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SABOA 2019 CONFERENCE & EXHIBITION

ENTERPRISE DEVELOPMENT AS A B-BBEE EMPOWERMENT TOOL

RESEARCH
AND ADVISORY



EMPOWERDEX

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2019

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CSIR International Convention Centre, Pretoria



RESEARCH
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Small and Medium Enterprises (SMEs)

- SMEs play an integral role in economic development
 - They are Efficient and prolific job creators, &
 - Play a significant role in poverty alleviation
 - boosting of a country's GDP

- Globally, up to 90% of jobs created are in the SME sector¹



- In South Africa 28% of jobs created are in the SME sector¹

¹Small Business Institute (SBI) and the Small Business Project (SBP)



Challenges faced by SMEs



- Small business owners do not have traditional means of collateral, comparative interest rates, loan guarantees
- Financing institutions indicate that the cost of administering small loans to SMEs is not profitable and so, this is not their business model

No Access to Reasonable Financing



Challenges faced by SMEs

Quickly it wasn't so fun or exciting!



common problems + poor marketing + employees + lots of disconnected computer systems = Lots of Stress & Low Profits!

- Management by trail and error
- Lack of managerial expertise – training and experience to operate a business – being good technically does not always mean that one will be good at managing their own business

Poor Business Management



Challenges faced by SMEs



- Lack of managerial competency
- Lack of well developed human resource capacities result in stagnant productivity and threat to sustainability

Competency and Capability

Challenges faced by SMEs

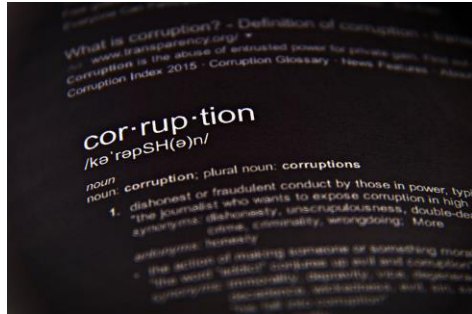


- Customers do not believe in the ability of SMEs to deliver right quality and quantity of product
- SMEs brand perceptions in the market place are not very well placed and so they struggle to compete with larger enterprises
- SMEs need to work harder to excel in service delivery and product quality whilst working on strategies to enable them to win loyal customers

Negative perception of small- medium business



Challenges faced by SMEs



- This ill-practice forces SMEs to divert their well-intended finances to illicit non-financial activities
- Normalised to an extent in Africa and South Africa, this cuts into the revenues of business owners!

Corruption

Challenges faced by SMEs



- Regulatory uncertainty makes for difficult environment for SMEs to operate in
- Regulation includes: tax, wages, licensing, competition, BEE etc.

Role of Government



Perceptions about B-BBEE and Empowerment

- It is nothing more than a tool for the already affluent to access further wealth
- It has limited potential to address the economic exclusion of the most marginalized sectors of the economy
 - These perception are not entirely true, the Journal for the Development Southern Africa found that although the elite continue to benefit from deals, broad-based beneficiaries, particularly employees and women, are also benefit to some extent – hence the introduction of pillars such as Enterprise and Supplier Development in the overall B-BBEE Codes

ESD



Enterprise Development As An Empowerment Tool

Turnover Threshold	EME	QSE	Generic
ED Requirement ¹	None	3% NPAT	

- NB: there is misalignment to the Amended Codes as the Transport Sector Codes remain amongst the few Codes that are not aligned to the Amended Generic Codes

Turnover Threshold	EME	QSE	Generic
ED Requirement	None	1% NPAT	2% NPAT

¹Bus Commuter and Bus Coach Services

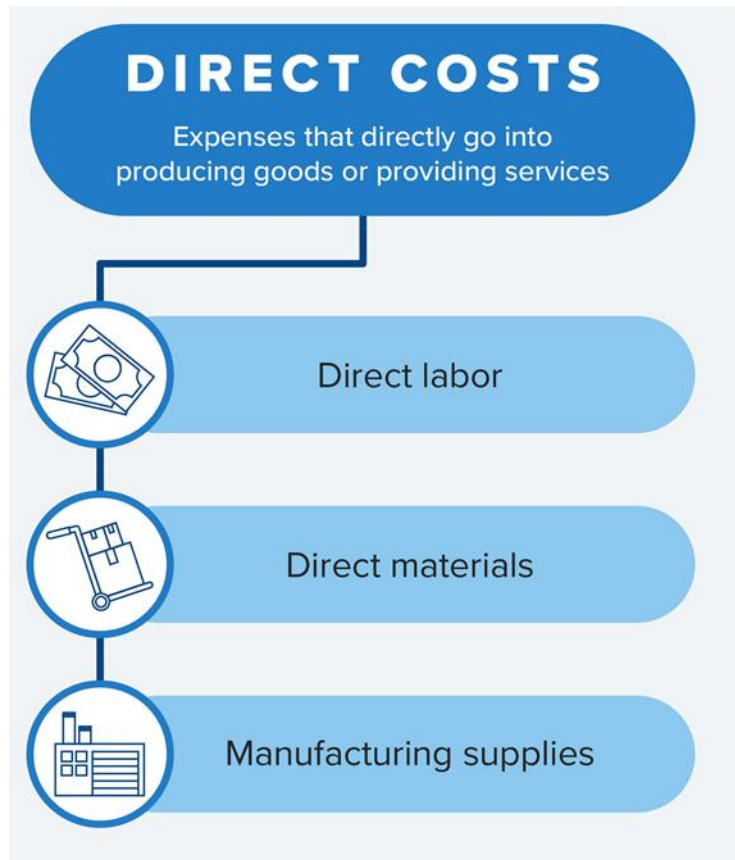
Ways to do ED – Grants



- Recognise 100% of Value



Ways to do ED – Direct Costs



- Recognise 100% of Value



Ways to do ED – Overhead Costs



- Recognise 70% of Value



Ways to do ED – Loan and related expenditure



- Recognition on Outstanding Loan Values:
 - Interest Free loan – 70%
 - Standard loan – 50%
 - Guarantee – 3% *
 - Lower rate on interest (difference between prime and rate applied)

*This will change to 50% of Guaranteed Value in Dec 2019 (only applicable to Codes aligned to Amended Codes of Good Practice)

Ways to do ED – Human Resource Support



- Recognise 60% of value for the following:
 - Professional Services at no cost to the ED beneficiary Or
 - Professional Services based on Professional Hourly Rate Or
 - Time of Employees productively deployed in assisting beneficiaries
- Other Contributions are shorter payment periods – not more than 1.5 points on Amended Codes scorecards



ED IS NOT A FREE RIDE FOR THE BENEFICIARIES AND THE BENEFACTORS ALIKE



- Work needs to be put in for it to be sustainable and a long term view on both ends must be had.
- There must be an **ED contract** in place with **clear objectives** indicating what the ED initiatives relate to and who the **parties** to the initiative are and the **term** of the initiative
- It is not a get rich quick scheme or a get points quick scheme!

ED IS AN INEXPENSIVE WAY TO ACHIEVE THE OBJECTIVES OF B-BBEE



- Honorable President Cyril Ramaphosa's stated that “Many more people are going to lose jobs.”
- Statistics South Africa yesterday issued numbers that were alarming at an 11 year high of almost 30%
- South Africa does not compete well with the world in terms of:
 - *Technology* – automation of jobs leaves many our people behind
 - *Globalization* – South African struggles to compete with cheaper foreign markets
 - *Climate change* – droughts, extreme weather continue to cripple our agricultural industry
 - *Low economic growth* – failing SOEs and history of corruption is our worst enemy
- SMEs and the development of these SMEs becomes one of the critical answers if we are to stem the tide in job losses
- They are more agile and can similarly with global economies become drivers of this economy with support from ESD initiatives



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