

**DOES THE ENTERPRISE
DEVELOPMENT COMPONENT
OF THE BEE SCORECARD
BENEFIT SMME'S IN SOUTH
AFRICA**

INTRODUCTION

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- Advised companies on issues around Black Economic Empowerment (BEE), human resources, job creation programmes and organisational development for the past 10 years, and have developed BEE strategies for South African and global companies across several industries.
- Engaged with a number of trade missions from all over the world on issues around investment in South Africa.
- A firm believer in community development, and awarded the DIVA Africa award for involvement in SMME development.
- A lead advisor to several investment missions presenting widely on BEE for both inward and outward-bound trade missions.



BLACK ECONOMIC EMPOWERMENT

Black Economic Empowerment is described by South Africa's Department of Trade and Industry as

“An integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the number of black people who manage, own and control the country's economy, as well as significant decreases in income inequalities.”

BLACK ECONOMIC EMPOWERMENT

SMME'S IN BEE

- **Exempted Micro Enterprise**
- Any legal entity in its first year of trading
- Any entity whose turnover is less than R5million in the previous financial year

- **Qualifying Small Enterprise (QSE)**
- A legal entity whose turnover is between R5million and R35million in the previous financial year
- Measured on 4 of the 7 elements with lower targets in some areas and more simple measurement formulae

SMME DEVELOPMENT IN BEE

- **Procurement**
 - 10 – 15% of total measured Procurement spend is allocated to EME's and QSE's
 - 15% of total measured Procurement spend is allocated to Black-owned and Black women-owned entities
- **Enterprise Development**
 - 3% of a company's Net Profit After Tax is invested in Enterprise Development with bonus points for developing suppliers

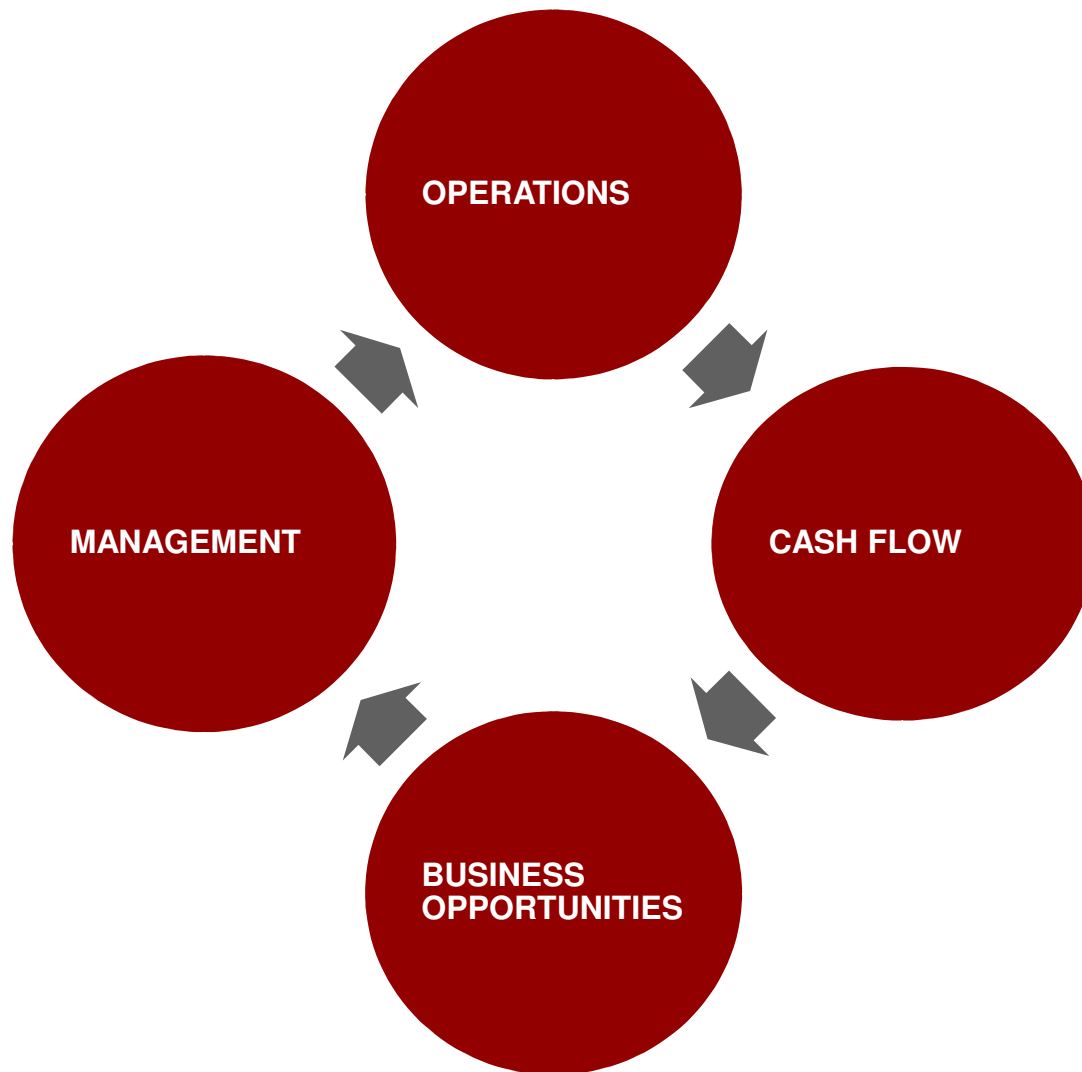
SMME'S IN SOUTH AFRICA

- According to SEDA the SMME Sector contributes 35% of South Africa's GDP
- Half of all people in formal employment are employed by SMME's with 2.3million people owning at least one VAT unregistered company
- Data on SMME's suggests that they contribute almost half of total employment and more than 30% of total gross domestic product.
- 80% of the DTIs R91m budget for enterprise and industry development is spent on SMME's.
- One in 5 units exported from South Africa is produced in the SMME sector.

Source: Towards a Ten Year Review Discussion Document, SEDA, DTI



WHY DO THEY FAIL?



The main obstacles for small businesses are a lack of access to finance, infrastructure and business skills

WHAT IS ENTERPRISE DEVELOPMENT

- Enterprise development measures the extent to which companies carry out initiatives contributing to the development, training, mentorship, funding, financing or other initiatives established to increase the financial and operational stability of qualifying beneficiaries
- **The main purpose of the enterprise development dimension is to encourage companies to invest in SMME development initiatives. By doing this, it is intended to ‘grow’ the pool of quality, qualifying businesses, as a job creation initiative and in order to increase competitiveness**
- Investment may take the form of money, or time and skills, which are transferred to the business

WHAT IS THE ROLE OF BUSINESS IN SA

The following three key elements must be taken into account when considering making these types of investments:

1. There must be real economic benefit flowing to the recipient enterprise to enable it to set up or operate on a sustainable basis
2. There must be resultant operational capacity from the investment into the enterprise
3. There must be active participation by Black people in the recipient enterprise

HOW ARE COMPANIES ADDRESSING THIS?

TSEBO OUTSOURCING

Consistently Score
maximum points on the BEE
scorecard

Have developed a quality
supply chain from basic
farming products to
sophisticated technology
systems

DIMENSION DATA

The ED programmes target
not only suppliers, but
broad-based groups in all
nine provinces who need
the access to opportunity
that typically is the exclusive
domain of big business."

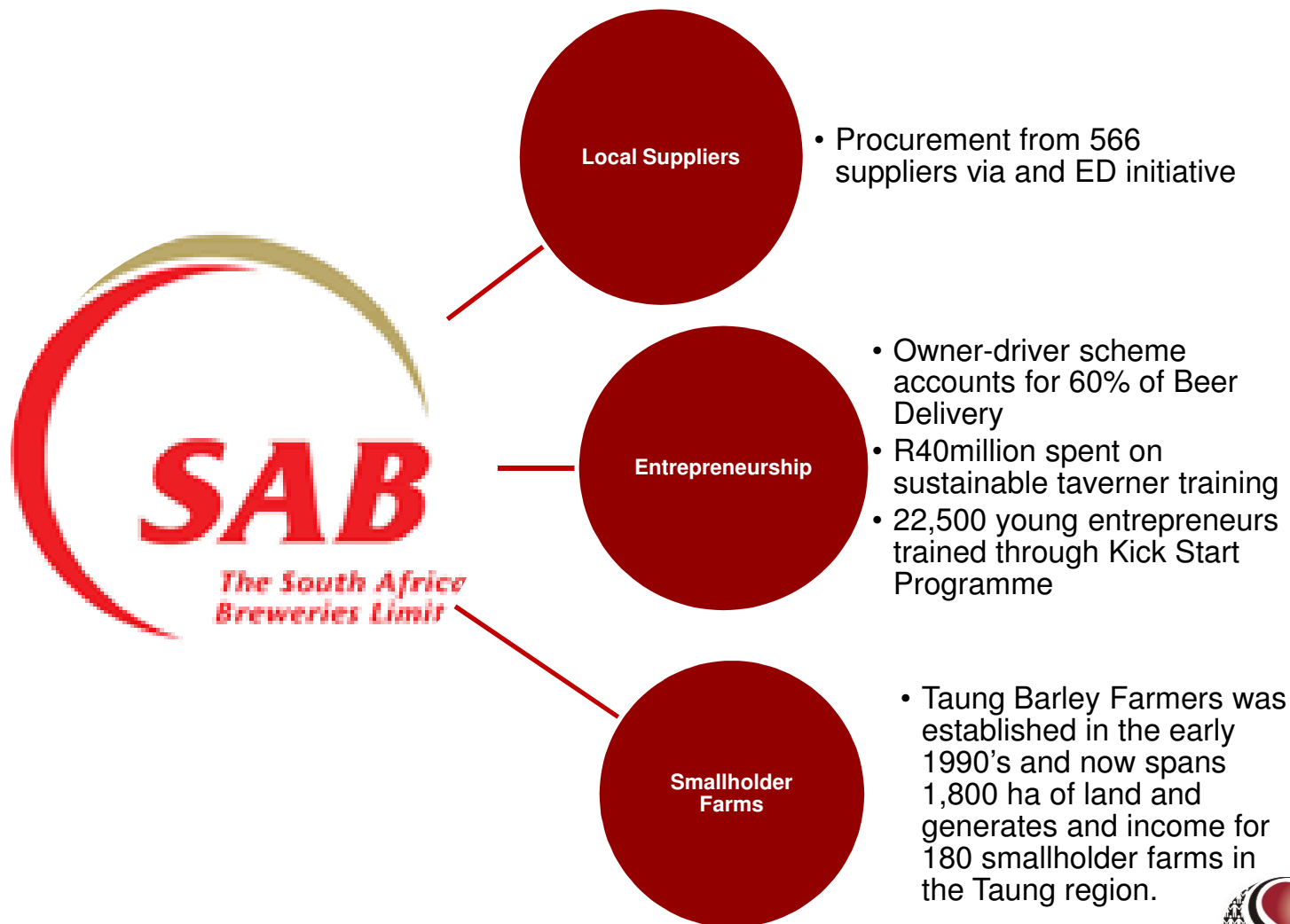
The company has an active
eLearning programme in
schools, set to reach 40 000
learners by 2015.

ABSA

Have established 12 ED
centres nationwide

Have made the centres
Destination Points for
SMME's where they can
access support to realise
the business potential

CASE STUDIES



WHERE IS IT GOING WRONG?

Key factors remain problematic in the SMME environment

1. Getting paid remains one of the primary causes for SMME failure
2. Lack of understanding of Governance, compliance and the value of these in running a legitimate business
3. Sophisticated procurement standards are intimidating
4. The access to funding is restrictive and complex for many small businesses
5. Entrepreneurs are persistent, dedicated to their cause and committed to finding ways to make their business work – the true entrepreneur will succeed despite grants not because of them

Conclusion

The case studies show that when applied correctly, adhering to the BEE Scorecard definitely benefits SMME's in South Africa.

But, more than that, when a business develops its suppliers through its enterprise development programme the business increases brand loyalty; really engages the supplier in 'supplier partnerships', reduces performance issues, and increases the quality of goods or services to ultimately create a well managed, efficient, quality supply chain which is a key component of good business.

However, according to the Empowerdex annual survey, more than 70% of the top-200 JSE listed entities fail to achieve the maximum criteria set out by the Codes of Good Practice for BEE.

Of the 200 companies listed, 140 (70%) scored less than the maximum number of points (15) for enterprise development, Of the 140, 106 companies scored zero (0) for enterprise development, equating to 75%.

“This means that of the total 200 companies, a staggering 53% scored zero for enterprise development”

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