021 (in ZAR millions)



In 2019, despite fewer entities constituting the integrated transport sector, the distribution of annual turnover in the sector displayed greater variability compared to the rest of the sectors. The yearly view also shows the distribution within Agri-BEE, construction and financial services sectors a bit more prominently. Across all the sectors, the bulk of entities are reporting close to 10 million Rands (Figure 32).

Figure 22: Distribution of annual turnover by sector in 2019

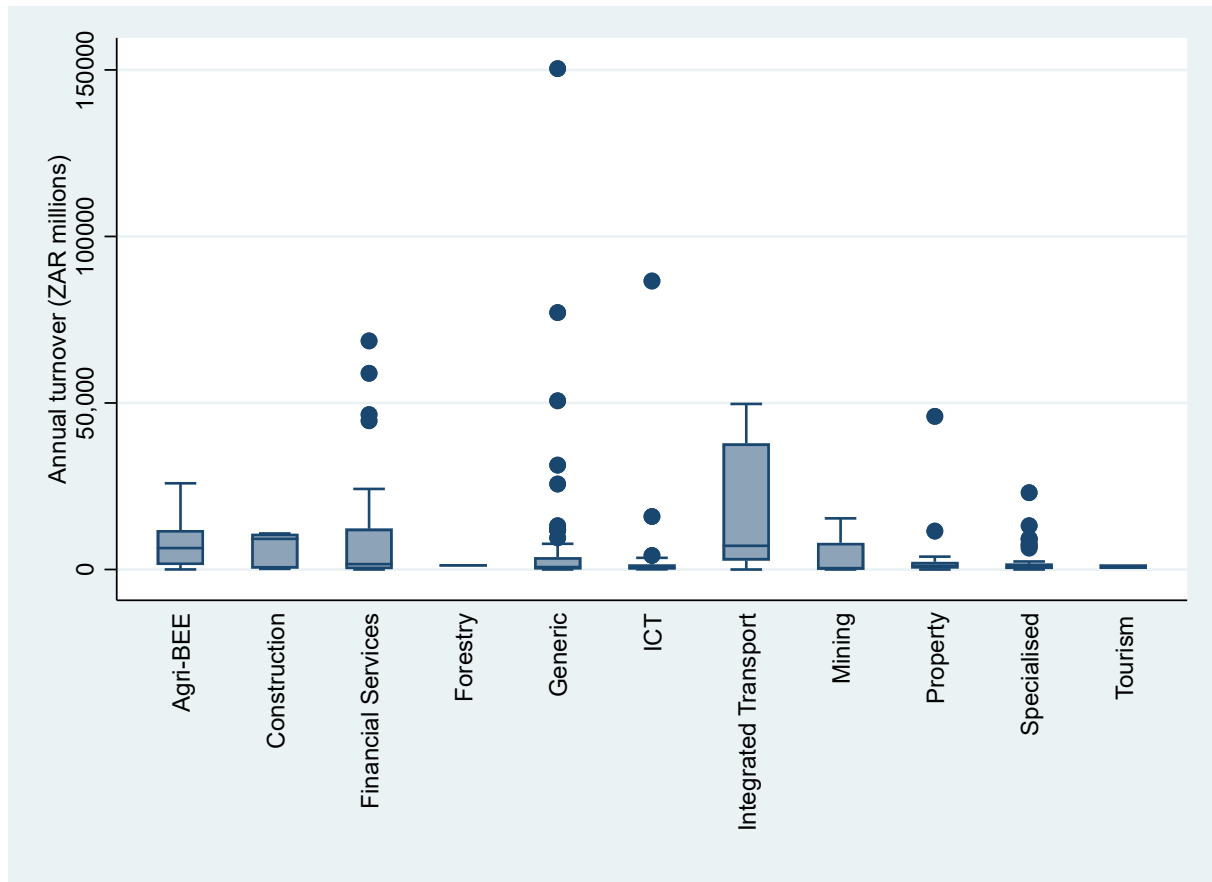
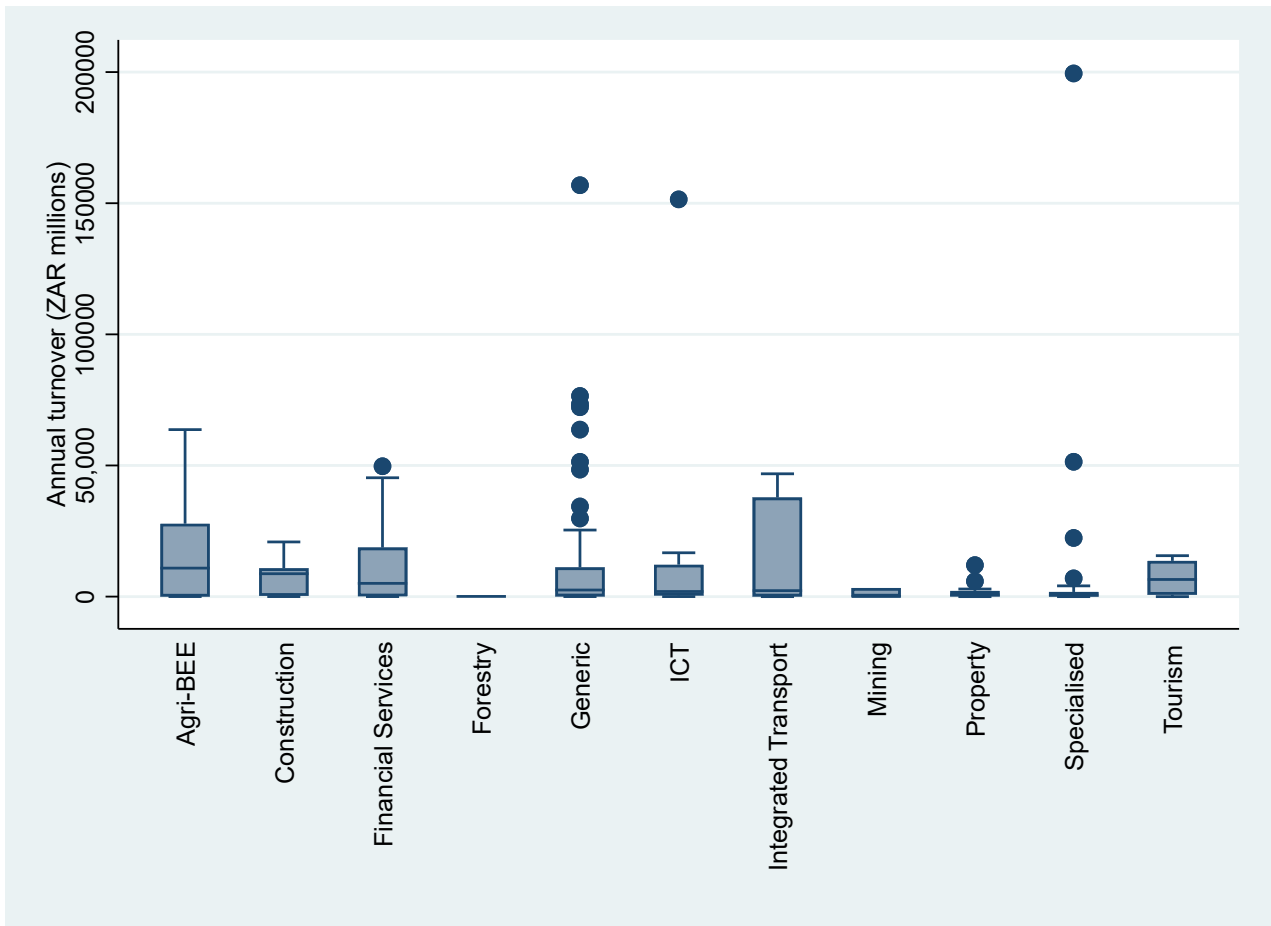


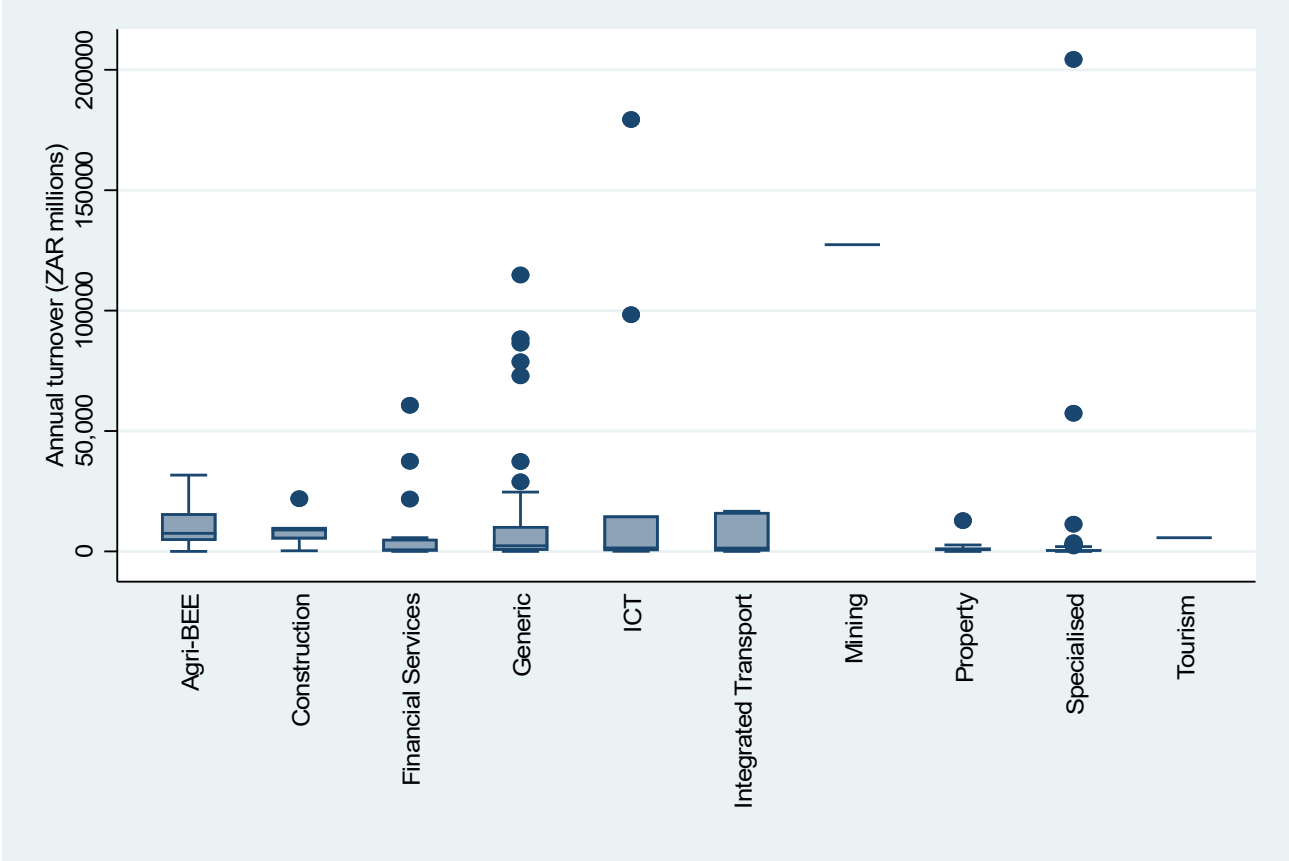
Figure 33 displays the distribution of annual turnover in 2020 with a more pronounced distribution across multiple sectors. In 2020, a significant number of entities across different sectors reported turnover amounts close to 50 million Rands. More entities in Agri-BEE, generic and financial services sectors reported more turnover compared to the prior year.

Figure 23: Distribution of annual turnover by sector in 2020



However, the picture changes in 2021 with most companies across all sectors reporting lower annual turnover figures roughly clustered in the same ranges (Figure 34).

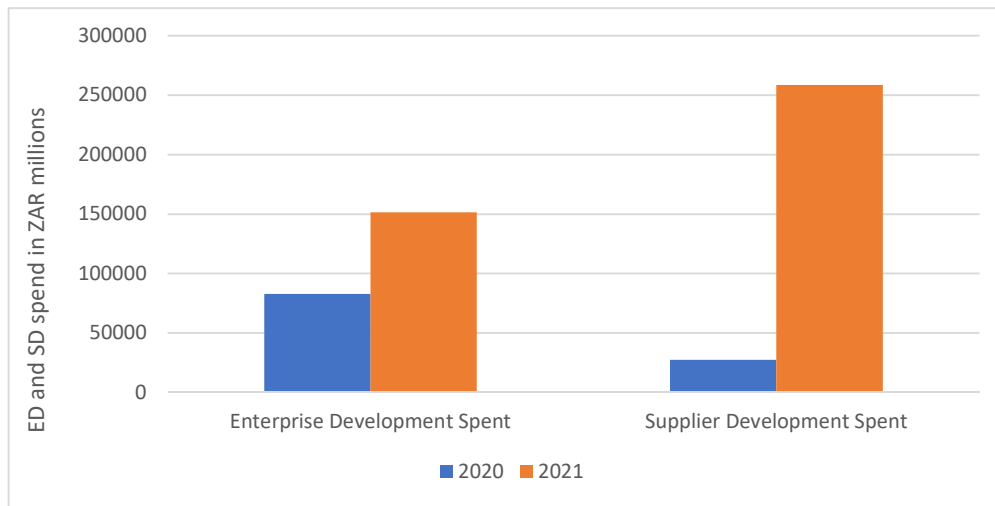
Figure 24: Distribution of annual turnover by sector in 2021





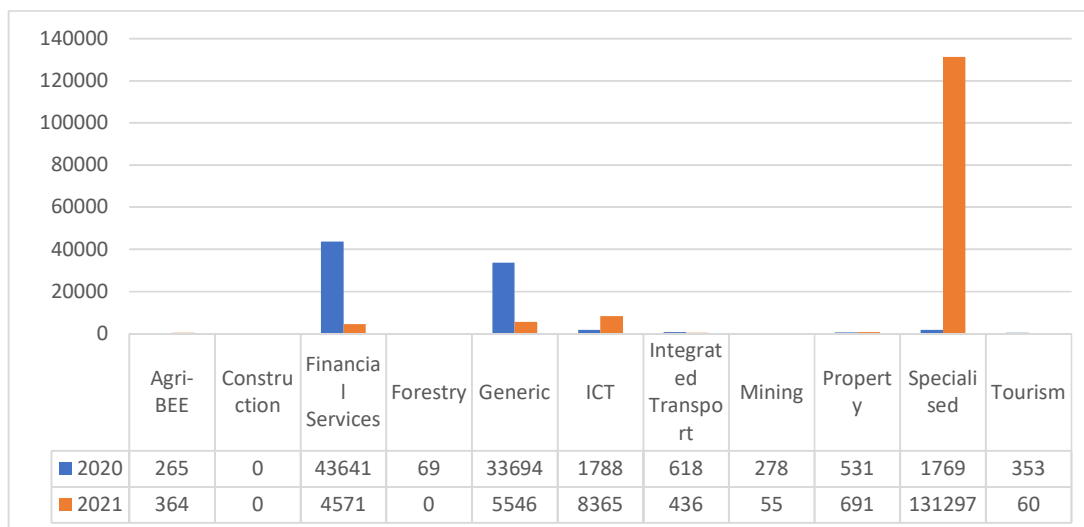
There was an increase in both ED and SD spend targets between 2020 and 2021 (Figure 35). However, this is only for those measuring entities who responded to the question on the issue.

Figure 25: ESD spending by sector between 2020-2021



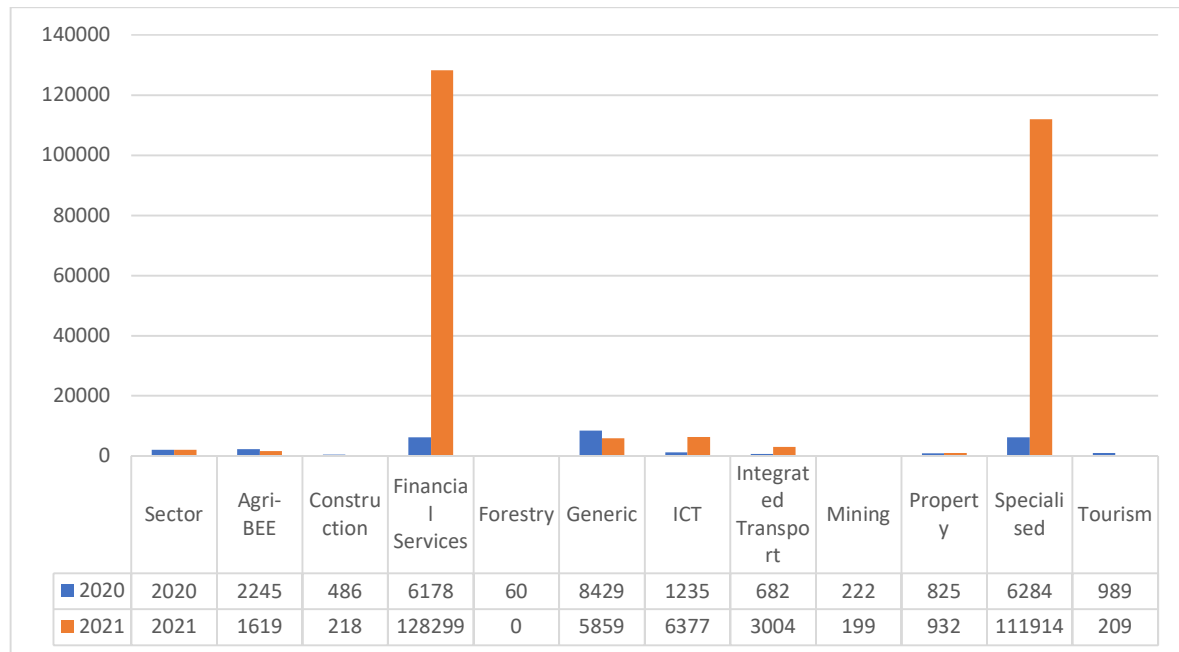
Despite an overall increase in ED spend target between 2020 and 2021, there was a decline in financial services and generic sectors. The decline was very pronounced and can be associated with the reduction in the annual turnover reported in the sectors. ICT and specialized sectors realized marked positive increases during between the two years. The specialized sector was a clear outlier due to the huge amounts of turnover realized within the sector. Low annual turnover drove low spending targets for sectors such as forestry, mining, Agri-BEE, tourism and property (Figure 36). This results could also be because not all measured entities provided information on the issue.

Figure 26: ED Spend by sector and year



There was an overall increase in SD spending targets between 2020 and 2021 with a marked increase in financial services and specialized sectors. However, some sectors such as Agri-BEE, generic and property sectors either experienced a decline or remained stagnant. Construction, forestry, mining, property and tourism sectors had very low targets due to low turnover (Figure 37).

Figure 27: SD Spend by sector and year



The section reviewed B-BBEE Commission data on assessments displaying information on annual turnover, entity size, sector and compliance status covering the period 2018-2021. The data suggested a decline in the number of entities submitting their information to the Commission during the time period under review. Based on the dataset, the majority of entities were large entities in the generic, financial and specialized sectors of the economy. There was under-representation in terms of forestry and mining sectors with few players within the sectors. Similar compositions were consistent during the entire period under review. In terms of annual turnover, entities within the generic and financial services sectors reported the highest amounts of turnover with a similar pattern evident across the metrics in question. By sector, the generic sector reported the highest levels of annual turnover across all the years under review. There was an increase in both ED and SD spend targets between 2020 and 2021.

## 6 RECOMMENDATIONS

This final section of the report presents a set of recommendations as derived from both the qualitative and quantitative data. Recommendations are listed below in terms of two categories, that is (i) measures to improve ESD spending and (ii) recommendation for further research.

### Measures towards improving ESD spending

Recommendations are based on international and national findings.

- i. For an ESD strategy to work, obtaining senior management commitment is vital for the success of the programme.
- ii. The ESD strategy must have concrete goals that is well defined and communicated.
- iii. Measured entities are encouraged to communicate their efforts to diverse businesses or diversity-related groups, which may prompt them to contact the entity for business.
- iv. Measured entities are also encouraged to have a long-term strategy when it comes to ESD. A long-term strategy that focuses on supporting beneficiaries in a holistic way was shown to be the best. Hence the international case studies have shown that to be successful, programs must be tailored to the various stages of the beneficiaries' lifecycle, including introducing beneficiaries to the concept of business and assisting them in developing their ideas into executable businesses; assisting them in taking their business ideas to the first level of commercialisation; assisting them in getting their businesses off the ground and generating revenue; and advancing them to the next level of business.
- v. Ongoing monitoring and tracking of beneficiaries is necessary to track the progress of ESD programmes.
- vi. Reinforce the commitment and responsibility of the public sector/general government to enterprise and supplier development. In the survey several responses relayed by entities classified as public sector/general government implied that ESD is not a direct function of this sector. This is, however, a misconception since ESD is applicable to all sectors including public entities. It would thus seem that there is a need to clarify the policies and regulations that public sector entities have towards enterprise and supplier development.
- vii. Create a collaborative environment between measured entities and B-BBEE Commission towards the empowerment of EMEs and QSEs.
- viii. From the interviews and survey the need was identified for a collaborative relationship between the B-BBEE Commission and measured entities rather than a typically perceived 'watch dog' approach. While measured entities conveyed a clear commitment to the

empowerment of EMEs and QSEs, respondents also noted the need for a more constructive and collaborative relationship with the B-BBEE Commission where issues with audits can be resolved and measured entities can also request and be provided with guidance on how to enhance their support to beneficiaries.

- ix. Stronger emphasis to build and strengthen skills and capacity at EMEs and QSEs as part of the ESD programme.
- x. One of the challenges and associated concerns noted by measured entities in selecting beneficiaries is the capacity and skills base of the beneficiary EME or QSE to (sustainably) deliver the required services or products. To address this issue, it is recommended that mentorship programmes are included as a standard part of enterprise and supplier development. Even though the need for monetary support is necessary, such support is likely to be unsustainable or half-measured if not accompanied by a commitment of mentoring towards building the capacity and skills base of the development partner.
- xi. As we have seen from the international case studies, there is a need to utilize both technical and business skills mentoring strategies to meet procurement standards and strict requirements. This should be preceded by SMME mapping and program design.
- xii. Reinforce the importance of both having an ESD strategy and reviewing its relevance to every ESD relationship.
- xiii. Showcase best practice through newsletters, awards ceremonies to demonstrate the effective and successful implementation of ESD programmes and how it can affect a company's triple bottom line in a positive way.
- xiv. Build and maintain a database of possible ESD beneficiaries.

It is suggested that the B-BBEE Commission build and maintain a database with possible ESD beneficiaries who have their credentials in order. This database must not only provide a list of credible beneficiaries but must also enable entities to distinguish beneficiaries for selection for either supplier or enterprise development. Such a database will ease the difficulties experienced by measured entities of getting information on eligible black and black-female owned suppliers for consideration for the ESD partnership.

The Commission could lead a formal ESD program across the different categories to ensure that small black owned suppliers are on hand. The database could be centrally housed within the commission and potentially categorized according to the products that SMEs produce or the services that they sell. Should it not be possible for the B-BBEE Commission to house such a database it could at least verify some of the information on such a database.

- xv. Acknowledging development support that fall outside a standard NPAT spending in scoring ESD programmes

This recommendation relates to the need for acknowledgement of support provided by measured entities, either by virtue of being innovative or due to their unique nature, that either deviates or adds to the standard percentage NPAT spending. Naturally such acknowledgement presupposes a stronger collaborative relationship between the B-BBEE Commission and measured entities, al be it through policy, programmes or its instruction to verification agencies in auditing criteria and observations. Such acknowledgement could also motivate measured entities to not only stick to formal predefined ESD strategies, motivated by scoring tactics, but rather to discuss and negotiate development support to fit the needs of the development beneficiary.

#### **Recommendation for further research**

An issue emphasised by several entities related to the relaxation of NPAT targets in development initiatives. This was mentioned in specific reference to the current economic realities particularly in a post-Covid environment. It is suggested that this issue is further investigated particularly to determine the extent to which such targets do place pressure on the economic viability of entities and how this can be mitigated.

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## **Appendix A: Information Sheet for the Interview**

Before you decide to participate, we would like you to understand the purpose of the research. Therefore, we encourage you to take the time to read the following information carefully and discuss it with others if you wish. If you are unclear about anything, we will be happy to answer your questions.

### **PURPOSE OF THE STUDY**

You are invited to participate in this research project to determine the factors driving low implementation of Net Profit After Tax (NPAT) funds towards ESD.

### **YOUR INVOLVEMENT**

You have been identified as a stakeholder with valuable knowledge and experience in this area for your organization. We would therefore like to request your participation in an interview.

### **ANONYMITY**

Please be advised that the results of the study will not divulge the organization's particulars nor the individual particulars. Any information that can connect the responses to an individual or organisation will remain confidential and will be disclosed only with your permission. The researchers shall keep all records and recordings of your participation, filed away in a secure facility at all times.

### **VOLUNTARY PARTICIPATION AND WITHDRAWAL**

Your participation in this research is entirely voluntary, which means that you are free to decline participation. If you volunteer to be in this study, you may withdraw at any time without consequences of any kind. You may also choose not to answer particular questions that are asked in the study. If there is anything that you would prefer not to discuss, please say so.

### **INFORMED CONSENT**

Your consent to participate in this research study is requested before you take part in the research. We have included the consent form with this information sheet so that you will be able to review the consent form and then decide whether you would like to participate in this study or not.

### **RISKS**

We do not foresee any significant risks associated with your participation in this project.

## Appendix B: Key-informant interview schedule

- Is your company able to implement the set NPAT target for enterprise and supplier development?
- What portion of the funds from the set NPAT target have already deployed?
- What are the challenges that hamper the ability of measured entities from fully implementing the set NPAT target for enterprise and supplier development?
- How can the B-BBEE Commission assist you to fully implement the set NPAT target allocated for enterprise and supplier development?
- Can you identify the challenges you faced in implementing the requirements of Statement 400 of the generic/sector codes and make recommendations? Or how can the B-BBEE Commission assist you to fully initiate and implement the set NPAT targets for enterprise and supplier development.
- What makes workable initiatives are you undertaking
- Give examples of unworkable initiatives and why they don't work.
- What are the obstacles in effectively deploying the funds for the desired impact?
- Are there any specific interventions that the B-BBEE Commission or recommendations to the Minister of Trade, Industry and Competition regarding Statement 400.
- How can the B-BBEE Commission assist you to fully initiate and implement the set NPAT targets for enterprise and supplier development?



## Appendix C: Survey Questionnaire

Objective of questionnaire: To test how companies implement ESD funds.

<b>Section A: Descriptive questions</b>	
1.	<b>Company name:</b> Name: _____
2.	<b>What is the nature of the company?</b> _____
3.	<b>What sector does your company fall under?</b> <ol style="list-style-type: none"> <li>1. Financial sector</li> <li>2. Forestry sector</li> <li>3. Property sector</li> <li>4. Tourism sector</li> <li>5. Construction sector</li> <li>6. Information and Communication Technology (ICT) sector</li> <li>7. Marketing, advertising, and Communication (MAC) sector</li> <li>8. Other, please specify</li> </ol>
4.	<b>Year in which company was formed/registered?</b> Year (date /month /year): _____
5.	<b>City/Town in which the company head office is situated:</b> Name of city/town: _____
5.1	<b>In which Province is this city/ town (where company head office is situated):</b> <ol style="list-style-type: none"> <li>1. Western Cape</li> <li>2. Eastern Cape</li> <li>3. Northern Cape</li> <li>4. Free state</li> <li>5. Gauteng</li> <li>6. North West</li> <li>7. Limpopo</li> <li>8. Mpumalanga</li> <li>9. KZN</li> </ol>
6.	<b>How is the company registered/nature of the company?</b> <ol style="list-style-type: none"> <li>1. Company as defined in the Companies Act of 2008 (as amended)</li> <li>2. A Close corporation</li> <li>3. A Co-operative</li> <li>4. A Trust</li> <li>5. A Broad-Based Ownership Scheme</li> <li>6. Employee Share Ownership Programme</li> <li>7. A partnership or other association of natural persons</li> <li>8. Any form of juristic person recognised under South African law.</li> </ol>
7.	<b>What was the turnover of your company for the last financial year?</b> (Can consider categories here rather than leaving it as an open question)
8.	<b>What is the current B-BBEE status level of the company?</b>

	<ol style="list-style-type: none"> <li>1. Level 1</li> <li>2. Level 2</li> <li>3. Level 3</li> <li>4. Level 4</li> <li>5. Level 5</li> <li>6. Level 6</li> <li>7. Level 7</li> <li>8. Level 8</li> <li>9. Non-complaint</li> </ol>
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**Section 2: Implementation of ESD funds**

9.	<p><b>Does your company have a clearly defined ESD strategy?</b></p> <ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No</li> </ol>
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10.	<p><b>Which of the following contributions are included in the company’s ESD strategy?</b></p> <ol style="list-style-type: none"> <li>1. Grant Contribution</li> <li>2. Incurring direct costs on behalf of the Beneficiary Entity, for example the purchase of a computer for the Beneficiary Entity.</li> <li>3. Discounts in addition to normal business practice.</li> <li>4. Rendering of professional services to the Beneficiary Entity at no cost.</li> <li>5. Mentoring programme for the Beneficiary Entity at no cost.</li> <li>6. Incurring overhead costs on behalf of the Beneficiary Entity, for example providing free rental space to the Beneficiary Entity.</li> <li>7. Loans on favourable terms.</li> <li>8. Early payment of supplier.</li> <li>9. Other, please specify</li> </ol>
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10.1	<p><b>Which of the listed contributions are (i) the preferred choice and which is the (ii) least preferred choice for development support?</b> Please explain your answer for each in the spaces provided.</p>
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	<p><b>(i) Preferred contribution (select relevant code)</b></p> <ol style="list-style-type: none"> <li>1. Grant Contribution</li> <li>2. Incurring direct costs on behalf of the Beneficiary Entity, for example the purchase of a computer for the Beneficiary Entity.</li> <li>3. Discounts in addition to normal business practice.</li> <li>4. Rendering of professional services to the Beneficiary Entity at no cost.</li> <li>5. Mentoring programme for the Beneficiary Entity at no cost.</li> <li>6. Incurring overhead costs on behalf of the Beneficiary Entity, for example providing free rental space to the Beneficiary Entity.</li> <li>7. Loans on favourable terms.</li> <li>8. Early payment of supplier.</li> <li>9. Other, please specify: _____</li> </ol>
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Please explain your answer in the space provided below:

	<p><b>(ii) Least preferred contribution (select relevant code)</b></p> <ol style="list-style-type: none"> <li>1. Grant Contribution</li> <li>2. Incurring direct costs on behalf of the Beneficiary Entity, for example the purchase of a computer for the Beneficiary Entity.</li> <li>3. Discounts in addition to normal business practice.</li> <li>4. Rendering of professional services to the Beneficiary Entity at no cost.</li> <li>5. Mentoring programme for the Beneficiary Entity at no cost.</li> <li>6. Incurring overhead costs on behalf of the Beneficiary Entity, for example providing free rental space to the Beneficiary Entity.</li> <li>7. Loans on favourable terms.</li> <li>8. Early payment of supplier.</li> <li>9. Other, please specify; _____</li> </ol> <p>Please explain your answer in the space provided below:</p>
11	<p><b>For Supplier development: How does your company go about to select Supplier development Beneficiaries?</b></p> <ol style="list-style-type: none"> <li>1. B-BBEE rating</li> <li>2. Relevance of product and/or service delivered to supply chain</li> <li>3. Quality of services/goods provided</li> <li>4. Proven financial history</li> <li>5. Overall positive performance</li> <li>6. Type of entity (EMEs or QSES)</li> <li>7. Other, please specify</li> </ol>
12	<p><b>What challenges are experienced in selecting supplier development beneficiaries?</b> Please respond in the space provided below.</p>
13	<p><b>For Enterprise development: How does your company go about to select an Enterprise Development Beneficiaries?</b></p> <ol style="list-style-type: none"> <li>1. B-BBEE rating</li> <li>2. Relevance of services and/or products delivered to own supply chain</li> <li>3. Quality of services and/or products delivered</li> <li>4. Well defined business plan</li> <li>5. Proven financial history</li> <li>6. Overall positive performance</li> <li>7. Type of entity (EMEs or QSEs)</li> <li>8. Other, please specify</li> </ol>

14	<p><b>What are the challenges experienced in selecting Enterprise development Beneficiaries?</b> Please respond in the space provided below.</p>
14.1	<p><b>What measures would you say could assist companies to get Enterprise and Supplier Development beneficiaries?</b> Please indicate any proposed measures in the space provided below.</p>
15	<p><b>Where the company enters a developmental relationship with an black owned EME or QSE, is this relationship based on a formally defined agreement?</b></p> <ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No (skip to Q15.4)</li> </ol>
15.1	<p><b><i>If yes to Q15</i></b> <b>How is this agreement defined and structured?</b></p> <ol style="list-style-type: none"> <li>1. The agreement is compiled and finalised through a process of discussions and negotiations between measured entity and the beneficiary</li> <li>2. The agreement is based on a generic format applied by the measured entity to all beneficiaries</li> <li>3. Other, please specify</li> </ol>
15.2	<p><b><i>If yes to Q15</i></b> <b>What is the general duration of such an agreement?</b> Indicate duration: _____</p>
15.3	<p><b><i>If yes to Q 15</i></b> <b>Please indicate which of the following aspects are included in the agreement between the measured entity and the beneficiary:</b></p> <ol style="list-style-type: none"> <li>1. Clear set of objectives</li> <li>2. Priority interventions</li> <li>3. Key Performance areas</li> <li>4. Comprehensive implementation plan with milestones</li> </ol>
Q15.4	<p><b><i>If NO to Q 15</i></b> <b>How is the relationship between the company and the beneficiary structured?</b> Please respond in the space provided below.</p>

<b>Section 3: Spending of funds from NPAT target</b>	
Q16.1	<p><b><i>For Enterprise Development</i></b></p> <p><b>For the past financial year, what was the available budget for <u>Enterprise development</u> derived from the NPAT target?</b></p> <p>Amount: _____</p>
Q16.2	<p><b><i>For Enterprise development</i></b></p> <p><b>What portion of these funds from the NPAT target was allocated and implemented?</b></p> <p>% of funds allocated and implemented: _____</p>
Q16.3	<p><b><i>For Enterprise development</i></b></p> <p><b>If organisation was <u>not able to allocate 100% of its funds</u> for Enterprise development</b></p> <p><b>What would you say are the main reasons that 100% of the funds from the NPAT target was not allocated? Please list the top three reasons in order of importance.</b></p> <p>1.</p> <p>2.</p> <p>3.</p>
Q17	<p><b><i>For Supplier Development</i></b></p> <p><b>For the past financial year, what was the available budget for <u>Supplier development</u> derived from the NPAT target?</b></p> <p>Amount: _____</p>
Q17.1	<p><b><i>For Supplier Development</i></b></p> <p><b>What portion of these funds from the NPAT target was allocated and implemented?</b></p> <p>% of funds allocated and implemented: _____</p>
Q17.2	<p><b><i>For Supplier Development</i></b></p> <p><b>If organisation was <u>not able to allocate 100% of its funds</u> for Enterprise development</b></p> <p><b>What would you say are the main reasons that 100% of the funds from the NPAT target was not allocated? Please list the top three reasons in order of importance.</b></p> <p>1.</p> <p>2.</p> <p>3.</p>
Q20	<p><b>In general, which type of ESD beneficiaries do you prefer to support?</b></p> <p>1. EMEs</p> <p>2. QSEs</p>
Q20.1	<p><b>Please explain your answer in Q20 in the space provided below.</b></p>

Q21	<b>How has Covid-19 affected the implementation of ESD funds in your company?</b> Please respond in the space provided below.
Q22	<b>Which method do you prefer for implementing ESD funds?</b> <ol style="list-style-type: none"><li>1. Directly by the measured entity</li><li>2. Through a third party</li></ol>
Q23	<b>Considering the challenges experienced in implementing the NPAT targets, what support can be offered by the B-BBEE Commission to assist companies to fully implement their NPAT targets?</b> Please respond in the space provided below.

