B-BBEE COMMISSION

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DETERMINING THE EFFECTIVE IMPLEMENTATION OF ENTERPRISE AND SUPPLIER DEVELOPMENT FUNDS

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FINAL REPORT

B-BBEE Commission

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LIST OF 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
the dtic	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 Broad-Based Black Economic Empowerment (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 B-BBEE Act, 2003 (Act. No 53 of 2003, as amended). The report will be a reference point in necessary reflection on the country's progress on the B-BBEE journey, and will serve as a resource for 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 (SMMEs), over and above it being about improving the capabilities and performance of suppliers and value chains.

While it is encouraging that ESD is enabled through measured entities' compliance with B-BBEE policy/law, 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 and 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 translated into aggregated spend of R26 billion by measured entities. This means that many enterprises that required enhanced support in a challenging environment were faced with lack of finance, resulting in 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, 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 having ESD strategies, most operating in the property, construction and financial services sectors. This suggests the prevalence of ad-hoc approaches to the implementation of ESD, which reduces its intended impact as BBBEE lever. Another challenge is misalignment 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 the 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 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 that 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
November 2022

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 could 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 ESD, determining the portion of the funds from the set net profit after tax (NPAT) target that measured entities have already deployed and 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 ESD. 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 Trade, Industry and Competition 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 ESD. ESD is discussed as a global initiative that has proven to boost economies, diversify supply chains, and create jobs worldwide. 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 gross domestic product (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 (BEE) 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 supplier development is any effort to increase the performance of products and services or expanding the capabilities of beneficiary companies. Enterprise development promotes development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourages formalisation and growth of SMMEs. Thereafter, the evidence of the impact of preferential expenditure on economies is investigated, which highlights the global trend toward the 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 are discussed. The section leverages examples where direct government pressure and/or regulatory frameworks have led to the establishment of supplier development programmes. The examples include the Chevron programme developed in Angola following the civil war, the Rio Tinto programme developed in Canada, and the BHP Billiton programme in Mozambique. In addition, the obstacles in ESD achieving sustainable impact in the country are also discussed. Case studies from the literature are reviewed to form the 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 consolidates 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 manner.

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 comprising 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 were twofold. Firstly, measured entities argued that loans only add to the financial pressure on small businesses and thus provide temporary relief, with repayments often 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 thereof 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 of between R101 000 and R999 999, R1 million and 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 R1 million to R5 million (majority), or R21 million or more. Measuring the portion of the available funds spend on supplier development, nearly two-thirds of the entities indicated to have spent their entire budget, with a smaller portion spending 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:

Companies must develop a long-term approach to ESD list.

For an ESD strategy to work, it is vital to obtain senior management commitment.

i. Reinforce the commitment and responsibility of the public sector/general government to implement ESD.
ii. Create a collaborative environment between measured entities and the B-BBEE Commission towards the empowerment of EMEs and qualifying small enterprises (QSEs).
iii. Stronger emphasis towards building and strengthening skills and capacity at EMEs and QSEs as part of the ESD programme.
iv. Reinforce the importance of having an ESD strategy and reviewing its relevance to every ESD relationship.
v. Build and maintain a database of possible ESD beneficiaries.
vi. Acknowledge development support that falls outside the standard NPAT spending in scoring ESD programmes.
vii. Local content must be promoted in ESD programmes to increase the multiplier effects on the local economy.

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1. INTRODUCTION

As an entity within the administration of the Department of Trade, Industry and Competition (**the dtic**), the B-BBEE Commission is mandated to promote adherence to the B-BBEE Act in the public interest, and promote good governance and accountability by creating an effective and efficient environment for implementation of 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 commission has noted through the annual release of its *National Status and Trends on B-BBEE Report* that over the past five years measured entities have fully implemented 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 the B-BBEE Codes, which aims to strengthen local procurement, enhance local supplier development programmes, and increase financial support towards black-owned entities.

The ESD element measures contributions towards supplier 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 on supplier development (SD), and 1% of NPAT on enterprise development (ED). This is aligned to Section 2 (h) of the B-BBEE Act, which stipulates that an objective of B-BBEE is to increase effective economic participation of black-owned and managed enterprises, including small, micro and medium enterprises (SMMEs) and co-operatives, and enhance 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 (ERRP). The ESD funds have the potential to uplift black enterprises and entrepreneurs and, where there are obstacles to effectively deploy 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 and the obstacles they encounter, and propose measures to unlock these obstacles.

1.1. Research aim and objectives

The aim and objective of the study is to ascertain how ESD funds can be implemented to effectively promote 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 ESD.
- To determine the portion of the funds from the set NPAT target that measured entities have already deployed and may not be or 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 ESD.
- 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 specific interventions and/or recommendations to the Minister of Trade, Industry and Competition with regards to Statement 400.

1.2. Project scope

- Measures the extent that measured entities are implementing the NPAT targets set for ESD 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 skills. The country's history produced disparities in economic opportunities based on race resulting in many black[1] 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 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 B-BBEE 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 B-BBEE 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
- Investment in enterprises that are owned or managed by black people (**the dtic**, 2016).

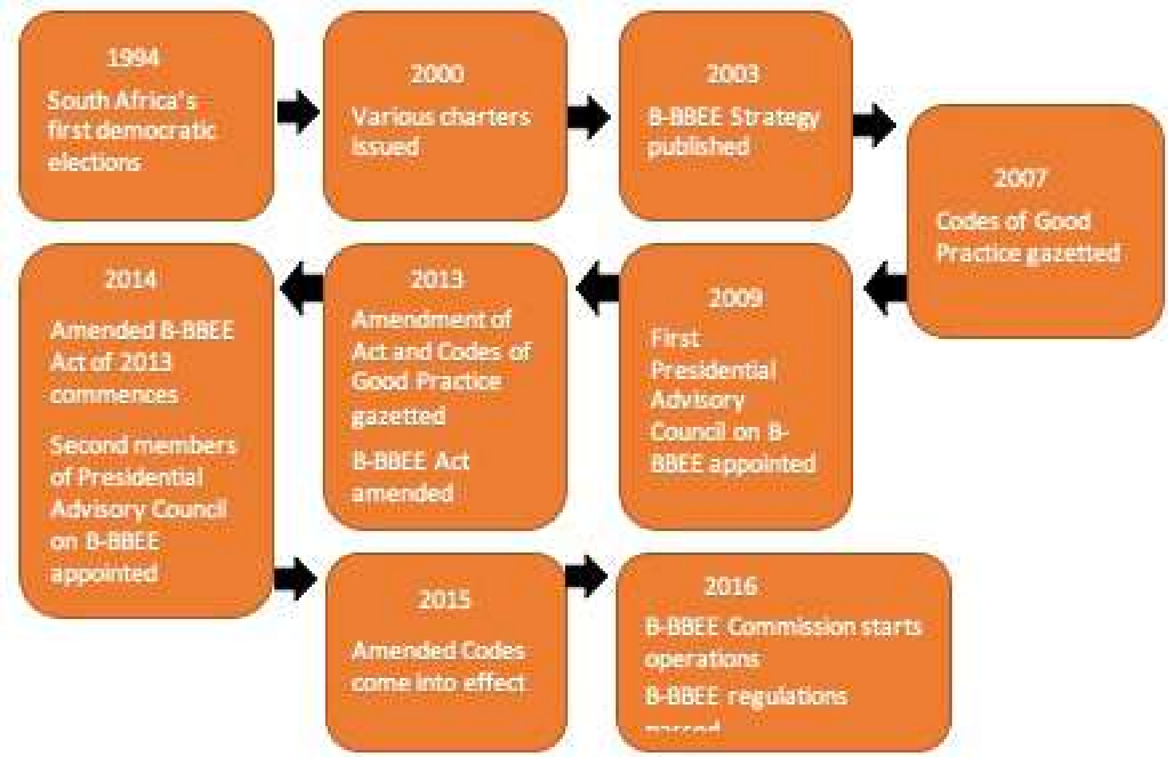
These goals were implemented to encourage active participation of much of the population in the economy, in the belief that equal economic opportunities would ultimately benefit all South Africans in the long run. The governance of the B-BBEE policy was conducted through the following instruments:

- B-BBEE Act, 2003 (as amended);
- 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.

1 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 BBBEE's Act's definition (Shai, Molefinyana & Quinot, 2019).

Figure 1 below summarises 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 B-BBEE strategy 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 B-BBEE; 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, ESD (including preferential procurement), and socio-economic development to arrive at a company's B-BBEE score. These indicators for measuring B-BBEE and associated weightings are set out in the codes.

2.1. National ESD Policy and B-BBEE Act

ESD is not just a South African notion; it's a global movement that has proven 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 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 gross domestic product (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 BEE 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 used for giving preference 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 BEE. Generally, the tender with the most points must be chosen. As a prelude to the B-BBEE Act, the B-BBEE integrated plan was published in the same year. This was followed by the B-BBEE Act 53 of 2003 administered by **the dtic** (Shai, Molefinyana & Quinot, 2019).

ESD forms part of the B-BBEE legislation. The programme’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 programme 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 recognises 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 the following five elements:

1. Ownership
2. Management control
3. Skills development
4. ESD
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

The codes recognise three elements as priority elements, namely ownership, skills development, and ESD. 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 penalised.

However, the codes have provided a specialised scorecard in Statement 004 to guide the B-BBEE measurement for state-owned enterprises (SOEs) or entities such as public benefit organisations that have no shareholding or equity structure that is capable of being measured against the requirements of the ownership element. These entities must apply for the specialised scorecard, which excludes black ownership from the measurement of determining compliance with the B-BBEE Act. 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 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 market competitiveness, resulting in job creation and poverty reduction. 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 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 ED 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 SD programme 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 ESD scorecard, precise targets have been specified for the measured entity to comply with 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, since an entity that does not have a good B-BBEE rating or does not strive to improve its 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 licence, 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 licences, 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 SOEs;
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 entities and SOEs. 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 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 10 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 an entity’s B-BBEE score is measured. It was gazetted by **the dtic** on 11 October 2013 and came into effect on 1 May 2015 as part of the amendments to the generic codes, and was 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 SD and ED 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 ESD;
2. Specify the key measurement principles applicable to calculating preferential procurement contributions; qualifying ED and SD 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 ESD 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
Preferential procurement		
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%
Bonus points		
B-BBEE procurement spend from empowering designated group suppliers that are at least 51% black-owned	2	2%
Supplier development		
Annual value of all SD contributions made by the measured entity as a percentage of the target	10	2% of NPAT
Enterprise development		
Annual value of ED contributions and sector-specific programmes made by the measured entity as a percentage of the target	5	1% of NPAT
Bonus points		
Bonus point for graduation of one or more ED beneficiaries to the SD level	1	
Bonus point for creating one or more jobs directly as a result of SD and ED 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 with 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 programmes with their supply chain needs. ED, SD and preferential procurement should all be linked in some way. An organisation 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 specialised enterprises. For instance, if a company supports a 51% 'black'-owned exempted micro enterprise (EME), qualifying small enterprise (QSE), or large enterprise as part of its ED plan, the company will be eligible for the bonus points. When an organisation includes an ED beneficiary in its supply chain through procurement, additional bonus points are available. It is 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 organisation 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 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 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 precede 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 period.

In cases where the above applies, the indicative NPAT of the measured entity for the three financial years that precede 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 precede 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 where the industry norm net profit margin for the three financial years that precede the measurement period yields a negative result, the qualifying SD 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 that yields a negative result, the nominal value will be 50% of the previous year's nominal value and will continue for any subsequent periods of negative results.

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

A = the sum of (***B*** x ***C***)

Where is ***A*** 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 EMEs and QSEs), 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:

$$A = {}^{B}/_{C} \times D$$

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
Grant and related contributions		
Grant contribution	Full grant amount	100%
Direct cost incurred in supporting ESD	Verifiable cost (including both monetary and non-monetary)	100%
Discounts in addition to normal business practices supporting ESD	Discount amount (in addition to normal business discount)	100%
Overhead costs incurred in supporting ESD (including people appointed in ED and SD)	Verifiable cost (including both monetary and non-monetary)	70%
Loans and related contributions		
Interest-free loan with no security requirements supporting ED and SD	Outstanding loan amount	70%
Standard loan to ED and SD 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
Equity investments and related contributions		
Minority investment in ED and SD beneficiaries	Investment amount	70%
ED and SD investment with lower dividend to financier	Investment amount	Dividend rate of ordinary shareholders – actual dividend rate of contributor
Contributions made in the form of human resource capacity		
Professional services rendered at no cost and supporting ESD	Commercial hourly rate of professional services	60%
Professional services rendered at discount and supporting ESD	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%
Other contributions		
Shorter payment periods for 2.2 of this statement (SD)	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 the 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, the indicative NPAT of the measured entity for the three financial years that precede 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 precede 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. Where the industry norm net profit margin for the three financial years that precede the measurement period yields a negative result then qualifying SD contributions of nominal value will earn the measured entity the full points under paragraphs 2.3.1 of the B-BBEE Act, th 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 that 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 that 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 organisation's NPAT is not available, each of the above must rely on the indicative profit margin, which is the profit margin used in the preceding year, where the profit margin of an organisation is at least one-quarter of the industry norm. Unless a 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 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.

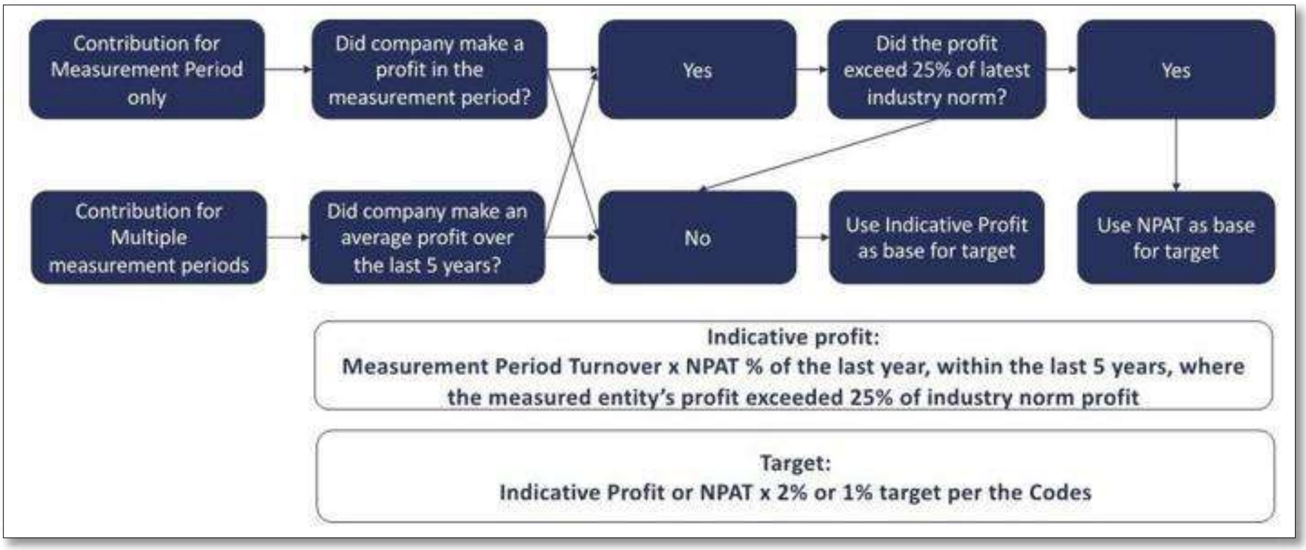
Step 3: If the NPAT margin is 25% or more than the industry norm, said NPAT figure applies.

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% or 2%) x IPM (actual figure and not 25% of IPM) x turnover = 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 (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 through 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 x 4% = 1%). The average profit margin for the whole South African industry over a 12-month period was 4.54% 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 utilised to calculate the ESD 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)

Measured entities are required to comply with specific targets set under the ED and SD categories of the ESD scorecard. These are specified in the Codes of Good Practice, which include the generic codes 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 are approved, such as construction, property, tourism and 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**
Defence 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 s400 (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**	

Sectors	Elements	Generic entity	Qualifying small enterprise
Taxi industry sub-sector code	Enterprise development	**1% of payroll/3% of NPAT**	
		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 and provincial DOT three-year target – 1% of discretionary spend** **Public entities, including SOEs and agencies, three-year 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 black-owned enterprises – 3% of NPAT** **Investment in 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. registered as a supplier in the measured entity's supplier database), whereas an ED beneficiary is not. When identifying an SD beneficiary, the measured entity should look at its supply chain to identify any existing black-owned EMEs or QSEs it could help and develop. When identifying an ED beneficiary, the measured entity should identify any entities it could help and develop to become part of its supply chain. For the measured entity, this procedure has two benefits: (i) 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 enter into an ED or SD agreement with the beneficiary entity outlining what support would be provided. The agreement must include objectives, prioritised interventions, key performance indicators, and a concise implementation plan with clearly described milestones (B-BBEE Commission, 2021).

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3. LITERATURE REVIEW

3.1. International definitions of enterprise and supplier development

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

International literature highlights different approaches to defining SD. The term was used by Leenders (1966) to describe the process by which manufacturers raised the number of qualified suppliers, and improved supplier performance. SD 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 & Hahn, 1993). To put it another way, SD 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 & Ellram, 1997). SD, according to Wagner (2006), entails assisting a supplier in increasing the performance of its products and services or expanding its capabilities.

Many academics define SD 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 & 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 programmes, 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 and 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 SD. 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 organisations, 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 to achieve the United Nations Sustainable Development Goal (SDG) #5, which calls for gender equality and the empowerment of all women and girls. Related to ED, SDG target 8.3 promotes development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage formalisation and growth of SMMEs, including through access to financial services (ILO, 2022).

3.2. National definition of enterprise and 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". 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).

ED contributions are monetary or non-monetary contributions to EMEs or QSEs that are at least 51% 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. SD contributions are monetary or non-monetary payments made to suppliers who are EMEs or QSEs 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.

SD is measured against a company's present supplier database, whereas ED is measured against organisations 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 organisation 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 it was still qualifying as a 51% black-owned EME or QSE, with a five-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 SMMEs is widely acknowledged to provide considerable social and economic advantages to communities. Local procurement can stimulate economic activity and attract 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 characterise 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. While time- and money-consuming, SD 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 SD process, on the other hand, must be well-planned and implemented 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 such as 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 organisations to create SD programmes (SDPs). The Chevron programme developed in Angola following the civil war, the Rio Tinto programme developed in Canada, and the BHP Billiton programme 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 SDP in Chad in collaboration with the IFC and the Chad Chamber of Commerce. The programme 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 programme's goals are to improve local SMME 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 programme. To begin, the company must be prepared for the initiative; thus, this is the phase in which programme strategies are devised and buy-in from all parties 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 and 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 programme are evaluated, and the results are fed back into a programme improvement process. ExxonMobil recognised a number of aspects 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 SD implementation team; transparent communication on tendering prospects; and interest, drive and commitment to change from participating SMMEs (Simanye, 2014).

The IFC and Newmont Ghana Gold Limited collaborated on the Ahafo Linkages Programme, a local procurement and SD programme that focuses on capacity building and integrating local firms into the supply chain. This is accomplished by utilising a technical and business skills mentoring strategy to assist local SMMEs in meeting Newmont's procurement standards and strict requirements. The programme aims to build the capacity of local micro businesses and SMMEs so that they can compete in Newmont's supply chain and 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 programme, Newmont recognised a few critical components, including scoping phase, which involves an assessment of present conditions and SMME mapping; programme design; management commitment; communication and expectations management, particularly with communities; organisational and support structures; programme components; and sustainability (Simanye, 2014).

Newmont identified a number of aspects 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 programme; reviewing the programme design early in the process; establishing a steering committee; and involving management at all levels of the company to be champions in the programme to ensure support and smooth implementation. Also prioritised were developing a clear access-to-finance plan at the start of the programme; focusing on certain sectors to maximise resources; and building synergies among local businesses (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. As a result of this successful initiative, Mozal chose to build a SDP MozLink for the operations phase with the aim of developing, through training and mentorship, competitive SMMEs with the capacity and abilities to cooperate successfully with Mozal and other large enterprises. The programme'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. The programme focused on repeatedly producing batches of 15 to 20 SMMEs over a one-year period (Simanye, 2014).

The approach framework was divided into five phases: 1) The preparation phase, which focused on developing the programme strategy and gaining buy-in and commitment from all involved parties (SMMEs, management, mentors); 2) the Assessment I and Workshop I phases that focused on identifying SMMEs shortfalls and correcting them using work plans and developing training modules for each specific SMME; 3) the implementation of work plans and training modules during the SMME Improvement Plan phase; 4) the review and evaluation of work plans and training modules during the Assessment II and Workshop II phases; and 5) the evaluation phase, which included impact evaluations of SMMEs and the entire programme. BHP Billiton recognised 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 more than 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 United States President Richard Nixon approved preparations for a national Minority Business Enterprise contracting programme (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 organisations 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[2]" 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 converged on the territory known as "supplier diversity", 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 to 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 US. 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 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, according to the B-BBEE Codes, SD 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

2 The idea of black capitalism meant black control of companies/institutions in the community

supply of additional or extended contracts. Being a part of a SDP 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 facing small businesses, that is, market access.

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

- Corporate procures goods or services from participating SMEs that provide sustainable revenue streams.
- Strengthens local procurement to help build South Africa's industrial base in critical sectors of production and value-adding manufacturing, which are largely labour-intensive industries.
- Increases local procurement through capacity building achieved by incentivising appropriate local SDPs by businesses supplying imported goods and services.
- Supports procurement from black-owned QSEs and EMEs by identifying opportunities to increase procurement from local suppliers in order to support employment creation.
- Supports procurement from black-owned and black-women-owned businesses to increase the participation of these businesses in the main stream economy.
- Promotes 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 include the following:

- Grant contribution
- Direct costs incurred by the measured entity on behalf of the beneficiary entity, for example, the purchase of a computer for the beneficiary entity
- Discounts in addition to normal business practice
- Professional services rendered by the measured entity to the beneficiary entity at no cost
- Overhead costs incurred by the measured entity on behalf of the beneficiary entity, for example providing free rental space to the beneficiary entity
- Loans on favourable terms
- Early payment of supplier

From the literature, four South African case studies were carefully considered in this research because of their relevance to key learnings. The following sections offer a high-level analysis of each programme, including an overview and key objectives, what worked in the programme and what were the 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 programme identifies and invests in local procurement possibilities. Through the programme, the group is committed to creating opportunities for all suppliers, especially B-BBEE-compliant SMMEs. The programme builds and maintains an efficient and equitable supply chain that aligns with 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 SD and R10.2 million in ED. 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 its 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 programme of the organisation 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) in SD, including early settlements above the claimable value, thanks to process efficiency and a commitment to ESD.
- An additional R10.2 million was invested in ED (2017: R9 million), enabling a pipeline of new business into the supply chain. Against the tourism code's requirement of 3.5% for the tourism sector, this investment represented 18.75% (2017: 11%) of NPAT.
- The company's overall measured procurement spent for the financial year surpassed R3.3 billion (R4.0 billion in 2017), with R3.04 billion coming from more than 3 000 verified B-BBEE-compliant suppliers. This 92% valid spend compliance fell short of the group's 2018 goal of 95%. The target for 2020 was to achieve and maintain a 95% 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 its 40% objective for 2018. Its target for 2020 was to achieve and maintain a 50% participation rate. A 35% increase in black-owned SMME spending (2017: 14%) was accomplished, exceeding the 20% target. By 2020, the plan was to increase the annual target to 30%.

Critical success factors

- The company insists on the highest level of ethical conduct throughout the supply chain, especially for suppliers. The internal supplier code is based on internationally recognised 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 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 Tysys Fund Managers. According to Exxaro, it has always regarded itself as more than a mining company, investing in areas that have an impact not only on the success of its business, but also on the empowerment of the people it works with and serves. Exxaro aspires to be a beneficial force for social and economic transformation, 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 programmes.

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 under way. Preliminary findings from a sample of 30 (14 in 2018, 16 in 2019) 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 1 663 jobs, with youth-owned and women-owned businesses accounting for 29% and 47% of the recipients, respectively.
- The fund's impairment rate was 3% in 2020, but escalated to 7% in 2021 as a result of the tough economic conditions imposed by the COVID-19 pandemic. According to Tysys 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 programmes 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 programmes 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 capitalise on the opportunities they can exploit.

- The company strives for excellent working relationships with its communities, and operations generally occur in a peaceful manner, allowi ng it to invest more of its resources in communities. This makes it easier to provide targeted financial assistance and customszed activities that lead to successful ESD responses. Exxaro, for example, designed the Contractor Development Programme to address typical difficulties faced by many SMMEs, 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 skills 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. Tysys 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 tailored products that result are enabled by proactive stakeholder engagement and a real commitment to helping beneficiaries and applicants succeed.
- In this approach, the organisation aimed to provide holistic support to these SMMEs – not just monetary, 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 programme (Njenge, 2022).

3.6.3. South Africa case study 3: Accenture Global Diverse Development Programme

Accenture runs a Global Diverse Development Programme (DSDP) to create long-term value for clients and communities. It is one of the leading supplier diversity programmes in the world with a commitment to inclusive procurement practices. In South Africa, the programme is known as the Enterprise and Supplier Development Programme (ESDP) to align with the local B-BBEE legislation. The key objective is to increase the economic participation and growth of black-owned SMMEs within Accenture's supply chain and the mainstream economy.

Strategy/goals

- The DSDP includes 24 countries and generates a broad range of suppliers, complementary skillsets from project contractors, and access to the most innovative, responsive and cost-competitive supply solutions for clients and stakeholders.
- The programme 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 maximises shared value. As a result, the programme helps communities flourish by generating additional businesses, jobs and economic growth.

Results

- In the fiscal year ending 2020, the company invested more than R65 million in development activities towards the 19 SMMEs that 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 programme's success can be attributed to the fact that it recognised that SMMEs needed developmental support and capacity-building to succeed as suppliers. Thus, Accenture chose to guide and support them to realise 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 ESDP.
- The development interventions are tailored to each organisation's specific needs based on the findings of a business evaluation to identify business gaps and developmental areas.

3.7. Obstacles to 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 ESD, which includes skills 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 programmes are being developed by large organisations with the resources to assist different suppliers in meeting the requisite standards. These programmes have the added benefit of helping other purchasing organisations (Toikka, 2021). As a result, these investments raise expectations, and proper controls must be in place to ensure that the desired outcomes are realised (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 programme, it is necessary to identify and leverage a supply chain's preference purchase KPIs. By focusing the programme 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 from quick wins 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. Hence, many corporates that try to develop and implement an ESD strategy find 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 programmes 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), South African 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 a need for deliberate and well-thought-out management and planning for the ESD programme. The absence of good planning ultimately results in programme fail, leaving both parties feeling that the entire process does not live up to expectation in terms of the time, effort and resources expanded to yield the desired tangible benefits (Khupe, 2022).
- On a local level, ESD programmes help businesses to meet B-BBEE requirements. Yet, they 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 organisations, 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 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, and establishing new supply avenues.
    - Improving the beneficiaries and sponsoring organisation’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).

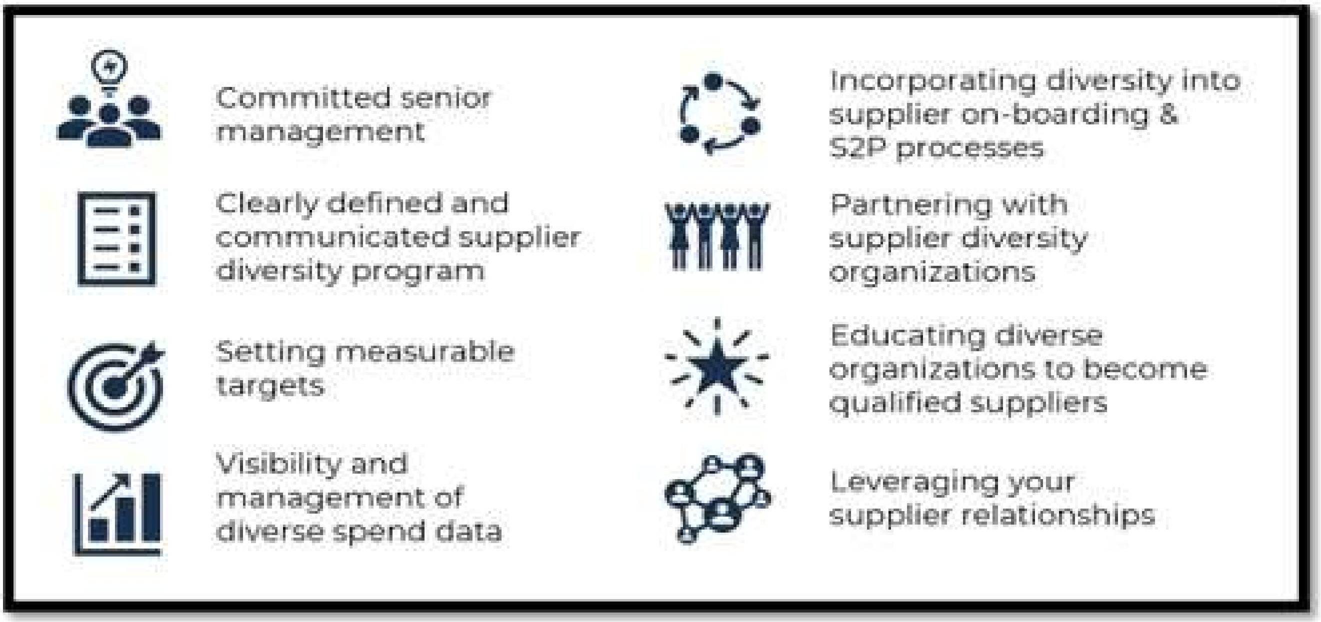
To be successful, programmes must be tailored to the various stages of the entrepreneur’s lifecycle, including introducing entrepreneurs to the concept of business and assisting them in developing their ideas into executable businesses; assisting entrepreneurs in taking their business ideas to the first 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 programmes 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 customised ED programmes.

When developing an ESD strategy, organisations must shift their attitude to focus on long-term connections and innovation rather than the legacy of the lowest-cost provider. Alternatively, organisations 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 organisation’s initial attitude when implementing an ESD strategy is critical in deciding the outcome.

The success factors have been summarised in figure 3 below:

Figure 3: Critical success factors for ESD



Source: **Toikka (2021)**

Steps to a successful ESD programme include:

- Obtain senior management commitment by having them personally sign off on the company's ESD goals and metrics.
- Establish a supplier diversity programme 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), more than 22% of corporate organisations did not know the impact of their ESD initiatives on their SMMEs, which impedes further growth. Supplier identification and categorisation can be made easier with cloud-based spend analysis systems. The collation of information about suppliers is made easier by digitisation.
- Ongoing monitoring and tracking of cost in each different supplier category.
- The organisation can employ consultants or agencies that specialise in diversity who can assist them in expanding their network by introducing diverse vendors.
- The measured entity needs to integrate diversity into the onboarding, 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.

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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 comprised 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 & 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 & 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 the margin of error to be expected in quantitative data analysis. With the aim to generalise the findings derived 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.

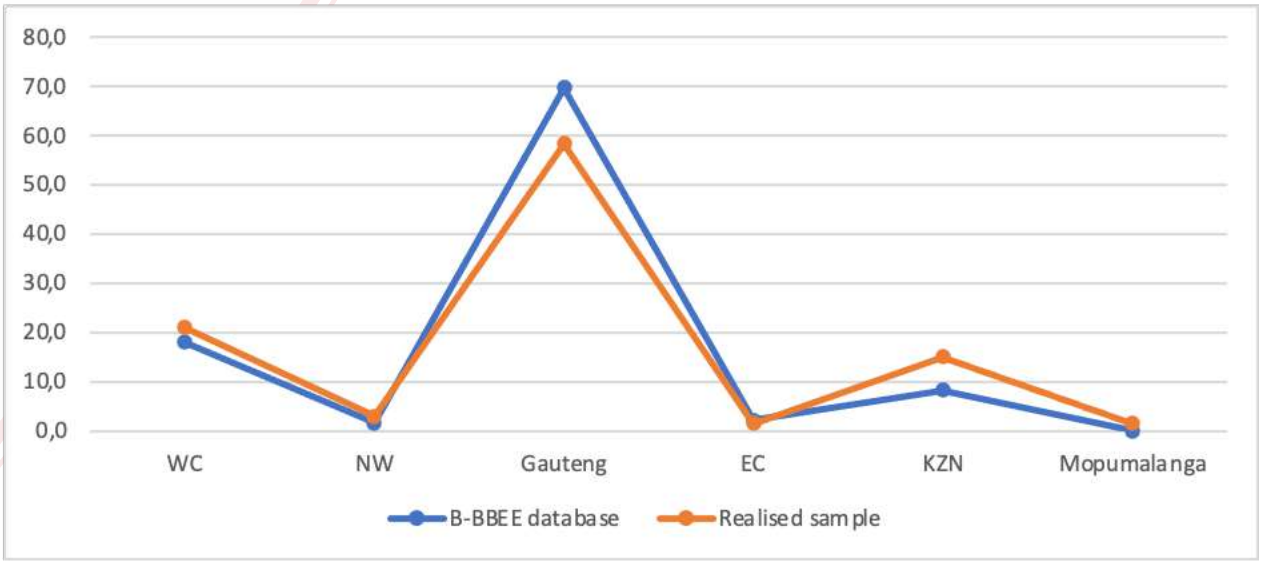
For the survey component, an online questionnaire was designed, and a link emailed to all measured entities captured on the B-BBEE Commission database. Realising the challenges involved in an electronically based survey, of which a low response rate is one, it was decided not to select a sample, but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

A purposive sampling method was used for the key informant interviews and focus group sessions. 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 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[3] and was successful in completing 68 interviews. Unfortunately, one survey questionnaire was poorly completed and subsequently excluded from the analysis.

Recruiting participants for the research proved difficult and time-consuming. This is attributed to the fact that many people are working from home as well as 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-19 pandemic many offices have not yet returned to full capacity, with employees continuing to work from home. Consequently, it has proven difficult to engage with employees, with email the only method of communication available. Response to email has been poor. As a result of the POPIA legislation, office administrators are not allowed to convey any other contact details, such as personal cellphone 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 in an effort to reach the targets set by the sample.

4.2.4.1. Data collection

The survey was designed as an online questionnaire, and 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 or their representatives took place either via zoom or, where possible, face-to-face engagements.

The research also utilised secondary data provided by the B-BBEE Commission tracking approximately 200 entities in the period 2018 to 2021. The dataset included data on entity information, B-BBEE assessment and 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 online 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 of 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 of ESD. The key focus of the questionnaires included, but was not limited to, the following issues:

- Measure the extent that measured entities are implementing the NPAT targets set for ESD 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 ESD.

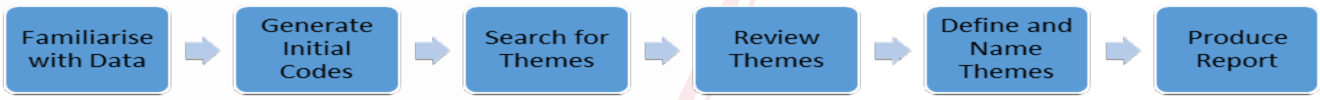
3 Refer to research sample for detail on the sampling strategy.

- 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 ESD.

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. 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 thematic analysis put forth by Braun and Clarke (2006:89–96), which have been duplicated below:

Figure 5: Six phases of conducting thematic analysis



Source: Madyibi (2021)

According to this framework and for each question, the first step was for the researcher to familiarise 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 named the themes based on their essence. Finally, the findings were presented under themes using figures and responses from the participants.

The secondary B-BBEE assessment data was used to estimate the value of ESD expenditure in South Africa. 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% Average Profit Margin * 3% Target

4.3.1. Triangulation

Through the utilisation 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 the participants with a written document detailing the research project and its aims. The participants voluntarily agreed to participate 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 and what is not working for specific companies or entities, the challenges they encounter in implementing ESD, and the recommendations to the B-BBEE Commission in this regard. Each of these cases offers unique insight on different organisations and their diverse set of experiences. 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 does not align with developments on the ground or 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 an ESD strategy. The bank was able to embed its ESD strategy into its core business in a manner in which other corporates were not easily able to do. It was able to leverage what it does for SMMEs to drive its ESD strategy. The bank has successfully worked on the following:

- Identified its commodity purchases and driven transformation in the supply of these commodities.
- Made progress in scaling black-owned and black-female-owned debt-collection businesses.
- Transformation in the area of marketing.
- 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 untransformed segments or commodities and untransformed industries. Its focus is on key economic problems that need unlocking. The bank has spent money in scaling business development support to make it accessible to everyone so that development doesn't happen in pockets. Other focus areas include:

- The accounting industry, which is still viewed as untransformed with few big players.
- A successful pilot to scale up black-owned and black-female-owned accounting practices that can serve SMMEs in the mid-core, utilising technology to scale their businesses and connect them to markets.
- Working with youth, particularly the most vulnerable group of 18 to 25 year olds, and early start-ups, providing grant finance and ideation.

- Development of social enterprises that are solving problems for society, particularly township and rural-based social enterprises because, according to the bank, that is where the problems exist.
- Made inroads in providing funding for franchising. The bank is trying to build a structure that will effectively fund franchises for black entrepreneurs.

Challenges in ESD expenditure

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

- The bank focuses on its supply chain for ESD initiatives, however, given that it operates in financial services, its supply chain is not a job-creating intensive sector. There is potential to impact Tier 2 companies by making available programmes to own suppliers, and putting these above the line so that participants can apply in a transparent and inclusive process.
- The bank can give non-recoverable support to both ED and SD beneficiaries, but it 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 that are the employment generators and is a significant constraint in the deployment of funds. The bank could create more jobs if it could fund business-to-consumer models as this is where the black economy businesses and entrepreneurs are. So, saying the bank can't fund them makes it difficult to implement ESD strategies.
- The respondent further indicated that it is sometimes difficult to meet ESD requirements because of new legislation around consent to engage with people and process data. For example, banks are not allowed to speak to suppliers that do not bank with them because they only have consent to market material at the level of their own operations and not at supplier level. 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). Such legislation has constrained the operating environment in terms of how the bank is allowed to communicate and process information and marketing, and what it is allowed to speak to people about. The respondent indicated that the new legislation has made ESD implementation complex, even for simple activities like telling bank suppliers what the bank can do for them and how it can source and select.
- When a supplier gives out information, the bank is not allowed to use that information for anything outside of procurement. It is not allowed to use that information to provide ESD. The legislation is fairly challenging since 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, it must give preferential treatment to meet B-BBEE targets. The respondent mentioned that it becomes difficult to navigate this landscape.
- Banks have to be careful about how they implement ESD because of the rules involved. The bank sends communication about ESD opportunities to everyone since it is not allowed to send communication directly to suppliers asking them to apply.
- On the funding side, from the perspective of the bank, it is complex to determine how to incorporate additionality. Banks deploy money based on Reserve Bank requirements and, owing to NCAA, must operate under an accredited funder's licence. The respondent mentioned that "the bank is not allowed to do additionally because it deposits 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 it 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

- The bank is structured when it comes to its ESD programme. It does not view its ESD strategy from the perspective of compliance.
- When the bank identifies an ESD opportunity it undertakes a full feasibility assessment. It first understands the problems associated with a particular programme or initiative, then brings on board a specialist business development support partner with which it designs or runs a theory of change programme.
- The bank undertakes rigorous sourcing and selection of ESD beneficiaries. Programmes are designed to solve a specific need for a specific industry size and, therefore, the bank would have multiple layers of support in an intervention. The bank would use business diagnostics to create a growth strategy for each business, which would then be supported by a mentor such as a coach and various specialists. Alternatively, the bank would bring on board a strategic consultant to help the business in a bespoke manner. It would run comprehensive boot camps and put beneficiaries through training with mentors, while measuring performance.
- The bank involves itself in multiple aspects where suppliers need support, and offers long-term support instead of short-term initiatives. For example, the respondent mentioned that a three-month accelerator programme would not move the needle, since one cannot say that a programme created jobs or built revenue growth after three months.
- The bank's intervention is targeted at and heavily invested in potential suppliers.
- According to the respondent, the bank has driven meaningful impact by focusing on the right metrics – that is, sustainable job creation and capacity building. This approach contrasts with many other business development service providers who are selling programmes with the focus on the number of people trained, not the number of businesses fundable or jobs created.
- The bank is intentional where it believes it can move the needle, and then undertakes relevant research to properly measure interventions. The bank is rigorous in terms of measurement; it measures every conceivable indicator such as revenue, profits, jobs and business maturity in terms of best practice. It also measures investment readiness and how many beneficiaries received funding. This gives the bank credibility with its stakeholders.
- According to the respondent, the bank leadership has a passion for ESD, which gives the company more latitude in driving such programmes. This allows the bank to spend more than its target. According to the respondent, the bank has amazing stakeholders who are deeply invested in driving ESD.
- The bank has diverse beneficiaries, which contributes to the programme's success. At present, the bank is supporting approximately 400 beneficiaries in different programmes.
- The bank uses an intense media strategy to invite beneficiaries to apply for their programmes. It deploys social media and other media tools to advertise its programmes to a broad segment of the population, including the public sector. However, it was noted that local government never responds to these calls, but continues to state that the bank is doing nothing in the region.
- According to the respondent, the bank adheres to procedures and standards. Since the inception of ESD, the bank has never had a problem with the B-BBEE Commission or the ESD.
- The bank customises its ESD strategy to 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 with mentorship programmes that tend not to work since there is a lack of appreciation of the local context. The respondent mentioned that where it makes sense, the bank will design new initiatives for local environments.
- The bank has a high standard of measuring the impact of its programmes. In terms of net jobs created, the bank is close to the IRS measurement framework. Furthermore, it focuses on what determines a decent job, calculations for the measurement of revenue growth, and sustainability.

Recommendations to the B-BBEE Commission

- The respondent indicated that restricting ESD to business-to-business initiatives limits the impact since more job creation comes from business-to-customer initiatives.

Case study 2

The organisation has been successful in driving ESD spending targets, largely owing to the board mandate to achieve the required levels of B-BBEE. Every year, the company mandate is not only to get full points for ED and SD, but also bonus points. The entire SD claim comes from the company's work with small black-owned CMTs (factories in its own supply chain). It drives initiatives to create jobs locally within manufacturing, and is constantly trying to identify and work with small players in the supply chain. The company offers either grants, loans or donations of machinery, depending on the support required on a case-by-case basis. Furthermore, it supports beneficiaries from an operational and financial capacity to ensure businesses thrive and are sustainable.

The company also works with the Clothing Bank to develop sports in underprivileged communities through merchandise return donations, and small black-owned designers. It has an ED system that creates a pipeline of potential suppliers.

Challenges/obstacles

- According to the respondent, the spirit of the code and ESD is great in ensuring job creation and sustainable small business development. However, practical implementation is difficult. Suppliers generally have long-term relationships with the company and, according to the respondent, can be on board in the company's books. However, the difficulty arises when ED beneficiaries are not on the company's books. The company would want ED investment to go towards an entity that could become a supplier. However, this is not an easy find. It is easier to find a supplier than it is to find an ED beneficiary. Ideally, a company wouldn't want to keep someone as an ED beneficiary. According to the respondent, there is always pressure to find, grow and develop an ED beneficiary into a supplier, and then look for another ED beneficiary. Hence, ED tends to be challenging in terms of identifying beneficiaries and suppliers.
- The respondent also mentioned that it is difficult to obtain information on eligible black-owned and black-woman-owned businesses for consideration for the ESD partnership. It is difficult to find small-black-owned or black-women-owned suppliers as well as suppliers within the designated group ownership to remain on the company's books on an ongoing basis. According to respondents, companies are charging corporate fees to find small black-owned suppliers.
- According to respondents, it can be challenging to work with small suppliers as they may not be able to scale at the level required to support big retailers. This makes it difficult to source locally, especially from B-BBEE companies, because of scaling constraints within SMMEs.

What is working

- The company's board is mandated to achieve the requisite level of B-BBEE, which allows the company to weave B-BBEE requirements into business as usual. The company ensures that B-BBEE is not a grudge purchase or add-on, but is structured into normal operations.
- 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 when required to assist in all operational aspects. For example, where a brand-new supplier could be small and black-owned, but lacks the exposure or experience in terms of dealing with a big business, the company undertakes a gap

analysis for the beneficiary and helps it to register with the bargaining council. The company also steps in to ensure that machinery is up to standard. In some cases, beneficiary suppliers require mentoring or financial assistance in the form of loans or grants. The company ensures business sustainability, such that when support ceases, the beneficiary company can survive and be sustainable in a 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 decades-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.
- The company has engaged the B-BBEE Commission a few times a year on average, and the commission has been able to provide the requisite support within acceptable turnaround times. The company usually reaches out with questions on audit and templates, and would receive confirmation of receipt of submissions, as well as letters advising on focus areas. The B-BBEE Commission's website has been helpful in providing updates.
- The company employs different strategies across its three main businesses to ensure compliance.
- According to the respondent, it is challenging to find an ED beneficiary to develop into a supplier within a year or two. Each year, teamwork and close cooperation with different teams across the business helps to identify an ED beneficiary who has the potential of becoming a supplier.

Recommendations to the commission

- The B-BBEE Commission could build and maintain a database of potential suppliers and ensure their B-BBEE credentials are in order. This would ease the difficulties of obtaining information on eligible black-owned and black-women-owned suppliers for consideration for the ESD partnership. The B-BBEE Commission could lead a formal ESD programme across the different categories, and have small black-owned suppliers on hand. The database could be centrally housed within the B-BBEE Commission and categorised according to the products the SMMEs produce or the services they sell. Even if the database is not housed by the B-BBEE Commission, the commission could verify some of the information.
- It was noted by the respondent that the percentage requirement for black and black women ownership is currently set too high, with a recommendation of relaxing this over the short term.
- A suggestion was made to scrap the ED to SD bonus points in favour of two points for job creation, given the South African context.

Case study 3

- The company did not meet last year's NPAT spending targets, but is hoping to achieve the target this year despite facing difficulties. The company earmarks suppliers for SD and follows a 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 utilise the full NPAT allocation due to difficulty in identifying the suppliers that are 51% black-owned and can provide it with 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

- Smaller 51% black-owned EME and QSE suppliers struggle to produce the large volumes the company procures from suppliers. The respondent noted that this is where the company experiences difficulty in SD. The company is working closely with the Clothing Federation of South Africa to upskill SMMEs to provide these volumes.
- It is difficult for the company to identify 51% black-owned suppliers that can provide the company with the product in the right volumes with a set cadence. This has resulted in the company failing to utilise the full NPAT allocation.
- The company provides cotton farmers with loans to procure seed and fertilizer. 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 engaged with **the dtic** and B-BBEE Commission to request that this be recognised since it is within the value chain of the products it procures. The company has stated that to date the codes do not cater for or recognise this intervention as procurement spend on ESD.

What's working

- The company has a list of programmes and initiatives it is working on regarding ESD.
- The company works closely with South Africa's cotton cluster, where it gets cotton into its supply chain.
- The company works with the Clothing Bank and Clothing Box programme, which are large organisations in South Africa.
- The company manages to put suppliers through a 24-month programme that empowers them to become successful entrepreneurs. Several suppliers qualify for SD through the company, which invests in and works closely with these companies to upscale them.
- Engagement with the B-BBEE Commission has resulted in good response rates. According to the respondent, the commission has done a fantastic job in its responsive to queries.

Recommendations to the B-BBEE Commission

- According to the respondent, a lot of work needs to be done with regard to skills development. The government considers NQF levels, but the company requires merchants and buyers, skills that are not based on NQF frameworks. Appropriate structuring of the BEE scorecard for skills development would add more potential and growth, and improve employment in the country. The company has engaged with the relevant SETAs to design programmes that speak to their needs.

5.2. Lessons from the case studies

The case studies highlight the following main challenges:

- 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 in the manner in which it is currently being applied. The research discovered a lack of understanding that B-BBEE legislation provides for separate compliance requirements for public and private entities. Public entities are rated on a specialised scorecard, which excludes black ownership from the measurement of determining compliance with the B-BBEE Act.
- There are challenges in finding and working with smaller suppliers, as they may not be able to scale at the requisite level to support big companies. This makes it difficult to source locally, and especially from B-BBEE companies. Despite this, the research notes that the purpose of ESD is to identify gaps or constraints in scaling up in order to provide ESD support that allows suppliers to develop. The most common obstacle is

beneficiaries are not ready to scale up with proper financial systems, strong financial management structures, and sound business plans. The purpose of ESD is to provide support to businesses to operate competitively and productively in a sustainable manner. If the supplier has the basic structures of being a supplier in place, and displays potential for growth, measured entities have the opportunity to support them further and develop their capability so that they can scale up their supply or enter into joint ventures with other suppliers.

The research observed that ESD does not succeed by simply establishing SD 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 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, prioritise 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 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

- The B-BBEE Commission could build and maintain a database of B-BBEE-compliant suppliers. The database would benefit the entities as they would be able to identify available suppliers without having to undergo lengthy and cumbersome vetting processes. This would ease the difficulty of obtaining information on eligible black-owned and black-women-owned suppliers for consideration for ESD partnerships. The database could be centrally housed within the B-BBEE Commission, and categorised according to the products that SMMEs produce or the services they provide. Even if the database is not housed within the B-BBEE Commission, the commission could play a role in the verification of information. Legislative requirements could also be published on the portal to help companies meet the requirements for compliance, and provide a platform for the registration of products and services. This would ease the burden of identifying suppliers. The database would immensely benefit entities that do not have eligible suppliers in their systems as well as those seeking ED beneficiaries. Furthermore, it would ensure that the B-BBEE credentials of companies are in order.

5.3. Findings from the survey

The following section presents 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 poor and subsequently excluded from the data analysis.

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

Table 6: Sector distribution among 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 finance, insurance, real estate and business services sector, with 18% in general government. Thirteen per cent are in manufacturing; 12% from the community, social and personal services sector; and lower representation from other sectors. Of the 9% classified as other, four are companies specialising in ICT, one is a safety and security specialist, and one implements projects in agriculture and economic development.

Table 7: Sector distribution among 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
Total	67	100

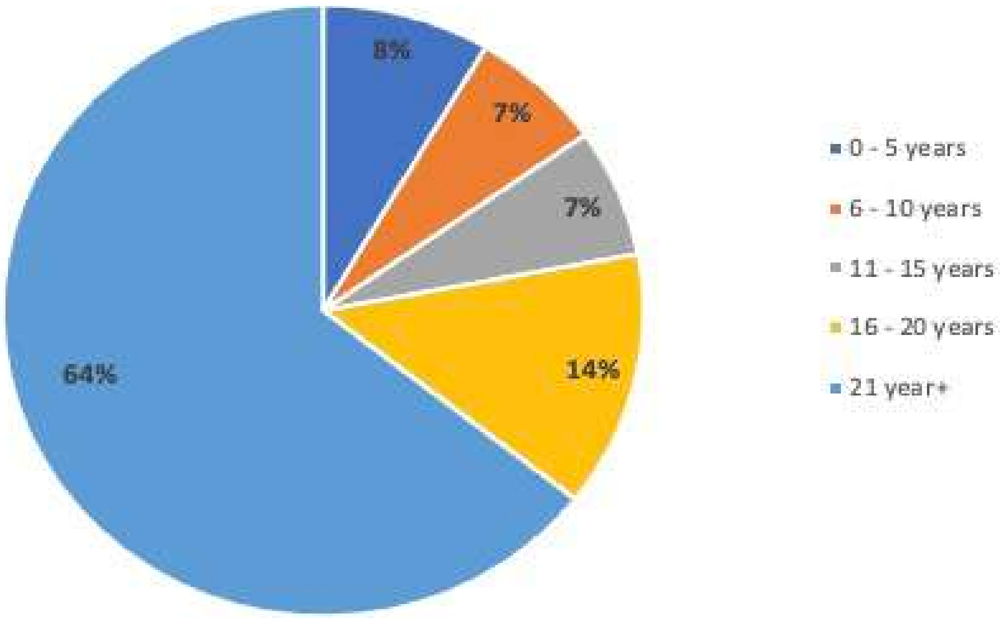
Fifty-eight per cent (N=39) of participating entities are situated in Gauteng, followed by 20% (N=14) from the Western Cape, 15% (N=10) from KwaZulu-Natal, 3% (N=2) from the North West, 2% (N=1) from the Eastern Cape, and 2% from Mpumalanga (Table 8).

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
Total	67	100

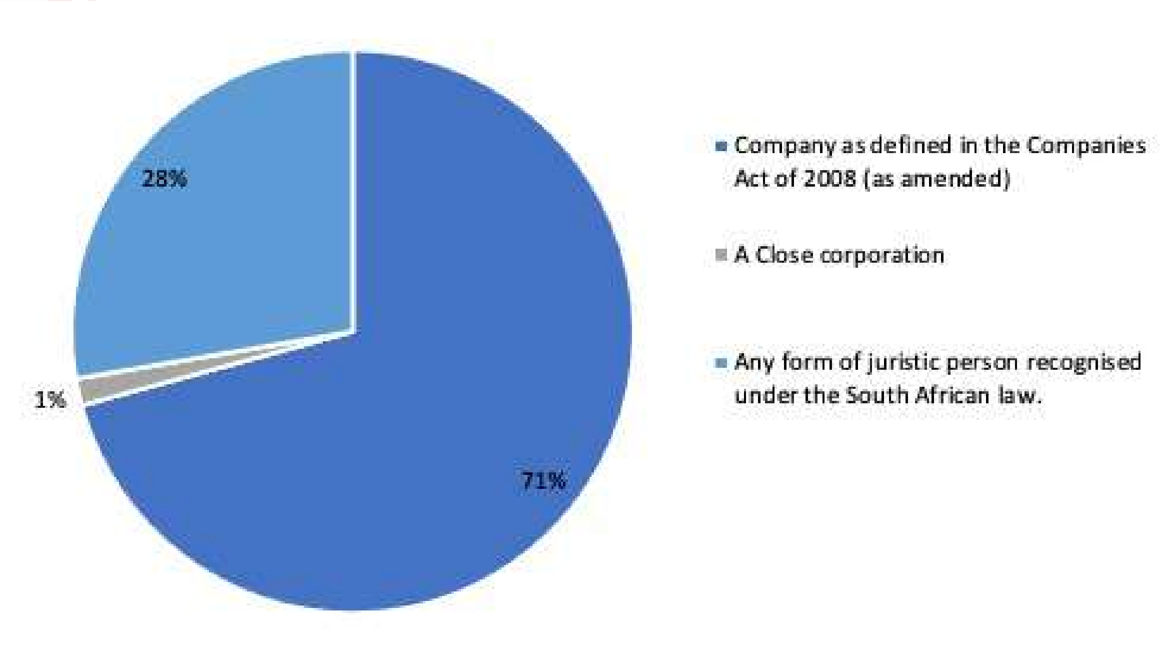
The greater portion (64%, N=38) of entities have been in operation for 21 years or more; 14% (N=8) between 16 and 20 years; and 8% (N=5) five years or less. Seven per cent (N=4) have been in operation for six to 10 years; and another 7% for 11 to 15 years (Figure 6).

Figure 6: Number of years in operation



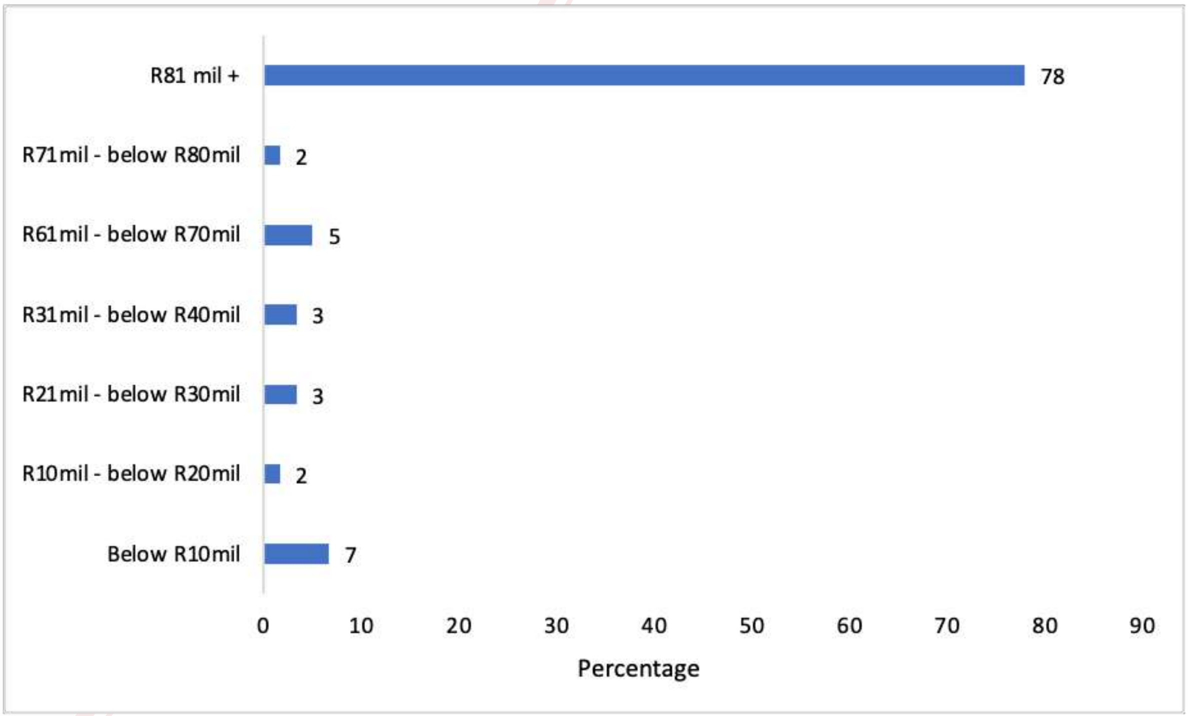
Seventy one percent (N=46) of the measured entities that responded to the survey, are companies as defined in the Companies Act of 2008. Twenty eight percent (N=18) are registered as a form of juristic person recognised under the South African law. Only one entity is registered as a closed corporation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

Figure 7: Type of entity



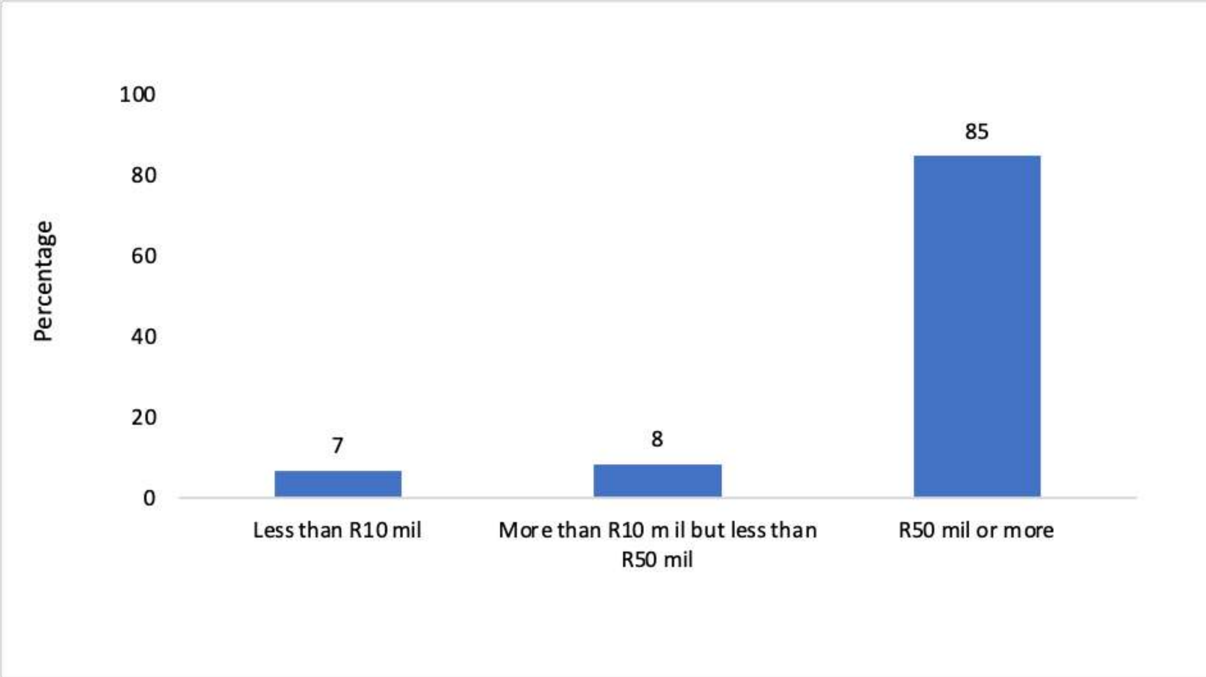
The largest portion (78%, N=46) of companies reported an annual turnover of more than R81 million for the past financial year. Seven per cent (N=4) reported a turnover of less than R10 million (Figure 8).

Figure 8: Annual turnover in last financial year



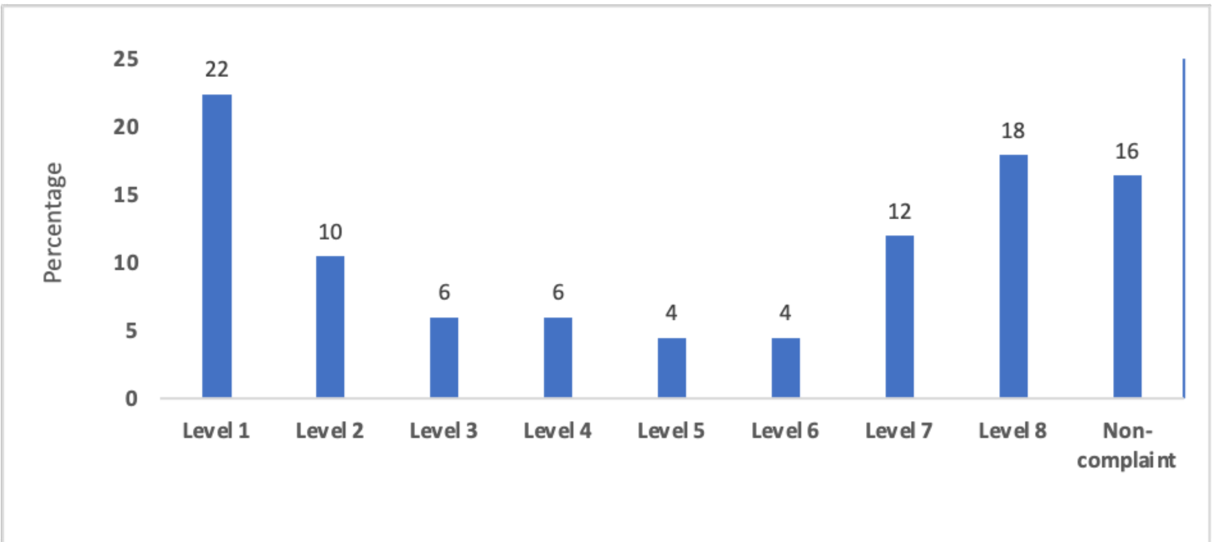
Considering the annual turnover in terms of EME and QSE industry thresholds, Figure 8 shows that 81% (N=50) of the measured entities have budgets that exceed these thresholds, with an annual turnover of more than R50 million. Only 7% (N=4) of participating entities reported a turnover of less than R10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



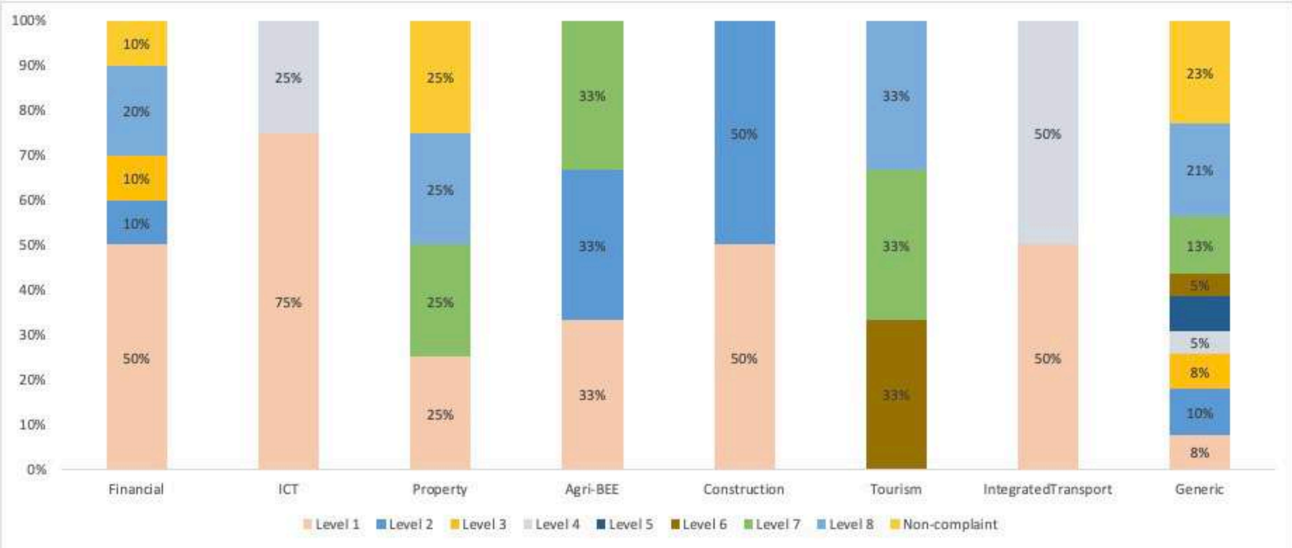
The B-BBEE status levels of the entities varied across participating entities with 22% (N=15) reporting a Level 1 status, followed by 18% (N=12) at Level 8 and another 12% (N=8) at Level 7. Sixteen per cent (N=11) reported as non-compliant. (Figure 10).

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 has the largest portion of entities with Level 1 status at 75%, while 50% of entities in the financial, construction and transport sectors carry Level 1 B-BBEE status (Figure 11).

Figure 11: 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 sector (N=14). Seventy-three per cent 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 12: B-BBEE status level by SIC codes

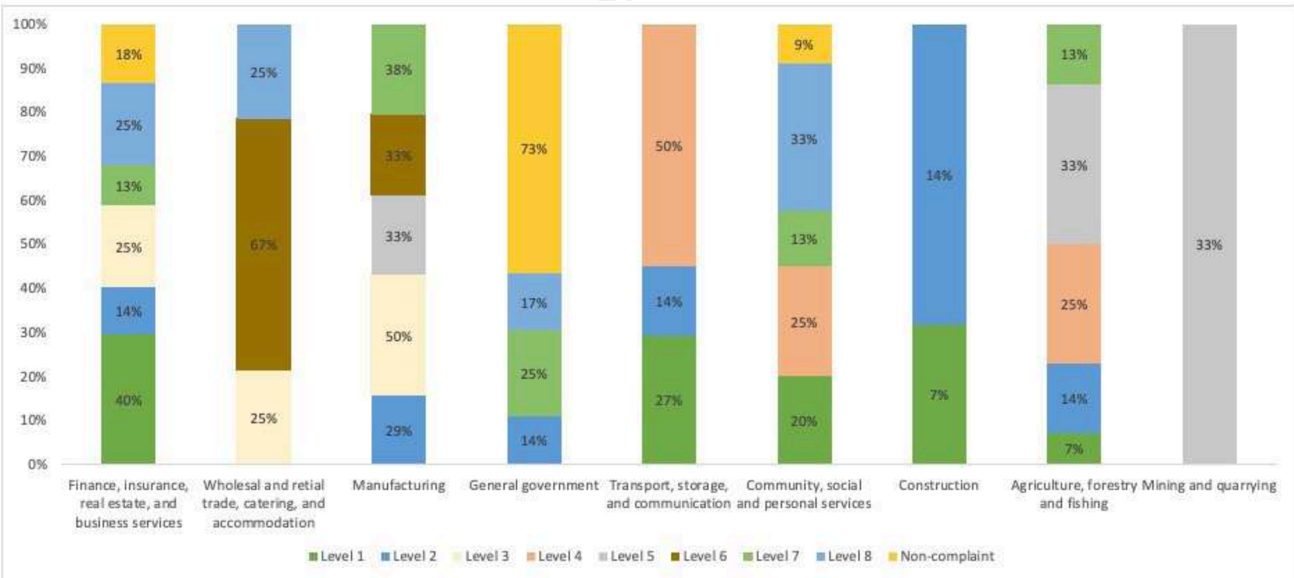
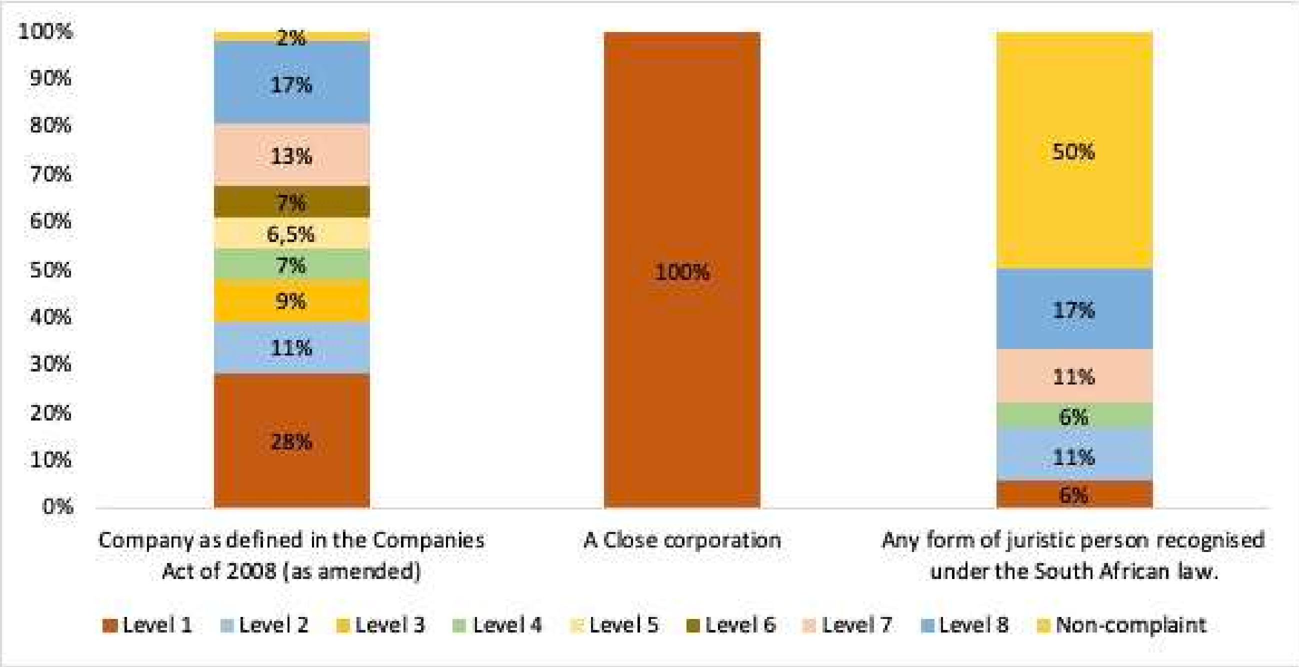


Figure 13 presents the B-BBEE status level of measured entities in terms of nature of registration. Twenty-eight per cent (N=13) are at Level 1, followed by 17% (N=8) at Level 8. One company registered as a closed corporation and reported a Level 1 B-BBEE status.

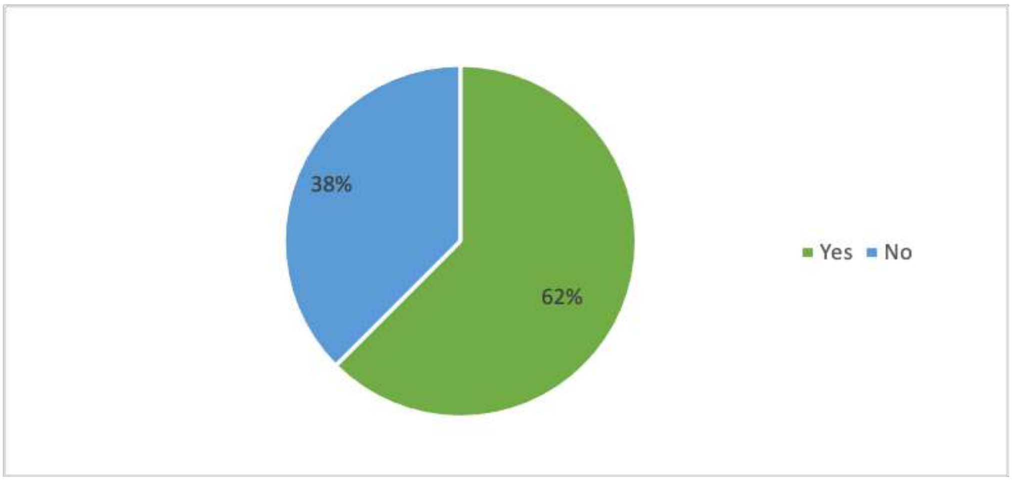
Figure 13: B-BBEE status level by nature of registration



5.3.1. Nature of ESD strategy

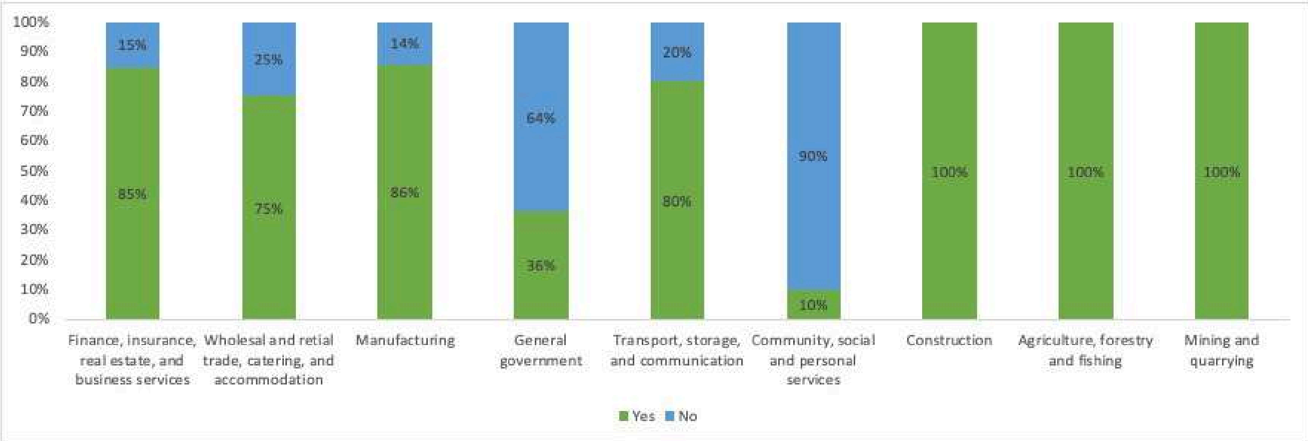
Asked if the entity had a clearly defined ESD strategy, 62% confirmed they do (Figure 14). According to the B-BBEE sector classification, the analysis found this to be true for all entities in the property and construction sectors (100% respectively), as well as 80% (N=4) of entities within the financial 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 that two sectors do not have a majority of entities with clearly defined ESD strategies. These are the community, social and personal services sector and the government sector, where 90% (N=9) and 64% (N=7) of entities do not have a clearly defined ESD strategy, respectively.

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 of those that do and those that do not have a clearly defined ESD strategy (Figure 16). This is to be expected, given that public entities fall within this classification.

Figure 6: Company with clearly defined ESD strategy by B-BBEE sector codes[4]

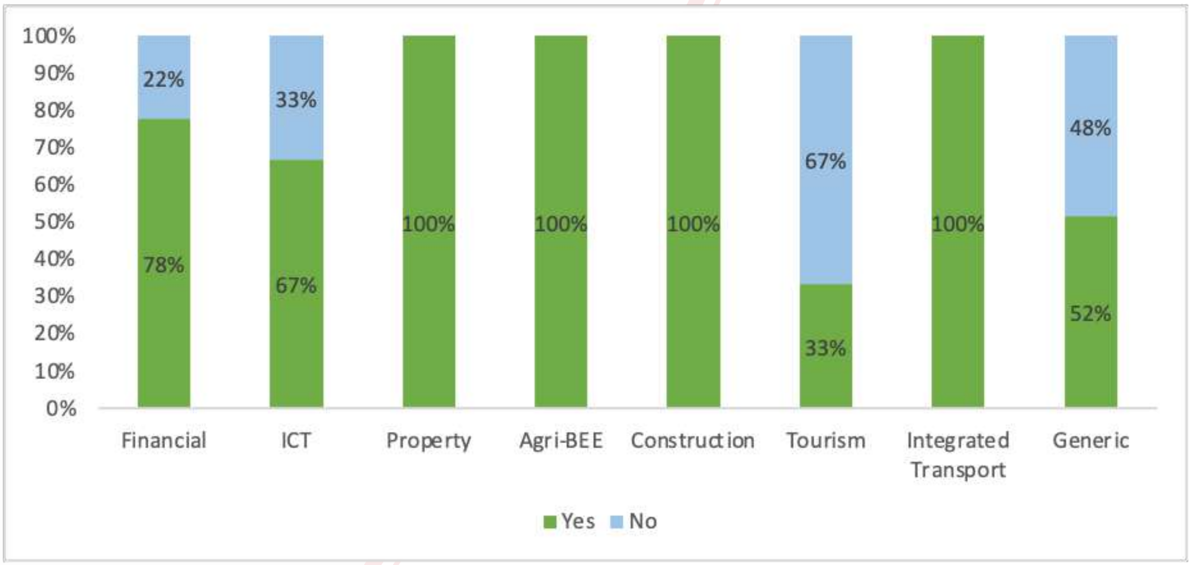
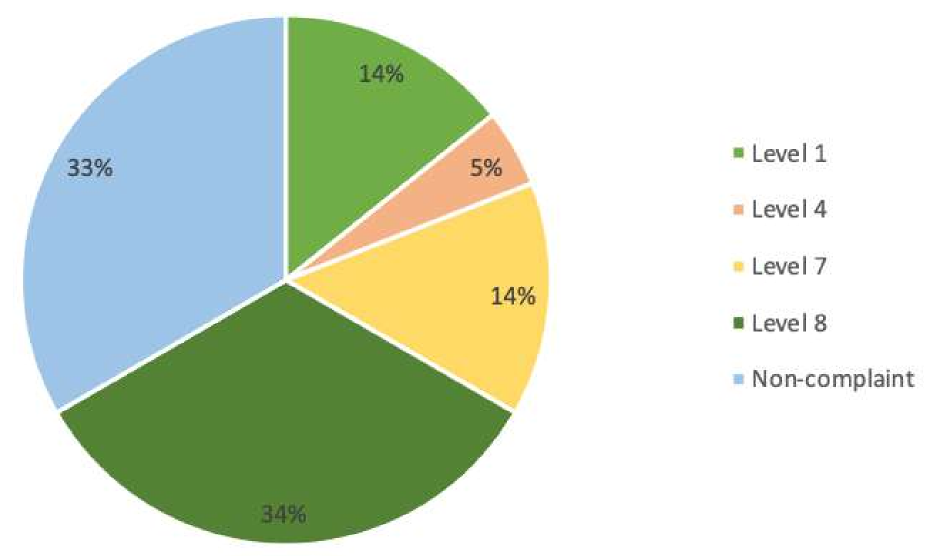


Figure 17 shows the B-BBEE status level for those entities that do not have a clearly defined ESD strategy (N=21). The analysis shows the majority (34%; N=7) to have a Level 8 status, while the 33% (N=7) that are non-compliant are all government entities.

4 Please note that the construction sector is represented by only one entity

Figure 17: Entities that do not have a clearly defined ESD strategy by B-BBEE status level (N=14)



Examining the relationship between the existence of a clearly defined strategy and the allocated budgets for both SD and ED, the analysis found all entities that indicated they had an ESD strategy also had an allocated budget for SD in the past financial year[5].

Considering available budgets for ED according to the NPAT targets, near to equal portions of measured entities reported budgets of between R101 000 and R999 999, R1 million and R5 million, and R21 million or more. For the majority of these entities, budgets for SD ranged from R1 million to R5 million (35%) or above R21 million (30%). Only two of the entities that indicated they did not have a clearly defined ESD strategy (N=7) had an allocated budget for SD. In both cases, the budget was below R100 000.

In terms of allocated budgets for ED[6], 12% of the entities that indicated they had a clearly defined ESD strategy did not have an allocated budget for this development function for the past financial year. For those that did have an allocated budget, the analysis found an equal distribution of 20% for the budget ranges R101 000 to R999 999; R1 million to R5 million; and R21 million or more. Of those entities with no clearly defined ESD strategy, two companies had an allocated budget for this function; one was less than R100 000 and the other more than R21 million.

Table 9 presents a summary of the type of contributions that constitute an 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%) was found to include mentoring programmes and early payment of suppliers as part of their ESD strategy.

Table 10 shows the number of interventions that generally constitute the ESD strategies of measured entities. On average, ESD strategies were found to comprise 2.28 interventions. The majority (33%) of strategies comprised one intervention, 18% two, and 12% four. These interventions ranged from training to sector-specific monetary interventions. Eleven companies were found to not make use of any of the predefined strategies.

5 Only 23 entities (response rate of 34%) indicated the specific budgets for SD.
6 Only 25 entities (response rate of 37%) indicated their specific budgets for ED.

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%
Total		153	100%	273%

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%
Total	67	100%

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)

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

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

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
Total count	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
Grant contribution	58%	75%	67%	33%	67%	100%	38%	30%	20%	26
Incurring direct costs on behalf of the Beneficiary Entity	33%	50%	67%	67%	33%	100%	0%	20%	10%	17
Discounts in addition to normal business practice	17%	0%	0%	0%	33%	67%	13%	20%	10%	9
Rendering of professional services to the Beneficiary Entity at no cost	42%	25%	0%	0%	67%	67%	38%	20%	10%	16
Mentoring programme for the Beneficiary Entity at no cost	50%	75%	0%	33%	33%	67%	13%	30%	20%	19
Incurring overhead costs on behalf of the Beneficiary Entity	42%	25%	33%	33%	33%	67%	25%	20%	0%	15
Loans on favourable terms	42%	25%	67%	0%	33%	67%	25%	30%	10%	17
Early payment of supplier	17%	25%	67%	33%	67%	67%	50%	40%	10%	19
Other	8%	0%	33%	33%	33%	0%	25%	40%	50%	15
Total count	12	4	3	3	3	3	8	10	10	56
Percentages and totals are based on respondents.										

When asked to indicate which contribution they would prefer to include in their ESD strategy, the majority of entities said they would prefer monetary support by means of grant contributions (33%) and/or early payment of suppliers (33%). Thirty-two per cent said they would prefer mentoring programmes, and twenty-six per cent the rendering of professional services to beneficiary entities at no cost.

Table 14: Preferred ESD contributions (column %)

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

Grants and the early payment of suppliers was strongly motivated by responding entities as a method to support cash flow and thus a direct benefit for suppliers in terms of development and future sustainability. It was 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.

Box 1: Preference for early payments and 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 seven days 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. *grand 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		Per cent of Cases
		Count	Per cent	
Least preferred ESD strategy	Grant contribution	13	17%	34%
	Incurring direct costs on behalf of beneficiary entity	9	12%	24%
	Discounts in addition to normal business practice	7	9%	18%
	Rendering of professional services to beneficiary entity at no cost	7	9%	18%
	Mentoring programme for beneficiary entity at no cost	6	8%	16%
	Incurring overhead costs on behalf of 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 and 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 no control over how the money is spent."
"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."
"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 ESD beneficiaries. The most important criteria applied in the selection of SD beneficiaries (64% of entities) is the relevance of services and/or products delivered by the applicant. As indicated in Table 16, this is followed by the B-BBEE rating and overall positive performance of prospective beneficiaries (57% and 55%, respectively).

Table 16: Criteria for selection of SD beneficiary (multiple response set)

		viii. Responses		ix. Per cent of Cases
		x. N	xi. Per cent	
xii. Criteria for selecting SD beneficiaries	xiii. B-BEEE rating	xiv. 30	xv. 57%	xvi. 57%
	xvii. Relevance of services and/or products delivered	xviii. 34	xix. 64%	xx. 64%
	xxi. Quality of services and/or products delivered	xxii. 24	xxiii. 45%	xxiv. 45%
	xxv. Well defined business plan	xxvi. 8	xxvii. 15%	xxviii. 15%
	xxix. Proven financial history	xxx. 14	xxxi. 26%	xxxii. 26%
	xxxiii. Overall positive performance	xxxiv. 29	xxxv. 55%	xxxvi. 55%
	xxxvii. Other	xxxviii. 11	xxxix. 21%	xl. 21%
xli. Total		xlii. 150	xliii. 100%	xliv. 283%

Table 17 below presents the criteria employed for the selection of SD 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 SD beneficiary, that is, the relevance of services and/or products delivered, B-BBEEE rating, and overall positive performance. This observation is the same when criteria for selection of SD beneficiaries is considered per the SIC sector code (Table 17).

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

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

Table 18: Criteria for selection of SD beneficiaries (multiple response set) by SIC sector codes

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

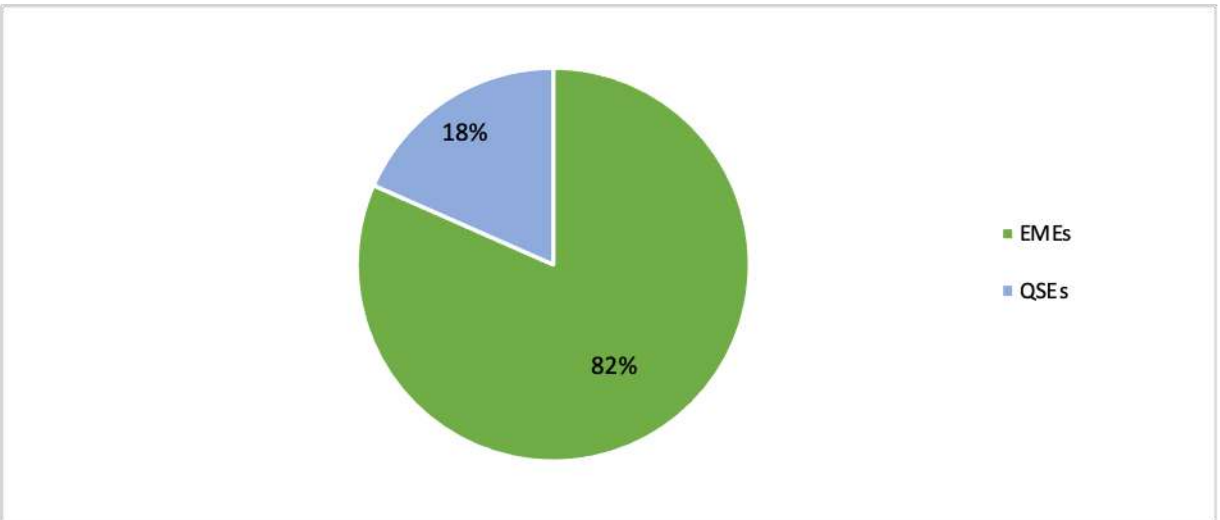
In the selection of beneficiaries for ED, relevance of services and/or products was the criteria most applied by entities (50%). As indicated in Table 19 below, this was followed by the B-BBEE rating (44% of entities) and type of entity (42%).

Table 19: Criteria for selection of ED beneficiaries (multiple response set, column %)

		Responses		Per cent of Cases
		N	Per cent	
Criteria for selection of ED beneficiaries	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%
Total		142	100%	273%

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

Figure 18: Type of ESD entities prefer to support



Figures 18 and 19 show that the preference for EMEs as beneficiaries of ESD programmes extends to nearly all sectors, whether organised according to the B-BBEE or SIC sector codes. In the B-BBEE sector codes, only the ICT sector (N=2) has an equal split for 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 18: Preferred type of ESD entity by B-BBEE sector codes

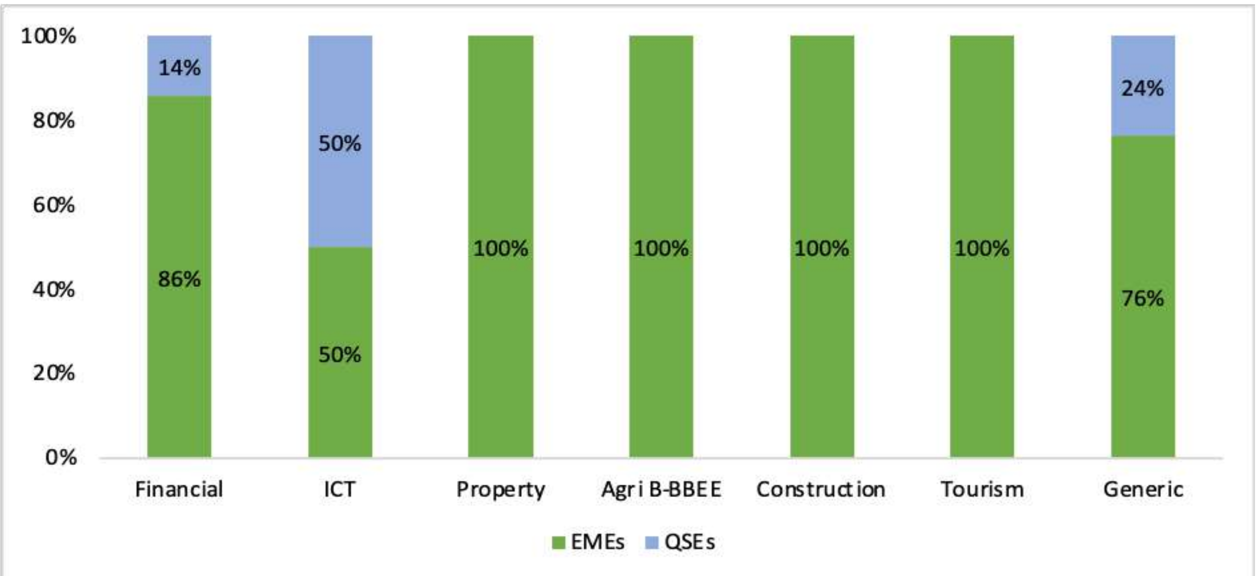


Figure 19: Preferred type of ESD entity by SIC sector codes

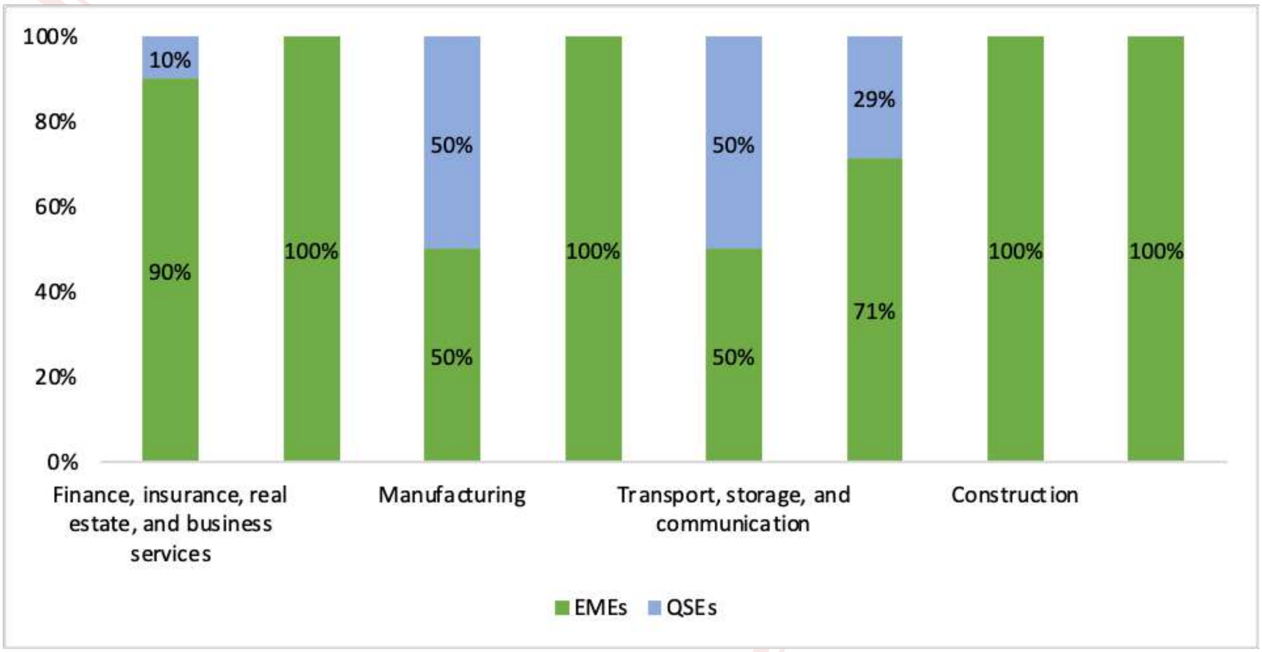
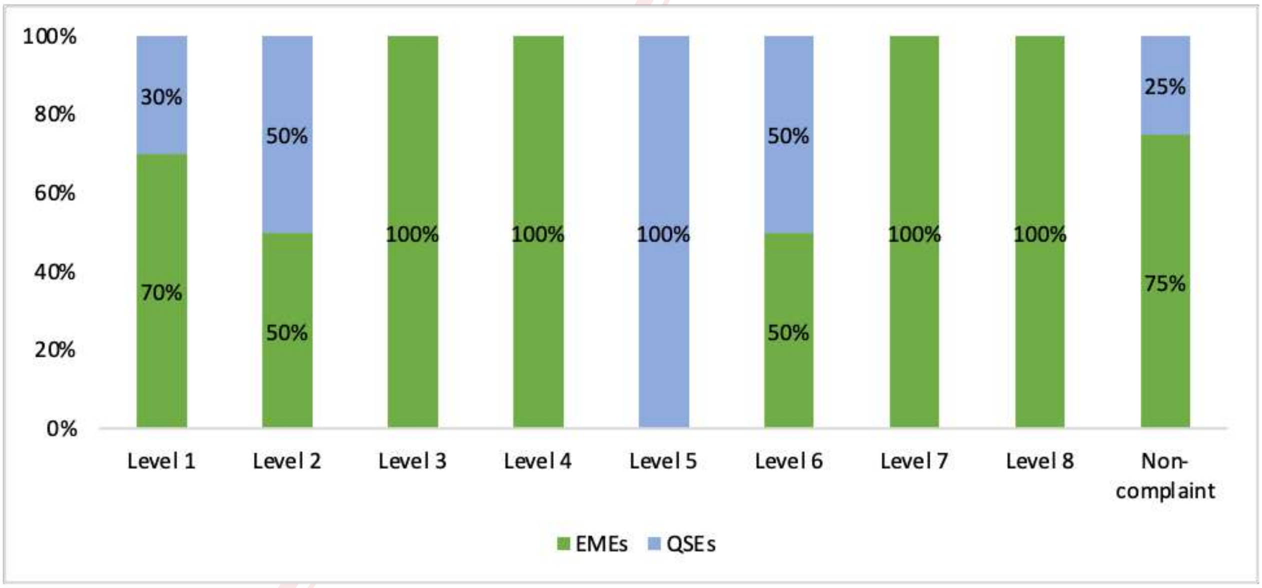


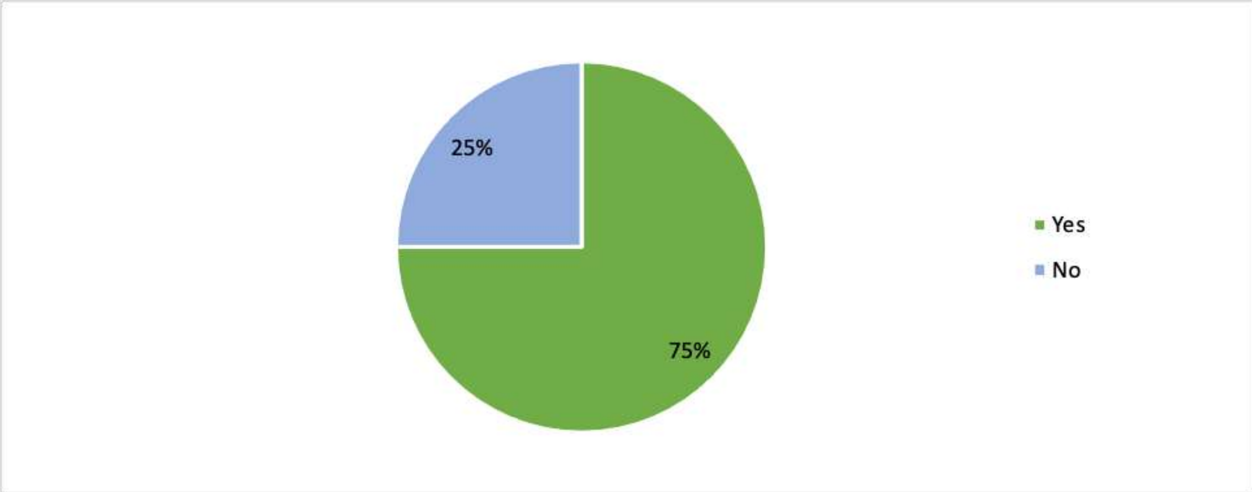
Figure 20 shows a preference for EMEs across most levels, except for the level two and six entities (N=2 respectively), which show an equal split in preference, and the level 5 entity.

Figure 20: Preferred type of ESD entity by B-BBEE status level



The development relationship between SD and ED beneficiaries and the measured entities are for the most part based on a formally defined agreement. Seventy-five per cent 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 per cent 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 21: EME relationship based on formally defined agreement



In terms of the content of formal agreements, the survey found that 74% of entities include key performance areas (KPAs) in the agreements, 63% define a comprehensive implementation plan with milestones, 61% define KPAs and 55% state the priority interventions that will constitute the ESD relationship (Table 20).

Concerning the length of the ESD relationship, responses showed substantial variation not only in general, but also in how ED is approached compared to SD, with the latter generally associated with longer relationships. However, in terms of a general overview, the responses did show that most entities commit for a relationship of 12 months (18%). Fourteen per cent reported that ESD relationships are generally based on a period extending one year, but terminating at three years. Only three entities indicated the period of the ESD relationship to be less than one year.

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

		Responses		Per cent of cases
		Count	Per cent	
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%
Total		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 their development relationships are evaluated on a case-by-case basis, and founded on good and longstanding relationships.

The following challenges were noted in selecting ESD beneficiaries:

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

Respondents noted that it is challenging to find beneficiaries they can partner with who have the requisite capacity, size and available resources.

"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 stay afloat, and corporate budgets are not increasing as a result of 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 in South Africa**

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

> "The proportion of total measured procurement spend for black-owned suppliers is disproportionally 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 specialised services required."

- **Lack of documentation and tax compliance**

Some entities raised the issue of applicants with incomplete documentation and not being tax compliant.

"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**

Participants raised concern about 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 is the danger of growing dependent on the entity, both for funding and business.

> "They tend 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 it 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 KPIs and annual performance plan for which we receive funding."

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 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 as far as is reasonably possible.

- **Internal challenges experienced by entities**

Some respondents attributed challenges to delayed internal processes that subsequently delay the implementation of ESD initiatives. Another challenge noted is the lack of sufficient budget to facilitate ESD initiatives.

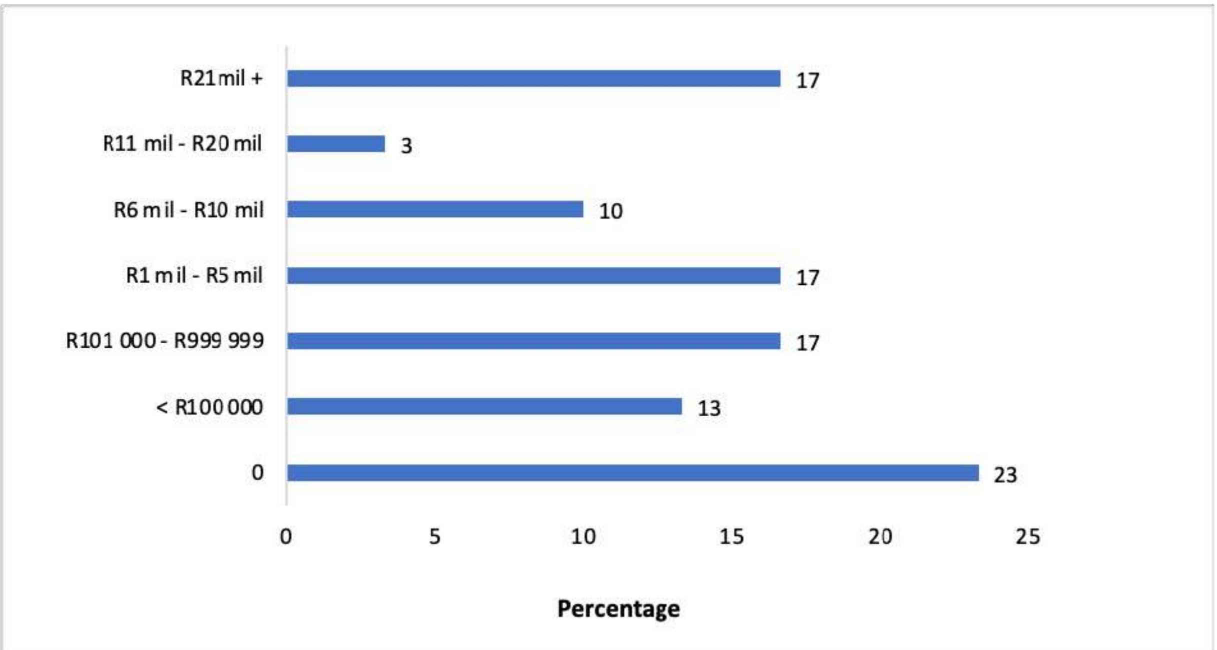
The following suggestions were made to facilitate better access to supplier and development beneficiaries:

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

5.3.2. Spending of funds from NPAT target

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

Figure 22: Available budget for ED spending in past financial year



Considering the budget allocated for ED 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 ED, one spent less than R100 000, and the other spent between R6 million 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 no budget for ED, 31% had a budget below R1 million, and 19% had a budget of between R1 million and R5 million. Fifteen per cent had a budget of R21 million or more (Figure 23).

Figure 23: Budget for ED and annual turnover in terms of EME and QSE industry thresholds

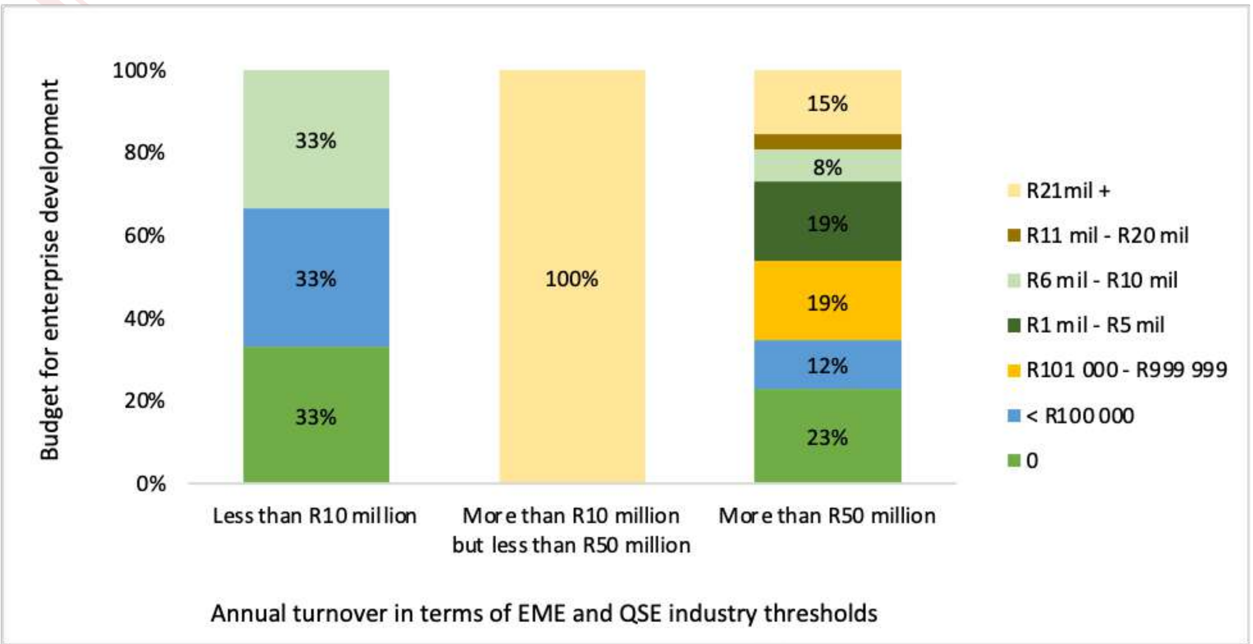
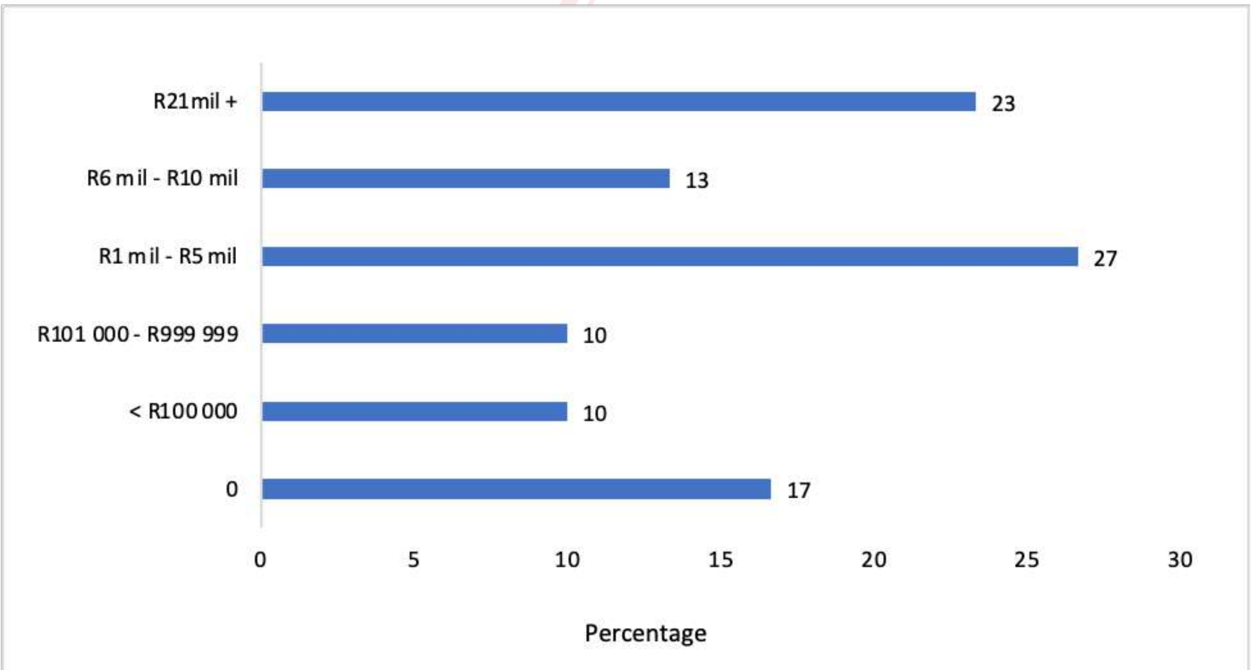


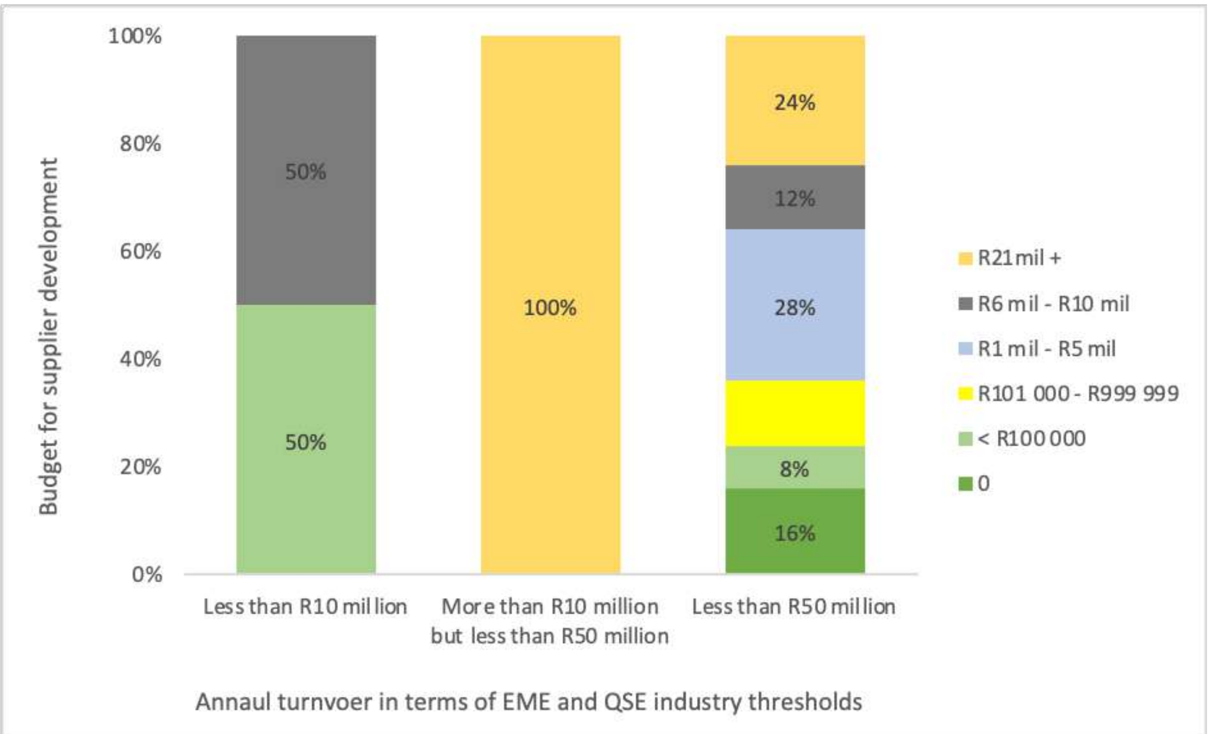
Figure 24 presents a summary of the available budget for SD derived from the NPAT target for entities that completed the survey. Twenty-seven per cent (N=4) reported a budget of between R1 million and R5 million, with another 23% having an allocated budget of R21 million or more for the past financial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

Figure 24: Budget for SD spending in past financial year



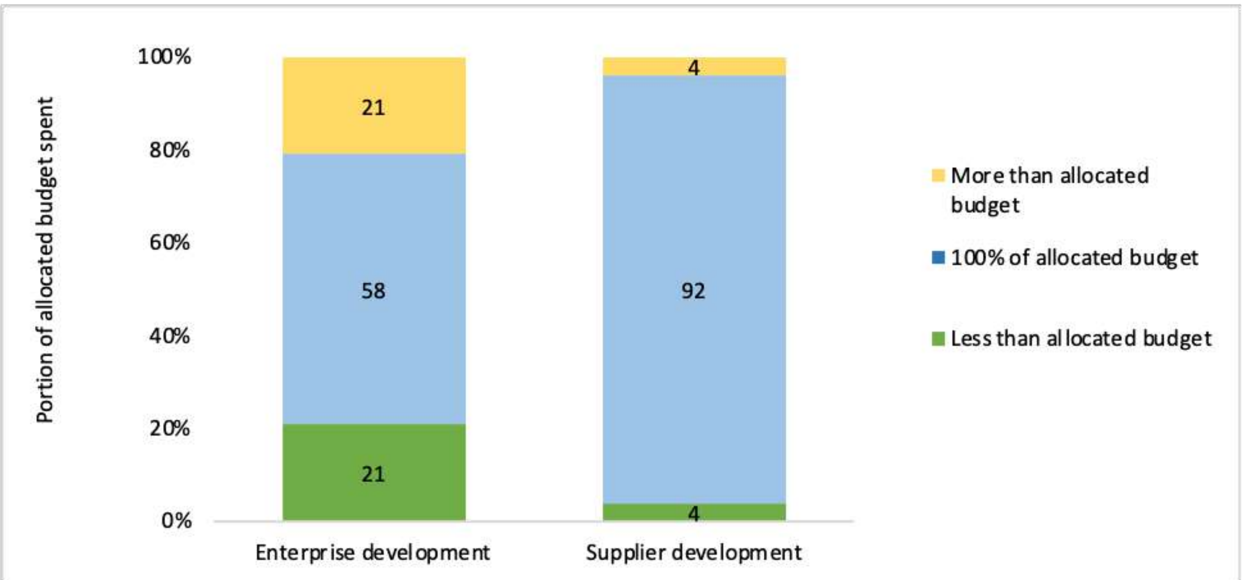
Considering the budget allocated for SD in terms of the annual turnover of entities as per the EME and QSE industry thresholds, the survey found that of the two entities that reported an annual turnover of less than R10 million for the past financial year, one had no budget for SD and the other spent between R6 million and R10 million on such a partnership. Of those entities that showed an annual turnover of more than R50 million (N=25), 16% indicated no budget for SD. However, 28% spent between R1 million and R5 million on SD, with another 24% spending R21 million or more in the past financial year (Figure 25).

Figure 25: Available budget for SD and annual turnover in terms of EME and QSE industry thresholds



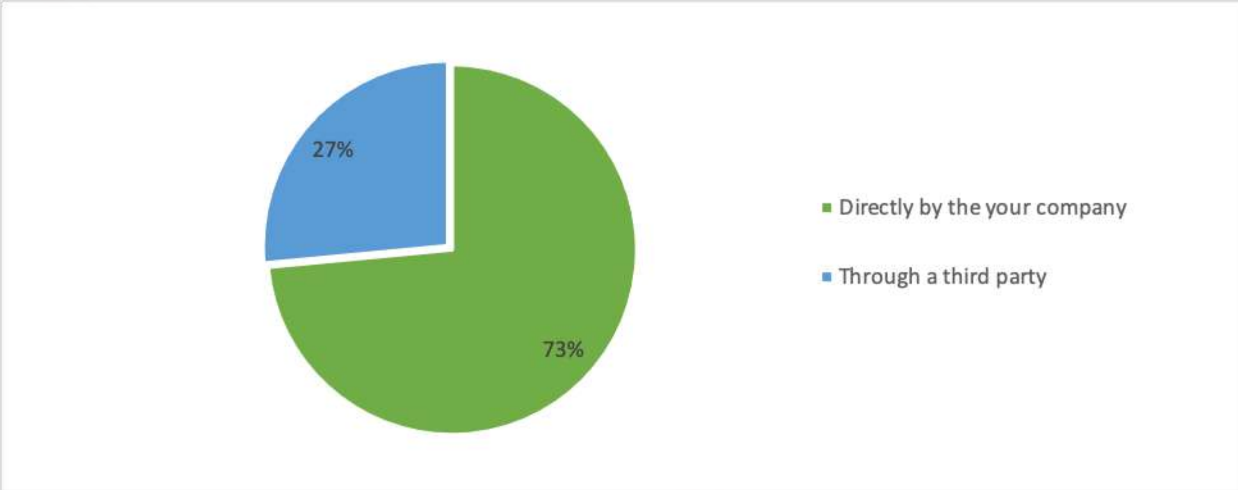
In terms of the portion of available funds allocated, 58% of the 26 entities with a budget for ED indicated they had spent their entire budget in the past financial year, while 21% had spent more than the allocated budget. Of the 24 entities that declared a budget for SD, 92% indicated they had spent their entire budget (Figure 26).

Figure 26: Portion of ESD budget allocated



When asked about their preferred method for the implementation of ESD funds, 73% said they preferred direct implementation through their own company, while 27% preferred implementation via a third party (Figure 27).

Figure 27: Preferred method for implementing ESD funds



Considering the challenges experienced in the implementation of NPAT targets, entities were asked for suggestions on how the B-BBEE Commission could assist. The following suggestions were made by the respondents.

- Devise mechanisms (such as an updated website) that would ensure companies have access to current information and resources, such as B-BBEE affidavit templates.
- Develop a database of pre-screened qualifying entities 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).
- 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 from 699 of the 752 entities approached. In 2020, there was a decline in the number of entities who were approached and provided information, likely due to the impact of COVID-19 on business. This persisted into 2021, during which time only 168 of the 215 entities approached provided information (Table 21).

Table 21: Number of entities approached vs number that provided information

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

In the report, entities were considered based on their classification as EMEs, QSEs or 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, and a measured entity with an annual total revenue of between R10 million and R50 million as a QSE. Any enterprise with an annual total revenue of R50 million or more qualifies as a large enterprise. Further bifurcation of the entities was based on the nature of the company operations, i.e. Agri-BEE, construction, financial services, forestry, generic, ICT, integrated transport, mining, property, specialised, and tourism.

Considering entity size by sector over time, large entities constituted the bulk (88%) of the survey respondents. Ten per cent were QSEs in size, followed by 2% that were EMEs. Of the large entities, the majority (38%) were in the generic sector, followed by 16% in financial services and 12% in the specialised sector. The least constituted sectors within the segment of large companies were forestry and mining, with one entity each (Table 22).

Table 22: Entity size by sector in 2018-2019

Sector	EME	Large	QSE	Total
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
Specialised		17	4	21
Tourism		5		5
Total	4	146	16	166

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

Table 23: Entity size by sector in 2019-2020

Sector	EME	Large	QSE	Total
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
Specialised		37	2	39
Tourism		3		3
Total	7	177	14	198

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 the number of QSEs in this period compared to other years under review (Table 24).

Table 24: Entity size by sector in 2020-2021

Sector	EME	Large	QSE	Total
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
Specialised		32	6	38
Tourism		4		4
Total	5	141	21	167

As reported in Table 25 below, there was about the same number of respondents and compositions in the 2021 period as in the 2020 period. Similar to the distribution in the other years under review, the majority were large entities in the specialised and generic sectors, with minimum representation in the 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
Specialised	4	50	3	57
Tourism		1		1
Total	7	150	11	168

In terms of annual turnover, the highest turnover was reported in the generic and financial services sectors. ICT and Integrated transport reported significant turnover as well as the highest average turnover. Mining and forestry reported the lowest annual turnover, and a similar pattern was evident across the mean, minimum, maximum, and 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

Sector	Sum	Mean	Min	Max	3% target
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
Specialised	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
Total	ZAR 1,760,000	ZAR 10,600	ZAR 0.1	ZAR 145,000	ZAR 2,130

In 2019, there was an overall decline in annual turnover compared to the previous 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
Specialised	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
Total	ZAR 1,360,000	ZAR 6,890	ZAR 0.1	ZAR 150,000	ZAR 1,860

In 2020, there was an improvement in annual turnover compared to 2019. This was driven by a positive performance in the generic sector. There was, however, a noticeable decline in the annual turnover in the forestry, integrated transport and mining sectors, which could partly be attributed to the impact 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
Specialised	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
Total	ZAR 1,880,000	ZAR 11,200	ZAR 0	ZAR 199,000	ZAR 2,550

In 2021, there was a slight decline in overall turnover, most likely due to the persisting impact of COVID-19. Despite this decline, there were marked increases in turnover in the ICT and mining sectors. The specialised 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
Specialised	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
Total	ZAR 1,760,000	ZAR 10,400	ZAR 0	ZAR 204,000	ZAR 2,390

Figure 28 displays 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 specialised sectors also reported significant annual turnover over the time period under review, particularly 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 across the entire period under review, peaking in 2020. The second-most dominant sector in 2018 and 2019 was the financial services sector, though its contribution declined in 2020 and was surpassed by the specialised and ICT sectors in 2021 (Figure 29).

Figure 28: Annual turnover from 2018-2021 by sector (in ZAR millions)

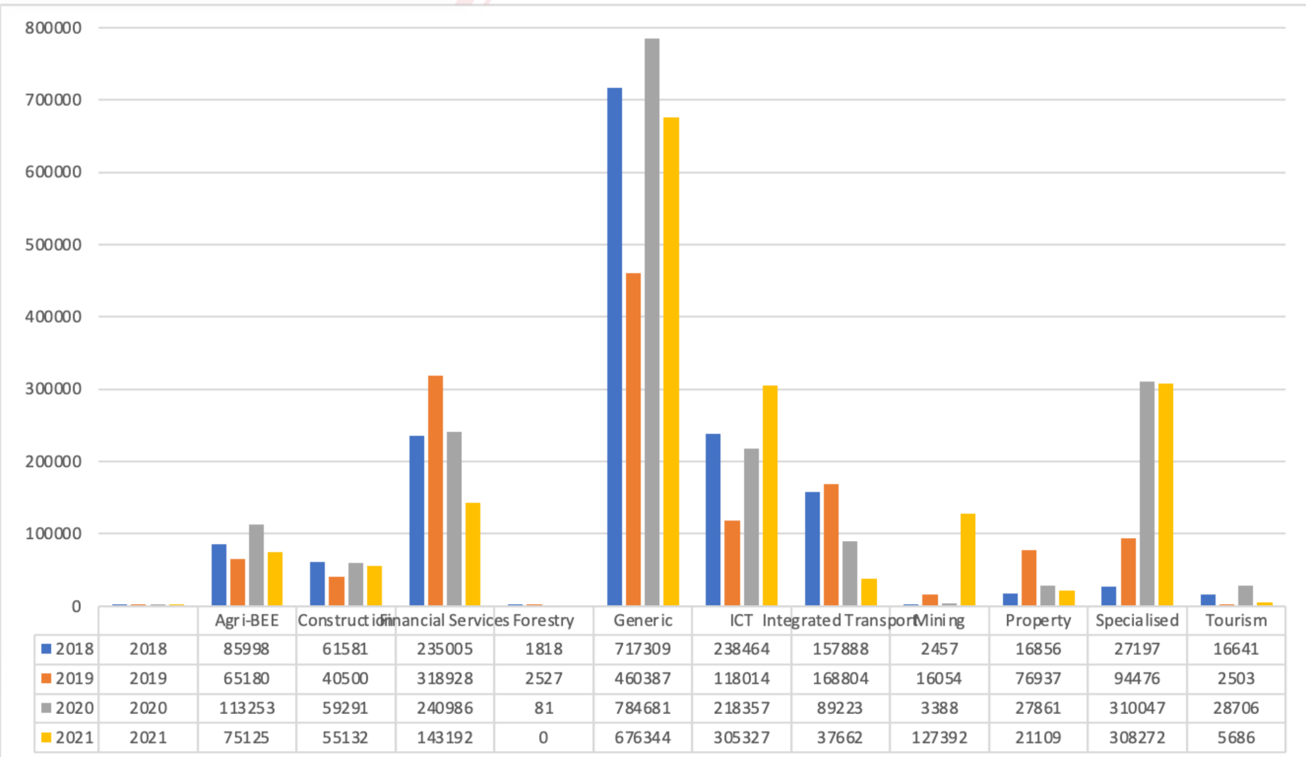
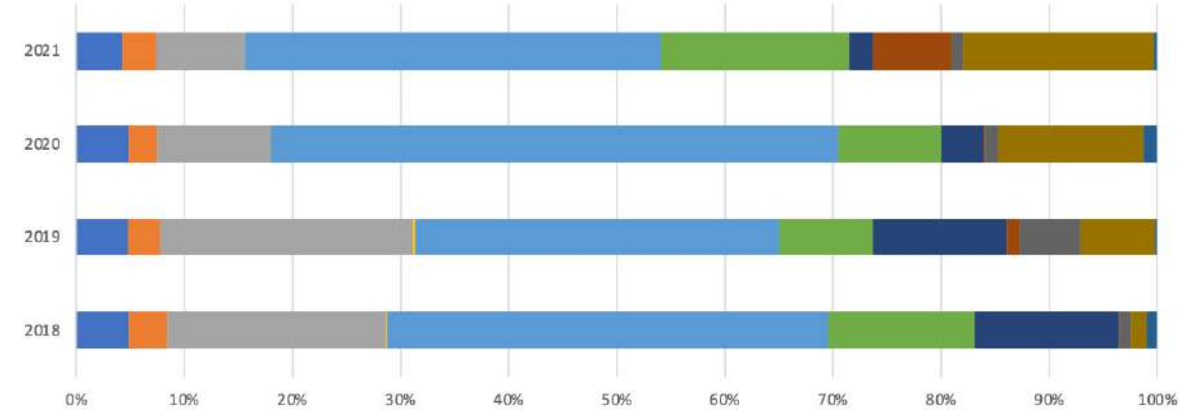


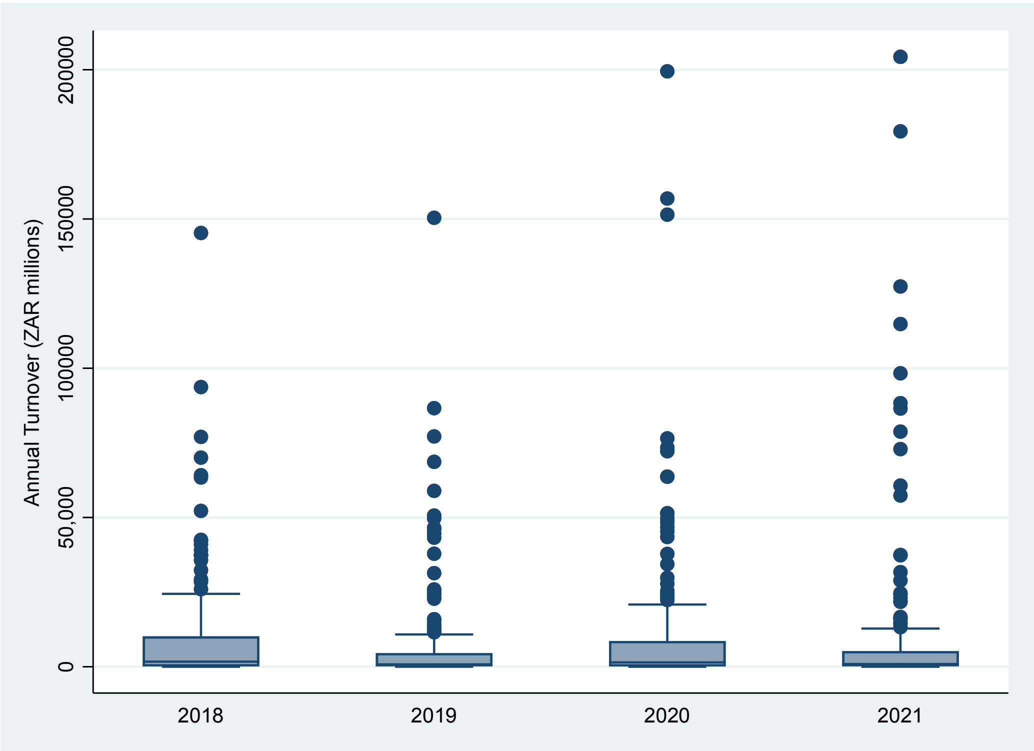
Figure 29: Annual turnover from 2018-2021 – composition by sector (in ZAR millions)



	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

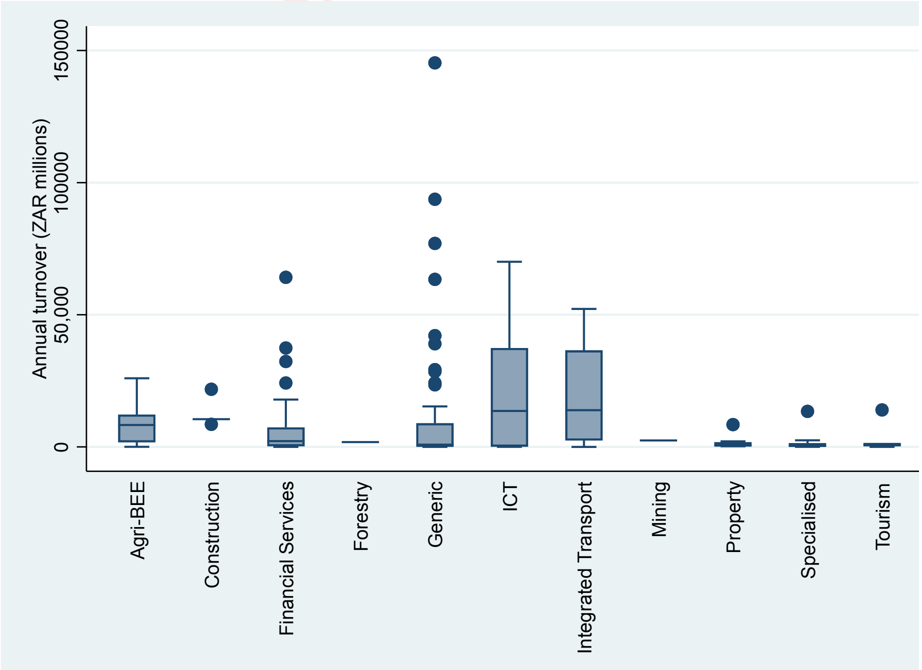
Figure 30 displays the distribution of annual turnover by year. Despite the presence of outliers, the level of annual turnover is generally clustered around similar amounts at entity level. This is more pronounced for 2019 and 2021. In 2018, a higher proportion of entities reported higher amounts of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

Figure 30: 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 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 31: Distribution of annual turnover by sector from 2018-2021 (in ZAR millions)



In 2019, distribution of annual turnover in the integrated transport sector showed greater variability than the rest of the sectors, even though this sector comprised fewer entities. The annual view also shows distribution within the Agri-BEE, construction and financial services sectors more prominently. The bulk of the entities across all sectors are reporting close to R10 million (Figure 32).

Figure 32: Distribution of annual turnover by sector in 2019

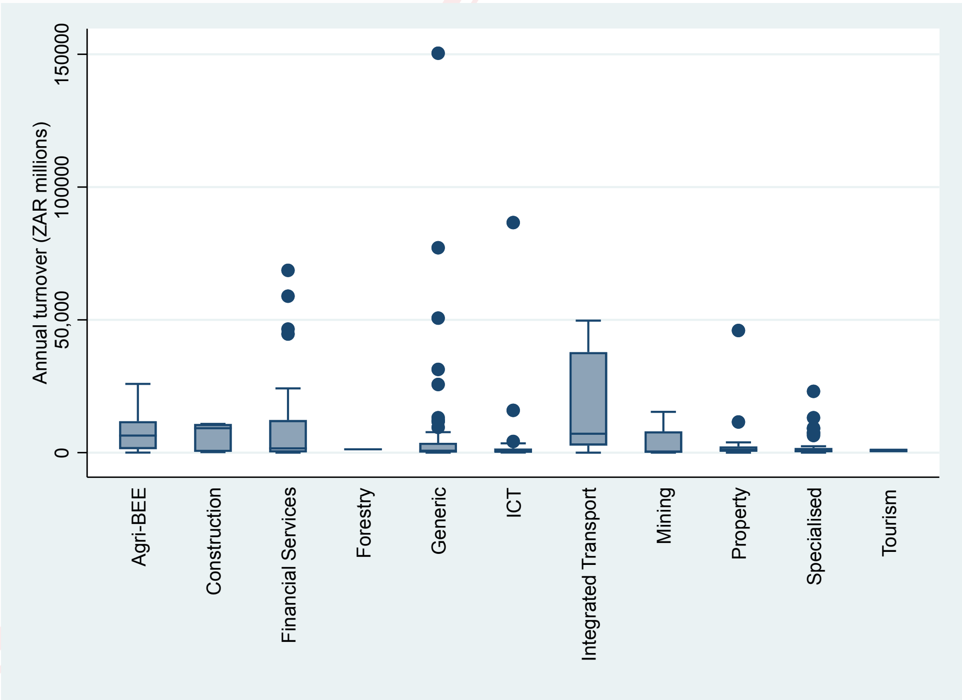
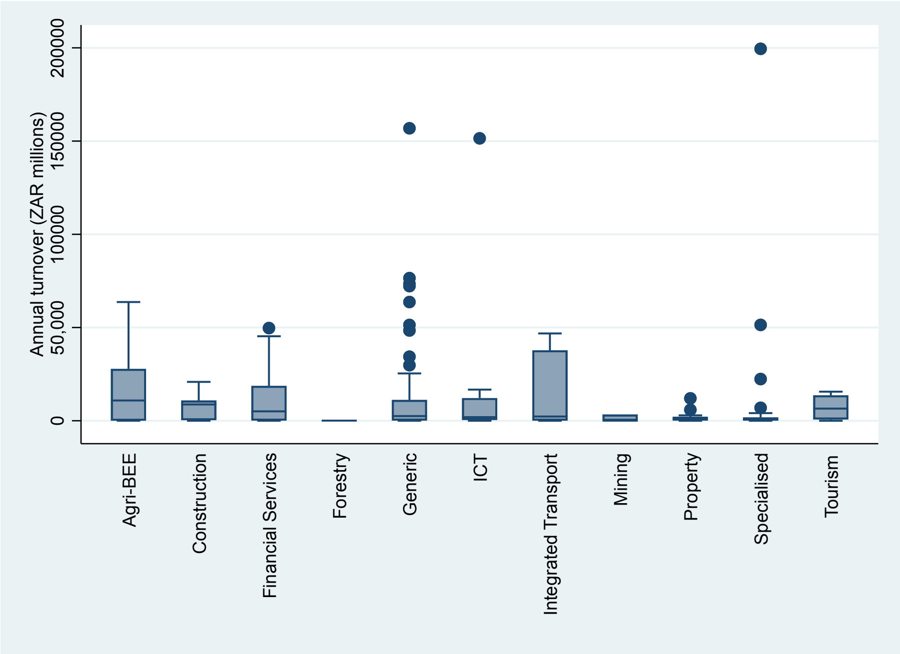


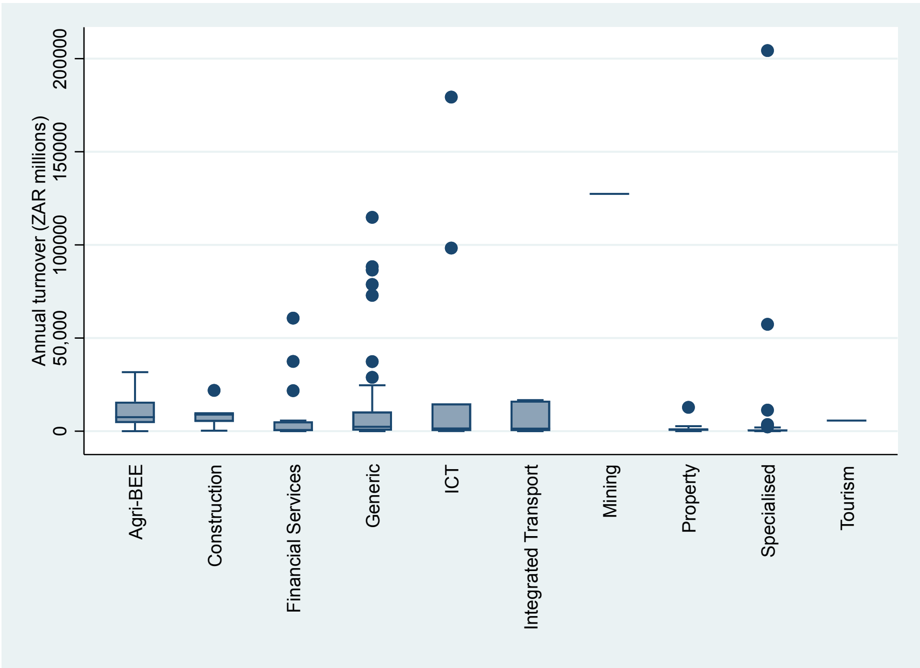
Figure 33 displays the distribution of annual turnover in 2020, with a more pronounced distribution across multiple sectors. A significant number of entities across the different sectors reported turnover of close to R50 million. More entities in the Agri-BEE, generic and financial services sectors reported higher turnover compared to the previous year.

Figure 33: Distribution of annual turnover by sector in 2020



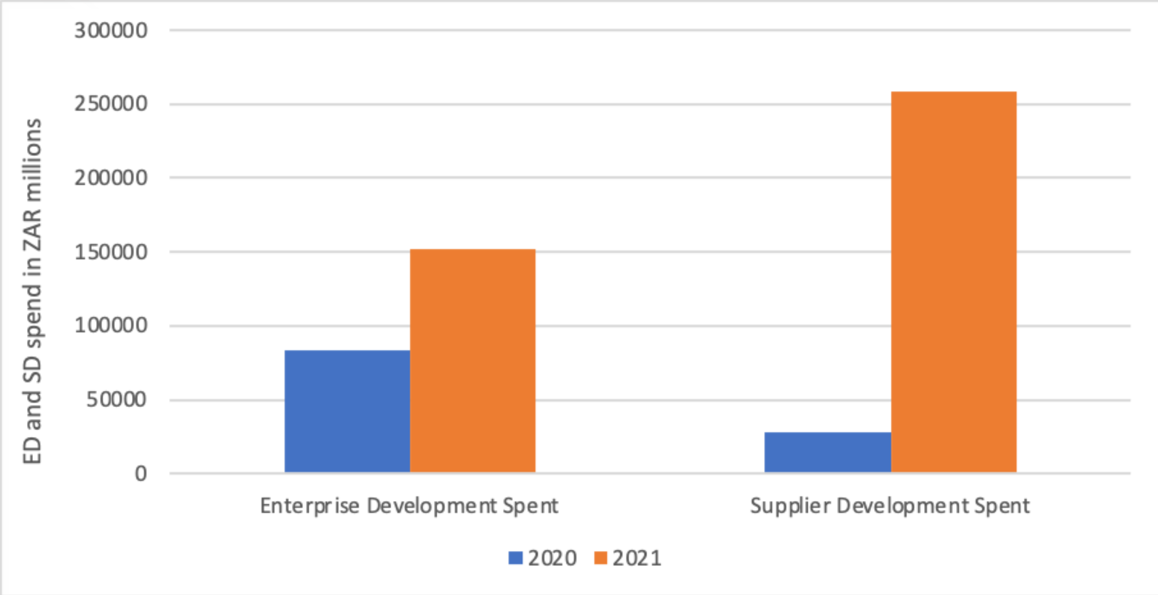
The picture changes in 2021, with most companies across all sectors reporting lower annual turnover, which is roughly clustered in the same ranges (Figure 34).

Figure 34: Distribution of annual turnover by sector in 2021



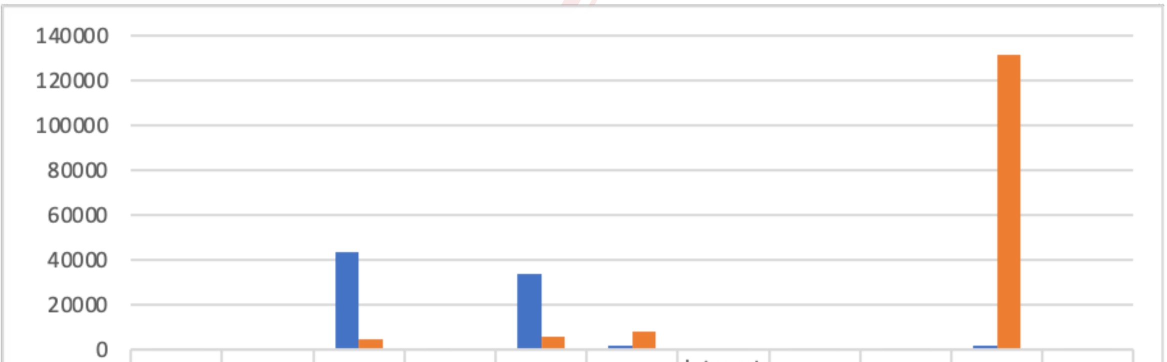
Both ED and SD spending targets increased between 2020 and 2021 (Figure 35). However, this applies only to those measured entities that responded to the question on the issue.

Figure 35: ESD spend by sector between 2020 and 2021



Despite an overall increase in ED spending targets between 2020 and 2021, a decline was noted in the financial services and generic sectors. The decline was pronounced and could be associated with the reduction in annual turnover reported in both sectors. The ICT and specialised sectors realised marked positive increases during this period. The specialised sector was a clear outlier due to the high turnover realised. Meanwhile, low annual turnover drove low spending targets for sectors such as forestry, mining, Agri-BEE, tourism and property (Figure 36). The results could be ascribed to not all measured entities providing information on the issue.

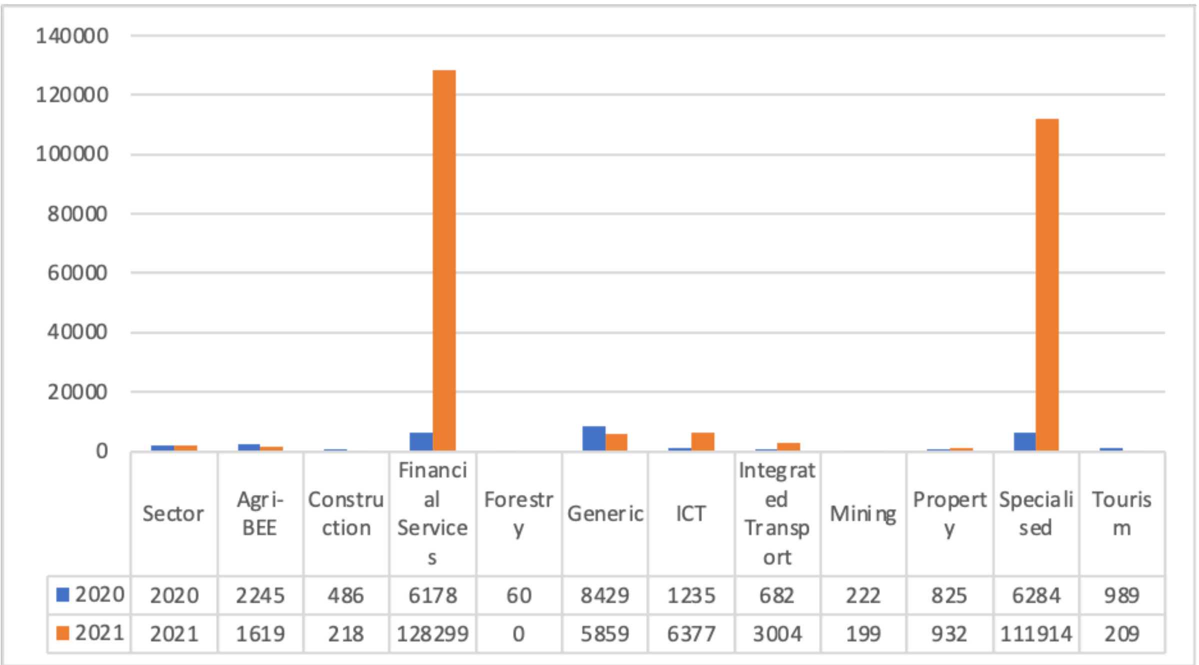
Figure 36: ED spend by sector and year



	Agri-BEE	Construction	Financial Services	Forestry	Generic	ICT	Integrated Transport	Mining	Property	Specialised	Tourism
2020	265	0	43641	69	33694	1788	618	278	531	1769	353
2021	364	0	4571	0	5546	8365	436	55	691	131297	60

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

Figure 37: SD Spend by sector and year



	Sector	Agri-BEE	Construction	Financial Services	Forestry	Generic	ICT	Integrated Transport	Mining	Property	Specialised	Tourism
2020	2020	2245	486	6178	60	8429	1235	682	222	825	6284	989
2021	2021	1619	218	128299	0	5859	6377	3004	199	932	111914	209

This section reviewed the B-BBEE Commission data on assessments displaying information on annual turnover, entity size, sector and compliance status, and covering the period 2018 to 2021. The data suggested a decline in the number of entities submitting information to the commission during the period under review.

Based on the dataset, the majority of entities were large entities in the generic, financial and specialised sectors of the economy. There was under-representation in terms of forestry and mining, with few players within these 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 turnover, with a similar pattern evident across the metrics in question. By sector, the generic sector reported the highest annual turnover across all the years under review. There was an increase in both ED and SD spending 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 the following two categories: (i) Measures to improve ESD spending; and (ii) recommendations for further research.

Measures towards improving ESD spending

Recommendations are based on international and national findings.

i. Commitment from senior management is vital for the success of the ESD programme.

ii. The ESD strategy must have concrete goals that are 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, international case studies have shown that to be successful, programmes 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 ESD. 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 there is a need to clarify the policies and regulations that public-sector entities have towards ESD.

vii. Create a collaborative environment between measured entities and the 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 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 ESD. Even though the need for monetary support is necessary, such support is likely to be unstainable 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 utilise both technical and business skills mentoring strategies to meet procurement standards and strict requirements. This should be preceded by SMME mapping and programme 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 and 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 also enable entities to distinguish beneficiaries for selection for either SD or ED. Such a database will ease the difficulties experienced by measured entities of obtaining information on eligible black and black-female-owned suppliers for consideration for the ESD partnership.

The commission could lead a formal ESD programme 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 categorised according to the products that SMEs produce or the services 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 falls outside 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, albeit 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 also to discuss and negotiate development support to fit the needs of the development beneficiary.

Recommendations 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 be further investigated, particularly to determine the extent to which such targets place pressure on the economic viability of entities and how this could be mitigated.

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8. 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.

9. 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?

10. Appendix C: Survey Questionnaire

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

Section A: Descriptive questions	
1.	Company name: Name:___________________________
2.	What is the nature of the company? ____
3.	What sector does your company fall under? Financial sector Forestry sector Property sector Tourism sector Construction sector Information and Communication Technology (ICT)) sector Marketing, advertising, and Communication (MAC) sector Other, please specify
4.	Year in which company was formed/registered? Year (*date /month /year*): ___________________
5.	City/Town in which the company head office is situated: Name of city/town: _________________________
5.1	In which Province is this city/ town (where company head office is situated): Western Cape Eastern Cape Northern Cape Free state Gauteng North West Limpopo Mpumalanga KZN
6.	How is the company registered/nature of the company? Company as defined in the Companies Act of 2008 (as amended) A Close corporation A Co-operative A Trust A Broad-Based Ownership Scheme Employee Share Ownership Programme A partnership or other association of natural persons Any form of juristic person recognised under South African law.
7.	What was the turnover of your company for the last financial year? (Can consider categories here rather than leaving it as an open question)
8.	What is the current B-BBEE status level of the company? Level 1 Level 2 Level 3 Level 4 Level 5 Level 6 Level 7 Level 8 Non-complaint

Section 2: Implementation of ESD funds	
9.	Does your company have a clearly defined ESD strategy? Yes No
10.	Which of the following contributions are included in the company's ESD strategy? Grant Contribution Incurring direct costs on behalf of the Beneficiary Entity, for example the purchase of a computer for the Beneficiary Entity. Discounts in addition to normal business practice. Rendering of professional services to the Beneficiary Entity at no cost. Mentoring programme for the Beneficiary Entity at no cost. Incurring overhead costs on behalf of the Beneficiary Entity, for example providing free rental space to the Beneficiary Entity. Loans on favourable terms. Early payment of supplier. Other, please specify
10.1	Which of the listed contributions are (i) the preferred choice and which is the (ii) least preferred choice for development support? Please explain your answer for each in the spaces provided.
	Preferred contribution (select relevant code) Grant Contribution Incurring direct costs on behalf of the Beneficiary Entity, for example the purchase of a computer for the Beneficiary Entity. Discounts in addition to normal business practice. Rendering of professional services to the Beneficiary Entity at no cost. Mentoring programme for the Beneficiary Entity at no cost. Incurring overhead costs on behalf of the Beneficiary Entity, for example providing free rental space to the Beneficiary Entity. Loans on favourable terms. Early payment of supplier. Other, please specify:___________________________ Please explain your answer in the space provided below:
	Least preferred contribution (select relevant code) Grant Contribution Incurring direct costs on behalf of the Beneficiary Entity, for example the purchase of a computer for the Beneficiary Entity. Discounts in addition to normal business practice. Rendering of professional services to the Beneficiary Entity at no cost. Mentoring programme for the Beneficiary Entity at no cost. Incurring overhead costs on behalf of the Beneficiary Entity, for example providing free rental space to the Beneficiary Entity. Loans on favourable terms. Early payment of supplier. Other, please specify; ___________________________ Please explain your answer in the space provided below:
11	For Supplier development: How does your company go about to select Supplier development Beneficiaries? B-BBEE rating Relevance of product and/or service delivered to supply chain Quality of services/goods provided Proven financial history Overall positive performance Type of entity (EMEs or QSES) Other, please specify

12	What challenges are experienced in selecting supplier development beneficiaries? Please respond in the space provided below.
13	For Enterprise development: How does your company go about to select an Enterprise Development Beneficiaries? B-BBEE rating Relevance of services and/or products delivered to own supply chain Quality of services and/or products delivered Well defined business plan Proven financial history Overall positive performance Type of entity (EMEs or QSEs) Other, please specify
14	What are the challenges experienced in selecting Enterprise development Beneficiaries? Please respond in the space provided below.
14.1	What measures would you say could assist companies to get Enterprise and Supplier Development beneficiaries? Please indicate any proposed measures in the space provided below.
15	Where the company enters a developmental relationship with an black owned EME or QSE, is this relationship based on a formally defined agreement? Yes No (skip to Q15.4)
15.1	If yes to Q15 How is this agreement defined and structured? The agreement is compiled and finalised through a process of discussions and negotiations between measured entity and the beneficiary The agreement is based on a generic format applied by the measured entity to all beneficiaries Other, please specify
15.2	If yes to Q15 What is the general duration of such an agreement? Indicate duration:______________________________
15.3	If yes to Q 15 Please indicate which of the following aspects are included in the agreement between the measured entity and the beneficiary: Clear set of objectives Priority interventions Key Performance areas Comprehensive implementation plan with milestones
Q15.4	If NO to Q 15 How is the relationship between the company and the beneficiary structured? Please respond in the space provided below.

Section 3: Spending of funds from NPAT target	
Q16.1	For Enterprise Development For the past financial year, what was the available budget for *Enterprise development* derived from the NPAT target? Amount:_______________________________________
Q16.2	For Enterprise development What portion of these funds from the NPAT target was allocated and implemented? % of funds allocated and implemented: ________________________
Q16.3	For Enterprise development If organisation was not able to allocate 100% of its funds for Enterprise development 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. 1. 2. 3.
Q17	For Supplier Development For the past financial year, what was the available budget for *Supplier development* derived from the NPAT target? Amount:_______________________________________
Q17.1	For Supplier Development What portion of these funds from the NPAT target was allocated and implemented? % of funds allocated and implemented: ________________________
Q17.2	For Supplier Development If organisation was not able to allocate 100% of its funds for Enterprise development 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. 1. 2. 3.
Q20	In general, which type of ESD beneficiaries do you prefer to support? 1. EMEs 2. QSEs
Q20.1	Please explain your answer in Q20 in the space provided below.
Q21	How has Covid-19 affected the implementation of ESD funds in your company? Please respond in the space provided below.
Q22	Which method do you prefer for implementing ESD funds? Directly by the measured entity Through a third party
Q23	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? Please respond in the space provided below.

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