

Final Report

South African International Business Linkages (SAIBL) program

Cooperative Agreement No. 674-A-00-98-00047-00

FY 1998- 2008

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List of Acronyms

African Growth and Opportunity Act	AGOA
Black Economic Empowerment	BEE
Broad-based Black Economic Empowerment	BBBEE
Business Development Specialist	BDS
Business Membership Organization	BMO
The Corporate Council on Africa	CCA
Department of Trade and Industry (South Africa)	dti
ECIAfrica	ECI
Historically Disadvantaged Enterprise	HDE
Historically Disadvantaged Individual	HDI
International Organization for Standardization	ISO
Key Results Area	KRA
Knowledge Management System	KMS
National Minority Supplier Development Council	NMSDC
Minority Business Enterprises	MBEs
Performance Management Plan	PMP
Small- and Medium- Sized Enterprises	SMEs
Small, Medium, and Micro Enterprises	SMMEs
South African Government	SAG
Southern African Development Community	SADC
United States Agency for International Development	USAID
Western Cape Economic Growth Office	Wesgro

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I. Executive Summary

The South African International Business Linkages (SAIBL) program, described under The Corporate Council on Africa (CCA) Cooperative Agreement No. 674-A-00-98-00047-00 with the U.S. Agency for International Development (USAID), was awarded in 1998, originally under Strategic Objective 5, and was amended in 2000 to Strategic Objective 9: “Economic development and increased market-driven employment.” The focus of the SAIBL program was to create market driven linkages for small- and medium- sized historically disadvantaged enterprises (HDEs), now more commonly referred to as Black Economic Empowerment (BEE) enterprises that lacked resources to compete in the mainstream global economy. A BEE enterprise is defined by the South African government as a business in which historically disadvantaged individuals (indigenous Africans, people of mixed race, and of Asian origin residing in South Africa before April 1994) hold a minimum shareholding of 26 percent. Originally a 5-year program, the CCA consortium was granted several no-contest extensions that extended the program to a total of 10 years with a budget of more than \$24 million, generating over \$1.7 billion in business transactions and over 18,000 jobs.

After the 1994 election, the South African government (SAG) created the BEE program, later referred to as Broad-Based Black Economic Empowerment (BBBEE) for the private sector, to address the economic discrepancies that resulted from apartheid and years of economic disenfranchisement based on race. The BEE framework addresses human resource development, employment equity, enterprise development, and preferential procurement, along with increased black investment, ownership, and control of enterprises and economic assets. The SAIBL program supported BEE legislation by assisting small- and medium- sized enterprises (SMEs) to increase productivity, improve corporate governance, access to technology and finance, and develop marketing practices. It created supplier diversity programs for South African corporations to increase procurement from BEEs, facilitated networking and matchmaking opportunities for BEE SMEs exporting to African and overseas markets, facilitated access to private equity, bank loans and credits, and promoted greater participation of women entrepreneurs in the mainstream economy. The program also implemented company diagnostics tools to identify gaps in strategic management, leadership, marketing, competitiveness, production, and technology.

During its first year, SAIBL focused exclusively on linkages between BEEs and companies abroad, namely the U.S. and targeted countries in the Southern African Development Community (SADC) region. In 1999 the program was amended to provide linkages with South African companies. In June 2002 USAID added two new components to the program. The Promoting Agriculture Linkages (PAL) component utilized the SAIBL program’s infrastructure and successful business linkages model to promote enterprise development in the agricultural sector. The Trade component explored the export opportunities in the SADC region and the rest of the African continent, creating partnerships with government and regional agencies, as well as business organizations to promote its services to SMEs. Furthermore, the SAIBL program began assisting South African companies to identify opportunities in the U.S. created by the African Growth and Opportunity Act (AGOA).

For companies deemed U.S.-export ready, the SAIBL program provided technical training on developing U.S. export plans, marketing strategies, industry-specific certifications, and market-entry strategies. The training was utilized during outward and inbound bound trade missions with U.S. companies, at U.S. trade events and other strategically targeted marketing opportunities throughout the United States.

The SAIBL program consistently adapted to the changing political and economic landscape, and incorporated lessons learned into its annual work plan strategies. It forged vital partnerships with key U.S. and South African stakeholders, and was recognized for its support of South Africa's BEE program.

II. Strategic Objective and Goals

Thirty-five percent of South Africans live on less than \$2 per day and the majority of the 26 percent of unemployed South Africans are predominantly historically disadvantaged individuals (HDIs). In 1999, 27 percent of black households earned less than \$100 per year with poverty prevalence at its highest in rural areas and among female-headed households¹. Data on unemployment showed that 53 percent were young (under 30 years old), mostly female (50 percent of African women were unemployed), and dominated by racial patterns. There is a large disparity in income and living standards which have led to two economies operating within the same country, one characterized by wealth and inclusion in the economy, and another by developing country-like poverty operating in the informal sector of society, outside of the mainstream economy. Still, South Africa is an economic powerhouse on the African continent.

The SAIBL program focused on job creation and sales transactions by integrating BEE enterprises into South Africa's first economy and providing demand-driven and integrated support to its clients by creating business opportunities, linkages, and new markets. CCA and its sub-contracted implementer in South Africa, ECIAfrica, addressed South Africa's chronic skills deficits, low levels of entrepreneurship, and small asset base among previously disadvantaged South Africans.

As job creation is one of the most crucial aspects for socio-economic development, it was determined that SME development was the most viable method for formal job creation in the short to medium term. In South Africa, SMEs have been historically underdeveloped, and substantial support is needed to realize their potential. The SAIBL program, along with a number of government programs and initiatives from other donors, was designed to provide such support to SMEs.

Program Rationale

In the 1990s it was determined that unemployment growth would have to be raised to 5 percent annually to maintain the existing rate. The rationale of the SAIBL program was to help South Africa make inroads into its high level of unemployment through creating business linkages between SMEs and corporations in South African and abroad.

Finding entry points for black people into the South African economy was a critical component to alleviating the inequality. In 1998, USAID identified the potential for small business development as one of the primary areas for intervention. It was believed that removing the constraints to the development of black-owned small, medium, and micro enterprises (SMMEs) would increase competitiveness, create jobs, generate wealth, and reduce inequality. Over time, SMMEs could exploit niche markets and become the key change agents in the economic development processes. USAID and others recognized the severe restrictions that black businesses faced and the financial, skills and technical deficits that needed to be addressed in order to ensure success and sustainability for HDEs. Among the factors that were considered included the identification and development of strategies to reach target markets. The need for

¹ According to the extended definition of unemployment, which includes those who have been seeking work for more than six weeks, the unemployment rate is above 40 percent.

better prices from suppliers, improved productivity, appropriate technologies, and the ability to manufacture consistently to specifications were seen as vital additions to business competence.

Objectives

The SAIBL program created market driven linkages for BEE enterprises that did not have the resources to compete in the mainstream global economy. It brought new enterprises into the main economy, and also integrated new technologies, management skills, markets, U.S. market intelligence, and increased businesses revenues. The process of BEE is an inclusive one, and all enterprises operating within South Africa can, and indeed should, participate in this process.

The main objective of the SAIBL program was to link BEE SMEs to U.S. and domestic companies. South African firms would benefit through these business partnerships which would bring new clients and markets and new technologies, management skills, markets, market information, and increased revenues as well.

SAIBL was also charged with providing demand-driven and integrated support to its clients. The cornerstone of its activities was linkages created between the SAIBL program's clients and other stakeholders. These linkages were instrumental in the success and sustainability of BEE SMEs in South Africa.

Strategy and Activities

The SAIBL program concentrated its interventions on small, established enterprises rather than start-up companies or seeking to influence policy decision. Its leadership employed a strategy that entailed an integrated, holistic, and demand-driven approach to assisting the companies. The critical aspect of the linkage program was that it focused on the needs of the companies to meet global competitive standards utilizing a two-pronged approach. The first approach identified gaps or needed areas of intervention based on the company's Diagnostic Report. The intervention was implemented by a domestic or international consultant on a cost sharing basis. The second approach, the in-house Training and Technical Assistance Fund (TTAF), was utilized to provide companies with industry-specific training, business management skills or exhibition assistance.

The SAIBL program engaged in a wide range of activities that help forge business links and overcome constraints experienced by its companies. Among its key activities were: 1) Linking South African SME firms with international (primarily U.S.) and local partners; 2) Providing training and technical assistance to prepare and support South African SMEs to undertake and master international business transactions; and 3) Technology skills transfer through business partnerships and manufacturing licenses.

III. Challenges and Proposed Solutions

In reviewing the program, it is important to be cognizant of the obstacles encountered. Some of the difficulties met in the implementation of the SAIBL program are inherent to the environment, and the degree to which these have been overcome is a measure of the success of the program. The following issues are pertinent:

- Underdeveloped SME sector in South Africa
- Scarcity of qualifying firms with track record
- Relatively low levels of technology by international standards
- Global business climate
- Difficulties with the implementation of South African's SME development strategy
- Capital constraints on SME growth
- Regulatory and other requirements in the United States and elsewhere
- Delayed compliance with and finalization of BEE standards
- Low skill levels in South African SMEs

Historically the South African economy has been dominated by a small number of large enterprises. Today large enterprises still account for 66 percent of South Africa's GDP, and SMMEs contribute only 34 percent. This is shockingly low when compared with countries such as Germany, Italy, and many middle income countries where SMEs account for more than 60 percent of GDP. However, compared to the large enterprises, SMMEs are relatively labor intensive and provide 54.5 percent of employment opportunities in South Africa

The 1997 National Small Business Development strategy addressed the weaknesses of SMEs and proposed solutions to spur growth. While the strategy looked strong on paper, the implementation has proven more difficult. Many of the 1997 ailments in small businesses are still present today, including a lack of access to finance, and low level of skills and technical capabilities. The relatively small number of firms that qualify for the SAIBL program is evidence of the weakness of South African SMEs. BEE regulation compliance moved at a slow pace and benefited a small number of top executives at large corporations while SMEs continued to suffer. It proved difficult to find Black-owned or partly Black-owned SMEs with the track record and capacity for linkage with U.S. companies and/or locally based multinationals.

A particular problem which the small business development strategy has not yet been able to rectify is the lack of capital available for SMEs. It is easier to find finance for a project of R10million than for R10,000. Banks still rely on conservative lending practices and are generally reluctant to finance SMEs, and more so if the enterprise is in its early phase of development. There were many instances where enterprises were successfully aided by the SAIBL program, but the success could have been magnified if funds for further business growth had been made available.

The relative high cost of labor in South Africa has also been a hindrance on the goals of the SAIBL program. Many SMEs invested in capital equipment rather the human resources which reflected in a lower rate of new jobs created relative to transactions. This became more apparent later in the program (See Figure 4. *Job Creation Trends in the SAIBL Program and in South Africa*; and Figure 16. *Return on Investment in Job Creation for the SAIBL program*). This may

reflect a risk mitigation strategy to off-set the growing cost of HIV/AIDS in the South African workforce.

The legacy of apartheid still impacts on skills development at all levels. For example, in 2000, South Africa ranked 11th of 14th in southern African countries on grade six math tests despite its middle-income country status. The test results underscored the breadth of the challenge in the education sector. Learning materials in these areas are inadequate and funding scarce. Low educational outcomes have significant impact on the availability of skilled and semi-skilled employees, disproportionately affecting the ability of small businesses to grow, either through their own lack of skills or their inability to access additional skills needed for growth. South Africa's, and the region's, long-term economic success is contingent on a strategic workforce that can meet the future needs of business and government, as well as the needs of the global market. The SAG sees the shortage of professional and technical skills as the single greatest impediment to both public and private investment programs. The "skills crisis" is the most lasting legacy of apartheid and is fuelling a cycle that could cripple the economy. Employers rarely engage with vocational institutions to tailor training to their needs, which leads to a disconnection between employment need and skills. Further, the gulf between those with skills and those without is significant and hinders the ability of those employers or clients who do wish to access the labor and products of the unskilled majority.

While these challenges are significant, they can be overcome more easily than anywhere else in Africa given the human and financial resources available in the country. While the issues above are presented as challenges faced by the SAIBL program during its 10-year implementation, they were the rationale for the program's creation. SMEs require specialized and focused support because of the above economic and educational factors.

IV. Yearly Highlights

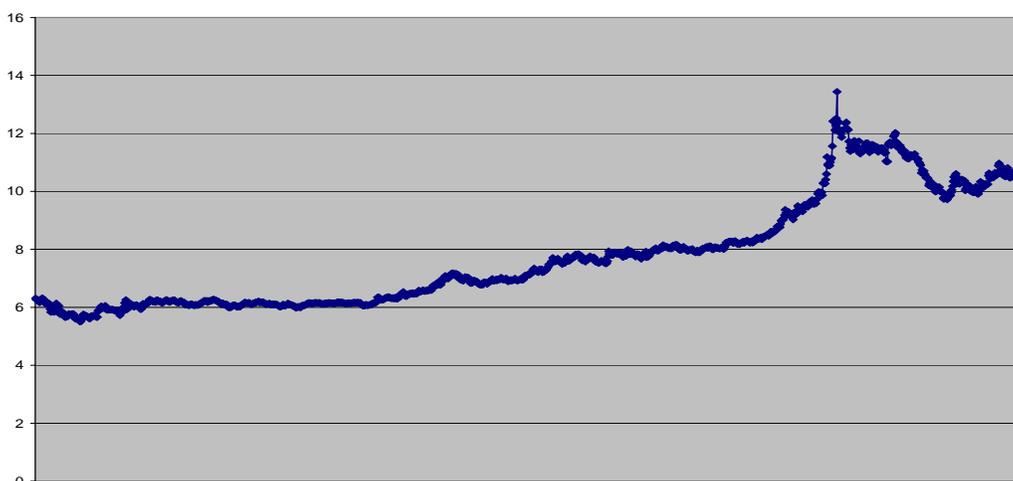
FY 1998 -2002

The SAIBL program Summary

In June 2002, USAID added two new components to the SAIBL program. The Promoting Agribusiness Linkages (PAL) component aimed to integrate agribusiness into the SAIBL portfolio, while the Trade component focused on export trade with the SADC region and the United States. SAIBL increased its partnership activities with local and provincial economic development agencies, as well as business organizations to promote its services to SMEs; this allowed the SAIBL program to expand its database of companies from 1,708 to 5,333, of which 20 were export-ready for the United States. The SAIBL program’s technical assistance was extended to 10 export-focused companies to address U.S. packaging and labelling requirements; HACCP, FDA, and APHIS certification; and UPC bar-coding, materials compliance, and financial modelling. Technical assistance workshops were held in Port Elizabeth, Durban, Cape Town, and Johannesburg. The above activities lead to 3,000 new jobs and 59 new sales contracts.

The SAIBL program also participated in the Corporate Council on Africa’s U.S.-Africa Business Summit in Philadelphia which attracted over 1,300 participants. The U.S. program director facilitated the “Doing Business with South Africa” workshop with Former Ambassador Edward Perkins and Mrs. Sheila Sisulu, Ambassador of South Africa to the United States (1999-2003). Overall, the SAIBL program continued to promote itself and its new components to SMEs, and created partnerships with industry specific organizations and state offices to better educate the business community on the opportunities in South Africa.

ForEx 98-FY2002



Core Component Summary: The Core component focused on outreach activities and promoted the SAIBL program to provincial governments and associations. It increased its activities in many provinces and states by partnering with local economic development agencies and business organizations to promote services to SMEs. As a result, SAIBL saw a significant increase in the number of companies accessing the program and its services.

Trade Component Summary: In September 2002, the Trade component conducted an initial country visit to Tanzania to introduce the project to USAID Tanzania offices and vet the Tanzanian business community for South African products.

AGOA Component Summary: Information sessions and speaking engagements were held in Washington, DC on how South African companies and products can benefit from the AGOA legislation. The sessions focused on developing a system within the SAIBL program to assess South African companies for U.S. export readiness.

2002 Highlights

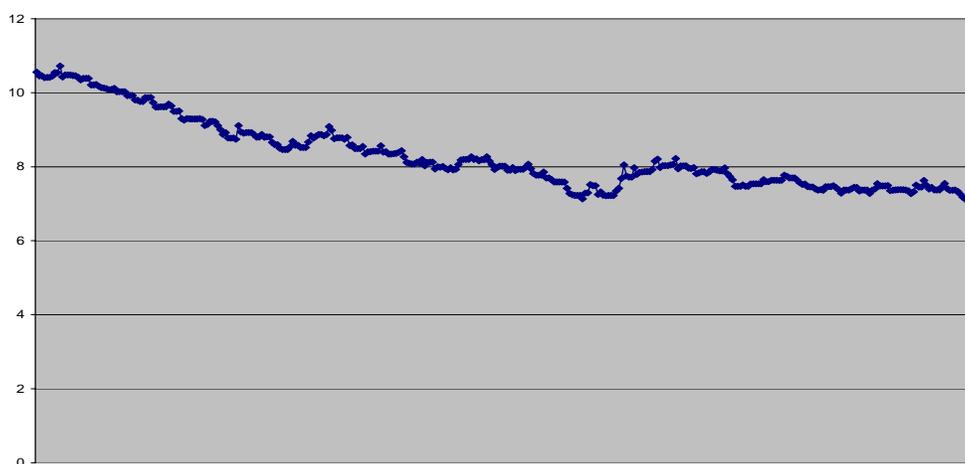
- Yenza Manufacturing, a component manufacturer for the motor industry was awarded a four-year contract valued at \$2.4 million by DaimlerChrysler based in Port Elizabeth. The SAIBL program enabled Yenza to achieve ISO 9002 certification.
- Desta Power Matla, a manufacturer and repairer of transformers reported sales of \$5.2 million following training courses for management sponsored by the SAIBL program.
- Metlite's Managing Director and Technical Director registered a worldwide patent for a component to be used in the mining industry. His discussions with a U.S. stakeholder resulted in a joint venture investment of \$15.2 million by U.S. companies to upgrade a factory in Brakpan, Gauteng.
- Sechaba Travel Agency was awarded a contract by ESKOM, the power parastatal in South Africa. The in-house travel services contract requires that the entire staff of Sechaba undergoes training courses. The SAIBL program provided financial support for the training. The ESKOM contract was valued at \$11.4 million for a 3-year period.
- The SAIBL program was launched in Middelburg, Mpumalanga Province. The Northern Province Investment Initiative (NPII) hosted the function. The SAIBL program staff presented a paper on the benefits of AGOA with particular reference to the textile and apparel sector.
- The SAIBL staff participated at the Department of Commerce's Annual Africa, Near East and South Asia (ANESA) Team meeting in New York. ANESA identified SAIBL to be a strategic partner to work with the Export Assistance Centers around the country.

FY 2003

The SAIBL program Summary

Independent consulting company KNC and Associates conducted an evaluation and impact assessment of the SAIBL program. The firm commended SAIBL on its achievements and success in addressing South Africa's problems of unemployment and low level of SME development in the country and recommended the program create satellite offices in key Provinces. As a result of the evaluation, the SAIBL program hired staff in KwaZulu Natal, and the Western and Eastern Capes. The positions started as full-time positions and later changed to short-term technical assistants (STTAs). Khulisa Management Services (Pty) Ltd and Megatech conducted a quality assessment of USAID's Strategic Objective Five resulting in the refinement of indicators used in the SAIBL program's reporting.

ForEx FY2003



Core Component Summary: The Core component formed a deeper relationship with the South African Department of Trade and Industry (dti) in order to coordinate its program activities with the Department's eight SME priority sector divisions. Each division funds South African participation in trade shows, trade missions, and other business promotion activities in their respective sectors.

Trade Component Summary: The Trade component conducted export management training seminars in its three pilot SADC countries: Botswana, Tanzania, and Zambia. During these visits partnerships were formed and SADC market intelligence was gathered to help evaluate the viability of these countries as an export market for South African products. In April 2003, an Accredited Suppliers event created an opportunity to link South African SMEs to Konkola Copper Mines in Zambia.

AGOA Component Summary: Three vital events occurred for the AGOA team in 2003. In October 2002, the AGOA Forum was held in Port Elizabeth, South Africa focusing on market access and financial risk management for African exports. The AGOA team assisted the Port Elizabeth business community in evaluating South African SMEs' export readiness, product development, management experience, and financial capabilities. Secondly, the Corporate

Council on Africa's biennial U.S.-Africa Business Summit that was held in Houston, TX which enabled 10 SMEs to exhibit their products and conduct business in the oil and gas, tourism, textiles, and information technology sectors. Finally, the AGOA team participated in a seminar held with Wesgro and the Trade Law Center of Stellenbosch University discussing AGOA beyond apparel and textiles, SMEs and AGOA, and the economic basis for making AGOA a valuable component in South Africa's trade relationship with the United States.

PAL Component Summary: The PAL component concentrated on increasing the client base of South Africa's high performing agricultural sub-sectors of fruits, grains, and wine.

2003 Highlights

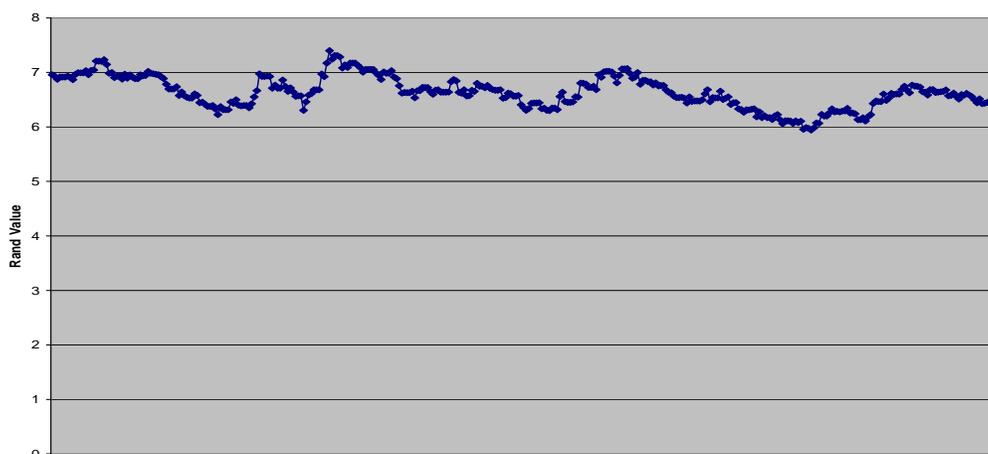
- Dolphin Trust, a cleaning company that was assisted by SAIBL for ISO certification, was awarded a 3-year contract valued at \$2.1 million by the Airports Company of South Africa.
- Rainbow Hut, a woman owned business in Port Elizabeth manufacturing colorful plastic roll-on bottles for kids, increased its employment from 3 (at the start of SAIBL intervention in 2001) to 42. Production capacity increased from 3,500 units per week to 140,000.
- Cyma Mining, a company manufacturing resin capsules for the mining industry, was assisted by SAIBL to develop a business plan. Cyma Mining was able to secure a loan of over \$103,000 from the Industrial Development Corporation.
- Intesol SA and Agumba Computers agreed to a Joint Venture Agreement creating a new entity called Agumba Intesol Holdings (Pty) Ltd. Agumba Computers took ownership of 70% and Intesol SA 30% of the new venture valued at \$983,284.
- Patel Clothing, Rosano Modes, JMV Solar Sport, Clothing Zone, and Frenca, South African apparel companies exhibited under the Apparel Sourcing Association Pavilion show in Las Vegas, in cooperation with the dti, the Export Textile Council, and the Apparel Export Council.
- BAWSI attended the London Wine and Spirit Trade Fair in May 2003 introducing Lindiwe wines to Stratford Wines Agencies, Marr of Orbital Wines, Lulu Ruegg, and Oddbins. Lindiwe held one-on-one meetings with Marks and Spencer, Tesco, and Sainsbury.

FY 2004

The SAIBL program Summary

In FY 2004 the emphasis was in building global partnerships through U.S. trade show exhibitions. SAIBL clients participated in shows such as the California Gift Show (July 2004), Apparel Sourcing Association Pavilion-ASAP Show (September 2004), CTIA Wireless Telecoms (October 2004), and Specialty Equipment Market Association Show (November 2004). Other activities that were initiated in previous years also started to bear fruit during this year. SAIBL also increased its close cooperation with the dti and organizations such as the National Minority Suppliers Development Council (NMSDC).

ForEx FY2004



Core Component Summary: SAIBL assisted clients in to qualify for international certification, (e.g. ISO 9000 and HACCP) and obtain technical assistance (e.g. design for marketing material, and the development of business plans to raise financing). The program also assisted clients to participate in trade shows and exhibitions in South Africa and the United States.

Trade Component Summary: Despite the strengthening of the rand, the Trade component expanded its scope of work to included textiles, gemstones, seafood, sisal products, coffee, giftware products, and the oil and gas sector (*See Figure 13. Foreign Exchange Average during the SAIBL program*). The regional linkages with Tanzanian companies increased from six to fifteen companies with targeted interventions in marketing strategies and international compliance.

AGOA Component Summary: Agribusinesses and lifestyle exports became the primary products for the AGOA component. The team began compiling U.S. market intelligence by attending the Worldwide Food Expo, the largest food and beverage processing and packaging event in the world attracting 1,200 suppliers with 150 countries represented annually. Also, staff coordinated a trade mission for eight SMEs around the Specialty Equipment Market Association trade show in Las Vegas, NV. The U.S. director of the SAIBL program addressed the issue of sourcing in the textile and garments sector after 2005 in a seminar organized by the Sandler &

Travis Trade Advisory Services, Inc. in Washington D.C. He stressed that African textile manufacturers need to be more competitive in order to access a portion of the U.S. market. (See *Figure 5. Export sales for the SAIBL program and Foreign Exchange Rate*).

PAL Component Summary: Cooperation and coordination between the PAL component and the AGOA component strengthened by regular teleconferences and exchange visits. The teams identified area of synergy in seafood exports, specialty food and wine products, and grain and oilseed production. The Monsanto Foundation supported Buhle Farmers' Academy in the specialized training in farm business management, maize and sunflower production, soil preparation, yield potential, fertilizer, herbicide and pesticide application, conservation tillage, and grain marketing (See *Figure 8. Expenditure and Sales reported in the PAL component*).

2004 Highlights

- Petite Designs had several large sales transactions resulting from its participation in the CCA's Summit including: an order valued at \$150,000 from a Florida based homeowner; a 20-foot container of furniture to a client in Trump Towers New York, and a \$104,500 sales transaction to Mauritian customer.
- Lionel October, Deputy Director General of the dti and Lungisa Magwentshu, CEO of Trade and Investment South Africa visited Petite Designs and Ric Rac; and U.S. Congressman Jim Kolbe, chairman of the House of Representatives subcommittee responsible for USAID funding, visited Desta Power.
- Lechoba Medicals secured \$75,000 in bridging finance to service the \$420,000 contract for retractable syringes awarded by the KwaZulu Natal Department of Health. The supplies were sourced from Retractable Technologies Inc., based in the United States.
- Artist for Africa, which produces ceramics painted animals, completed a sales transaction for \$7,000 with the San Diego Zoo.
- Nakira Project completed a sales transaction for 3,000 customized chocolate bars to Thunderbird University in Phoenix, AZ for \$6,000.
- Four SMEs from the SAIBL program were awarded cleaning contracts for \$700,000 resulting from the Entrepreneurial Training workshop.
- Zandla Xpressions exhibited at the New York International Gift Show in August 2004.
- Rio Verde (E.A.) secured financing for \$750,000 to acquisition a cotton ginnery in Mwanza after presenting a comprehensive a business plan.
- Carol Exclusive Fashions Ltd. completed a sales transaction for \$28,000 with ABL Unlimited, a hospital scrubs manufacturer based in Miami, FL.

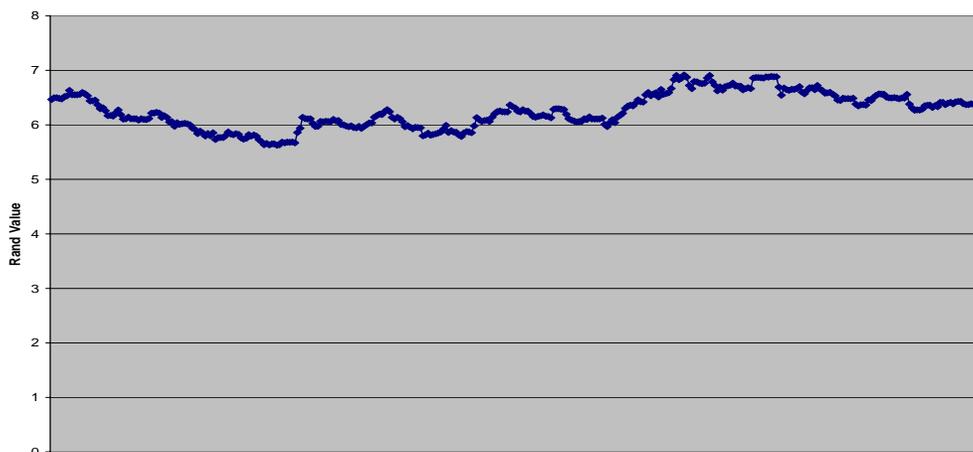
- Umoya Ltd. and Global Pacts, two seafood exporters based in Cape Town completed a sales transaction for \$250,000 to Inland Seafood, the fourth largest seafood distributor in the United States.
- A youth project in KwaZulu Natal secured financing for the purchase of a farm valued at \$1.2 million, of which 30 percent were female. The acquisition was jointly financed by Land Bank, LRAD, and a private bond.
- Venda language radio broadcast begins in Limpopo Province featured the PAL team leader reporting on market conditions and prices, up-coming livestock auctions, and financial agricultural assistance.

FY 2005

The SAIBL program Summary

Significant progress was made in strengthening the program through the introduction of “top down” business linkage facilitations. Formal working relationships were established with large corporations, laying the foundation to facilitate and leverage significant procurement opportunities for BEE enterprises. The Trade and AGOA components strengthened their interventions by shifting from stand-alone trade shows to a comprehensive trade missions encompassing trade shows, U.S. market intelligence, and targeted one-on-one business meetings. Approximately, 950 net new jobs were reported, which was 50 jobs short of the 1,000 target, representing over \$240 million in sales transactions. Forty-eight percent were in the manufacturing sector, 39 percent in services, 10 percent in tourism and crafts, and 3 percent in mining. While the manufacturing ranked second behind the services sector in terms of the number of jobs, manufacturing reported higher sales (*See Figure 3. Sales and job creation trends as a result of interventions by the SAIBL program*).

ForEx FY2005



Core Component Summary: The Core component focused on accessing market intelligence, training workshops, and export procedures. Supply and demand workshops with South African corporations such as Anglo Platinum and Barloworld were held in Johannesburg, Cape Town, and Durban. The workshops attracted more than 100 SMEs representatives and discussed preferential procurement policies, accessing finance, quality management systems, mining safety, and health, and environmental policies.

Trade Component Summary: The Trade component reported \$29 million in export sales, of which \$20 million was exported to the SADC countries. The remaining \$9 million was exported to other countries in Europe and the rest of Africa. Exports to Zimbabwe continued to decline reflecting the collapse of its economy, exports to Botswana declined reflecting the regular ebb and flow of sales transaction.

AGOA Component Summary: The AGOA team exceeded the year's sales transaction targets by \$4 million. They aligned the South African SMEs with niche product markets in the lifestyles and agribusiness sub-sectors to remain competitive on volume, price, and delivery timeframe.

The CCA U.S.–Africa Business Summit in Baltimore, MD and the International Food and Agribusiness Management Conference provided export opportunities in giftware products, seafood and spices for South African BEE SMEs.

PAL Component Summary: The PAL team focused on women-owned agribusinesses and dramatically improved the sector’s performance. PAL increased its involvement with a number of women’s networks and dedicated almost half of its training hours to women- owned or operated agribusinesses. Increases in net new jobs were attributed to the sector’s cyclical demand for casual labor and the team’s intervention in the horticultural sub-sector. Specialized hydroponics vegetable production training resulted in fresh produce contracts with Pick n’ Pay.

2005 Highlights

- An Automotive Business Opportunity Mission, organized by DaimlerChrysler, CCA (SAIBL), and the NMSDC brought 15 minority-owned first tier suppliers to South Africa for a series of meetings with BEE enterprises. They held one-on-one meetings with 67 South African BEE enterprises in November 2004.
- General Motors South Africa, Shatterprufe, and Behr Climate Control held an Automotive Supplier Development Workshop in Port Elizabeth to open a dialogue between original equipment manufacturers (OEMS), first tier suppliers, and BEE suppliers.
- Dynamic Commodities, an exporter of fruit sorbets exported about \$2 million.
- Bumbo (Pty) Ltd, a manufacturer of baby seats, completed export sales transaction of \$1.5 million with the Target Corporation. The Chicago Sun Times featured the Bumbo Baby Seat as one of the “Top 10 Coolest Baby Products for 2005”.
- Bathliners International, a manufacturer of baths, completed export sales transaction of \$490,000.
- Kentron Poultry divested \$580,000 to a BEE partner through an equity purchase and immediately gained access to six mid-level markets in the Gauteng area. The cash raised through the sale helped finance a 45 percent increase in Kentron’s production capacity.

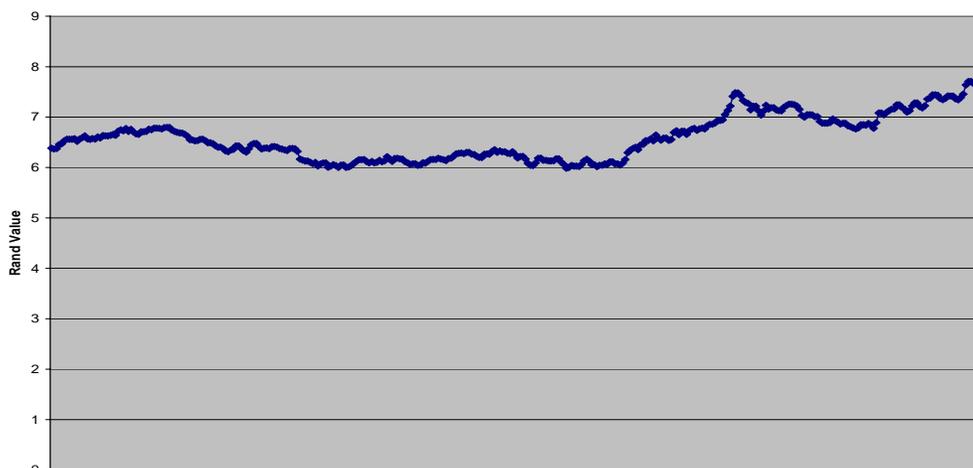
FY 2006

The SAIBL program Summary

South African companies continued to be slow in realizing the business case for BEE despite the economic shift of income and purchasing power in South Africa. The SAIBL program’s Company Diagnostic tools were revised to better pinpoint its interventions with South African corporations and SMEs. A market readiness survey was added into the Company Diagnostic tools assessing quality, price, value, wine making process for the United States, as well as the companies’ willingness to invest in multiple visits to the U.S. market. These same techniques were applied to business linkages requests for the rest of Africa.

Over 791 new net jobs were created, which was 209 below the 1,000 targeted. A downward trend in job creation in the SAIBL program was consistent with the national statistical figures, which were down 90 percent compared to the same period last year. The manufacturing sector reported the greatest loss of jobs.

ForEx FY2006



Core Component Summary: The Core component secured working relationships with South Africa’s largest corporations and linked them with BEE SME suppliers. Anglo Platinum, Barloworld Equipment, and Mondi Paper provided training and capacity building to a group of potential BEE SMEs suppliers, helping to create opportunities for long-term business partnerships. The topics included ISO quality management systems, marketing, and financial bookkeeping and management.

Trade Component Summary: The Trade team focused on market opportunities in Mozambique, Namibia, Tanzania, and Zambia. They identified suitable marketing events and marketing channels, screened and prepared companies for one-on-one matchmaking events, and conducted awareness seminars. The team reported over 16 million in export sales, of which \$10 million was conducted with SADC countries. A total of five trade missions were organized over the past five years to Tanzania (two) and Zambia (three).

AGOA Component Summary: The AGOA team continued to increase awareness and understanding of AGOA legislation and assisted companies with U.S. marketing activities. The team's pool of companies was constrained by scale, competitiveness, U.S. compliance, and logistics. The team shifted its emphasis to work closely with a few companies, exposing them to the U.S. market, establishing marketing channels, and ensuring U.S. compliance. The strategy demonstrated that BEE SMEs can compete internationally. The AGOA team remained focused on niche sectors (lifestyle sub-sectors and wine sector), published a "how to" booklet on AGOA, conducted several local awareness workshops, provided U.S. market intelligence, and continued to screen and identify U.S. export ready companies. A 'U.S. market training seminar 101' was held in Cape Town to address product quality, trade event preparation, and U.S. consumer trends.

PAL Component Summary: The buoyancy of the South African economy continued to aid the country's agribusinesses, although inflation accelerated and became a concern. The rand continued to depreciate, creating a favourable environment for South African wine exports. (*See Figure 13. Foreign Exchange Average during the SAIBL program*). It became clear that additional employment opportunities were possible by working with start-up companies in addition to existing companies; however, this required long-term planning and access to finance. It was difficult to obtain actual figures on job creation for agribusinesses because of a hesitation to report illegal laborers and an inability to maintain accurate records of part-time and seasonal workers. New minimum wage laws and low productivity of labor encouraged commercial agriculture to mechanize its labor force (*See Figure 9. Expenditure and Job Creation reported in the PAL component*).

2006 Highlights

- Anglo Platinum awarded contracts to 25 BEE SMEs worth more than \$4.5 million. The group had received hygiene and service standards training from the SAIBL program.
- Mhulumo Art Gallery and African Art Factory who focus on contemporary and traditional furnishings, antiques, crafts, jewellery, and apparel exhibited at the California Gift Show in Los Angeles. They engaged in order and cash-and-carry sales, and began working with the San Diego Zoo and the Smithsonian Institute.
- Mia Cara, Bouwland, and Thandi completed a two-city trade mission to New York City and Seattle where they met with wine importers/distributors, retailers, restaurateurs, and local political leaders. The trade mission provided extensive market intelligence on U.S. wine consumption.
- Umkhumbi secured financing for the purchase and maintenance of maize milling equipment from Ithala Bank. The loan was for over \$800,000.
- Umkhumbi completed a sale transaction with MassMart, a large distributor in KwaZulu Natal agreeing to produce 1,500 tons of maize meal every month.
- Thirty-two BEE farmers completed contracts valued at \$400,000 with Tiger Brands Foods for tomatoes.

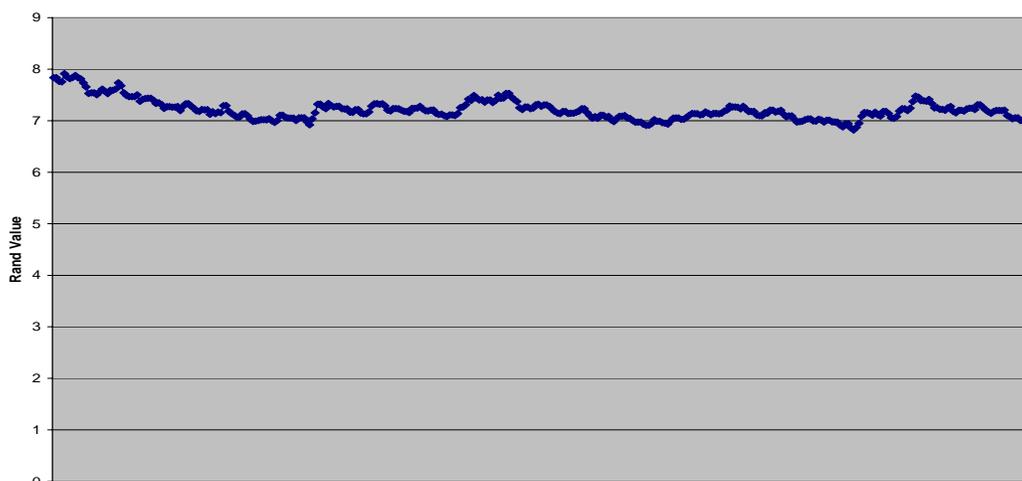
- GrainSA reported 101 new net jobs and \$175,000 in sunflower sales as a result of its partnerships with Monsanto South Africa and First National Bank.

FY 2007

The SAIBL program Summary

The South African economy experienced steady growth of about 5 percent, continuing the longest period of sustained growth in recent history. The rand remained stable as the country gradually built up its foreign currency reserves and commodities prices. The growing demand from China and India continued to favor the South African economy. Still, oil prices, high household debt, and consumer spending forced six increases in interest rates leading to a downturn in business activity and production the following year. The country experienced poor job growth as figures from Stats SA showed only 60,000 net new jobs created in the first and second quarters of 2007, while earnings for the same period increased by \$1 billion. The country suffered from a severe shortage of skills in most key sectors of the economy. This made the country less attractive as a destination for long-term foreign direct investment (*See Figure 5, Export sales for the SAIBL program and Foreign Exchange Rates (R: USD)*).

ForEx FY2007



Core Component Summary: Over 235 new companies registered with the SAIBL program and 124 applied for assistance compared to FY 2006 figures of 270 registrations and 111 assistance applications. The program made 170 interventions in FY 2006, three more than in the previous year. Manufacturing and Other Services sector (excluding cleaning services) accounted for more than 60 percent of jobs created, and \$243 million in sales transaction were reported against a target of \$195 million. Women-owned enterprises constituted \$51 million. All of these figures came while the SAIBL program was implementing a more rigorous selection and screening standard.

Trade Component Summary: Over \$19 million was reported in export sales compared to \$16.6 million the previous year, of which \$8.2 million was exported to the SADC region. Exports to African nations remained constant and Europe and Asia exports increased significantly.

AGOA Component Summary: The AGOA team began to contract U.S. market experts to work clients collectively and individually on target issues such as pricing, distribution channels, export strategy, relationship building, and shipping logistics. Also, the team contracted U.S. wine experts to develop a U.S. wine market guide to prepare companies for U.S. markets which addressed consumption trends, the benefits and challenges of on versus off premise trade, purchasing trends, and emerging new world sources. Production capacity, business capacity, and quality consistency continued to be major roadblocks in entering the U.S. market.

PAL Component Summary: Droughts and frost had a negative effect on sales transactions and job creation for SAIBL clients. Agribusinesses reported 1,008 net new jobs and \$22.5 million in total sales; the PAL component had targeted 1,600 new net jobs and \$27 million in sales transactions. Farmers received training in farm planning, land preparation, planting, management of the crop, harvesting, quality standards, hygiene, grading, packaging and labelling, business management, bookkeeping, and marketing skills, resulting in supply contracts between Tigerbrands and Giyani Tomato Growers Association.

2007 Highlights

- NGM, an air-conditioning supplier, secured a sales contract for \$63,000 to supply Konkola Copper Mines following a trade mission to Zambia.
- ADE Pipes secured a contract for automotive products for \$4,000; and Marshall Traditional Healthcare completed sales transactions in excess of \$1,500 during the Windhoek Industrial and Agricultural trade event.
- Thandi and Bouwland wineries completed export sales in excess of \$100,000.
- Shoki Construction, Transport, and Mining Services participated in a series of training programs on management, tendering, catering, safety, and health before being awarded the second prize at the National Business Women of the Year Awards Dinner.
- Globe Engineering Works was awarded the South African Navy Mechanical Maintenance Contract to service and perform maintain on all South African Navy ships. The 2-year contract was valued at over \$16 million.
- Chunkie's Safes and Steel Works was awarded a contract to supply strong room doors and frames, and galvanized steel ventilators to the South African Polices Service in Mpulalanga and North West Provinces after participating in tender preparation and SABS accreditation training with the SAIBL program. The 3-year contract was valued at over \$1.5 million.
- Artists of Africa completed cash-and-carry sales for \$15,000 and \$45,000 in written orders during the California Gift Show (winter).
- Artists of Africa, Sizana Crafts, African All Sorts, and Mogalakwena completed cash-and-carry sales transactions in excess of \$15,000 and \$35,000 in written sales during the California Gift Show (summer).

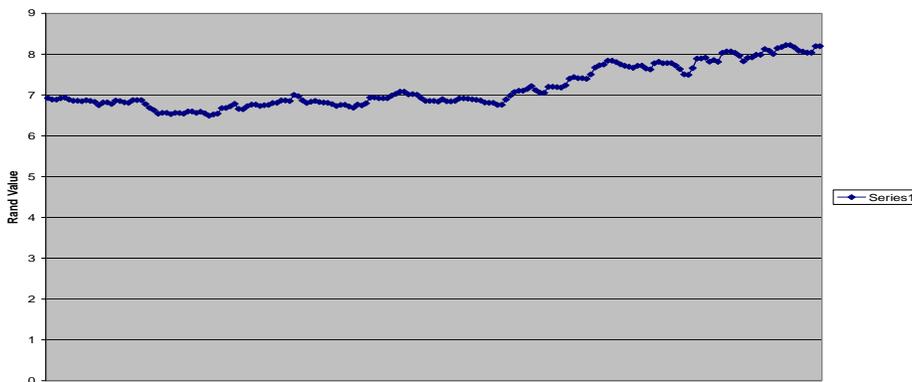
- Kunye and Zandla Xpressions exhibited their products at the New York International Giftware Fair reporting \$8,500 (800 percent increase in U.S. sales) and \$33,000 in sales, respectively (320 percent increase in U.S. sales).
- Eighty-four soybean producers secured financing from the Micro Agricultural Financial Institution of South Africa for \$387,000 to cultivate 570 ha of land.
- Lesolo AgriCommodities, producer of 300 ha of chillies and dried produces, completed a sales transaction for R7.5 million with The Laughing Pumpkins.
- Green Nut Farms processing and 310 macadamia nuts producers completed a transaction for \$25,000 for macadamia nuts processing.
- Cairn Lemon Farm secured financing for \$55,000 from the Local Economic Development Fund to upgrade infrastructure on its 23 ha farm.

FY 2008

The SAIBL program Summary

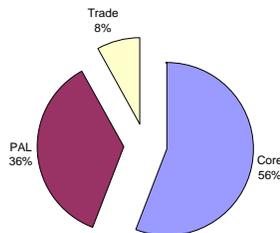
The South African economy continued to grow, albeit at slower rate of between 4.6 to 4.8 percent, buoyed by sustained demand for mineral resources, investment in infrastructure, and FDI. The commitment to sound and sustainable fiscal policies was also a reassuring factor. Still, power supply problems or “load shedding”, skill shortages, and higher interest rates had a stifling effect on the performance of the manufacturing sector. In a slumping economy plagued with power disruptions and skill shortages, SMEs turned to improved productivity and cost reduction schemes to remain competitive. Additionally, the SAIBL program officially closed its operations on March 31, 2008.

ForEx FY2008

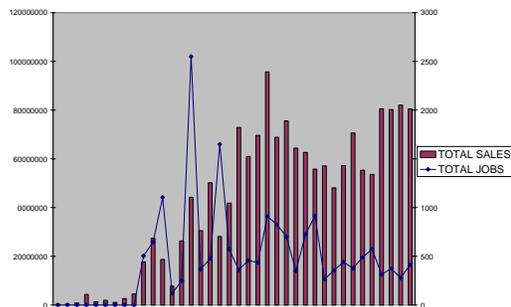


Since 1998, the Core and Trade components of the SAIBL program have reported sales in excess of \$1.4 billion with \$130 million in exports, and over 13,700 new net jobs. These results occurred during South Africa’s longest period of sustained growth and stability since the country democratized in 1994. Nevertheless, South Africa faced serious challenges in unemployment, skills shortages, crime, HIV/AIDS, and power shortages. The “load sharing” and power outages have disrupted the business community, and the South African economy is forecasted to grow at a more modest rate of around 4 to 4.5 percent over the next 3-5 years. Infrastructure and tourism projects will increasingly become the driving force of South Africa’s economy through the 2010 World Cup.

SAIBL program Components 1998 2008



he SAIBL program Summary



Core Component Summary: The first and second quarters of FY 2008 reported 553 new net jobs and total sale of approximately \$150 million. The biggest challenge the SAIBL program faced was maintaining motivation and the momentum with existing partners and companies without confirmation that the program would continue. As a result, registration of new clients curtailed and only 1 new company was registered. The teams concentrated on completing outstanding commitments and approving support for interventions that would be implemented and completed by February 2008 (*See Figure 17. Jobs created by sector in the Core & Trade components for FY 2008*).

Trade Component Summary: Over \$16 million in export sales was reported primarily from Tanzania, \$2.5 million; Zambia, \$2 million; and Botswana, \$1.6 million. (*See Figure 18. Sales by sector in the Core & Trade components for FY 2008*).

AGOA Component Summary: Exports sales with the United States were a disappointment at \$98,000. This can be attributed to the tough economic and trading conditions in the United States triggered by the sub-prime mortgage crisis. The AGOA team and Wines of South Africa collaborated on a three city wine trade mission. The three city trade mission consisted of four expert panels, numerous consumer tasting events, and a major wine fair along with a series of wine store promotional visits and in-store tasting events. The companies were exposed to the significant growth of direct to consumer marketing.

Although no trade missions were conducted in the final quarter because of the focus on close-out requirements, the SAIBL program implemented a workshop on SME development and business linkages to draw on its work in South Africa at the CCA's U.S.-Africa Business Summit, which was held in Cape Town. SAIBL clients also exhibited at the Trade Fair held in conjunction with the Summit.

PAL Component Summary: South Africa's load shedding reduced the availability of raw materials and commodities leading to increased production costs and higher food prices. In addition, higher food prices resulted from quality challenges, unproductive working hours, and wastage. The Limpopo Province reported sales over \$1.5 million primarily in the horticulture sub-sector followed by the Eastern Cape and Gauteng provinces from green mealies and poultry, KwaZulu Natal from maize meal, Mpumalanga from poultry and citrus, the North West and Free State from the Lucerne sales and grains, and the Western Cape from fruits, wine, eggs, and vegetables.

2008 Highlights

- Mahlangu Transport Services secured a \$1.7 million loan from Anglo Zimele Fund, an Anglo American SME funding facility, to purchase 10 new buses to transport Anglo Platinum employees from its mining operations, as well as servicing various bus routes for the local community.
- MoneyBiz Holdings signed an agreement with Vantage Communications Uganda Ltd. forming a joint venture company, Rural Brand (Pty) Ltd. Rural Brands will conduct business

in Uganda in the in the IT sector. Their first sales transaction was for \$4,000 to revamp the Kampala City Council website.

- Sinako Cleaning Services, a provider of office and industrial cleaning services, and the Burke Group of Companies, a U.S.-based cleaning company, engaged in joint venture discussions following the NMSDC Pharmaceutical supplier visit in November 2007.
- Umkhumbi Maize Milling developed a procurement plan to source raw material from producers and brokers, and installed a quality testing instrument to increasing its yield.
- Twenty-nine tomato producers signed a contract with Tiger Brands to produce a minimum of 11, 365 tons of tomatoes representing approximately \$1.2 million. The contact was awarded after the producers participated in training on plant protection, irrigation scheduling, access to finance, and financial management.
- Farmers in Taung sold Lucerne to Farm Link in Gauteng and Luberne Voere in Haartswater at an estimated price of \$200 per ton or over \$129,000.

V. Success Stories

Agribusiness Sector

Koopmanskloof Winery



Rydal Jeftha, CEO of Koopmanskloof

In November 2007, Koopmanskloof received Fair Trade accreditation for seven of its farms. This accreditation enhances its accessibility to the United States and other global markets where higher price premiums are assured. Koopmanskloof subsequently requested the PAL team to assist in developing an export marketing strategy and review its existing business model.

Monsanto

In 2004, agriculture giant Monsanto (South Africa) approached the PAL component for assistance in increasing the number of emerging commercial grain and oilseed farmers in the North West Province (NWP) of South Africa. The PAL team identified 32 maize and sunflower farmers in the NWP to participate in production technologies, seed varieties, input usage, and commercial farm management training at the Monsanto Foundation's Buhle Farmers' Academy. The NWP farmers secured the production credit necessary to produce quality crops, gained access to finance, and identified the property using geographic information systems to compete in South Africa's competitive grain market.

Thandi

In 2003, Thandi became the first wine in the world to achieve Fairtrade accreditation. Soon thereafter, the company received a gold medal for its 2003 Chardonnay at the prestigious International Wine Challenge in London. In a message to the U.K. retail trade, former President Nelson Mandela described the Thandi Initiative as "a visionary and inspirational move which contributes to South Africa's development and gives ownership to Black people and helps to alleviate poverty in South Africa." Thandi participated in two U.S. wine trade missions where it sold more than \$8,000 of wine in the New York City market in the month immediately following the first trade mission, and found an agent/importer thereafter. Also, Thandi sponsored the month-long season of the Alvin Ailey American Dance Theatre where its wines were served at all performances, reaching an audience of more than 65,000 people. The dance theatre approached Thandi for sponsorship after the winery's participation in the May 2006 U.S. Wine Trade Mission.

Tiger Brands

Tiger Brands sourced \$37,000 from four BEE SMEs from the Limpopo Tomato Growers Association to produce a minimum of 100 tons each for canned whole peeled tomatoes. A provision in the contract allowed for second grade tomatoes to be shipped to the Tiger Brands Musina plant and processed as puree. The success of the Tiger Brand contract led to further collaboration between the PAL team and Tiger Brands. The PAL team facilitated a contract for 29 BEE SMEs at the Nwanedi irrigation scheme producing more than 11,000 tons of good quality tomatoes amounting to \$1.2 million, of which approximately \$125,000 were produced by women-owned enterprises. The farmers secured finance from ABSA bank to finalize their commitment. The PAL team provided the training on plant protection, irrigation scheduling, access to finance, and financial management. From 2006-2008, the PAL team assisted 33 BEE tomato farmers and reported \$366,000 in sales with Tiger Brands.²

Umoya

Umoya Fishing, a small black-owned company specializing in Rock lobster, tuna, and struggled for years to identify and make connections with U.S.-based seafood importers and retailers. The Core and AGOA teams worked with the company to ensure consistent production of high-quality products and improved its business procedures. The AGOA team introduced Umoya to Commerce Africa, a Maryland-based importer and agent linked Umoya with Inland Seafood the fourth largest seafood wholesaler in the United States. Inland placed an initial order of \$17,000 and within four months placed a repeat order for more than \$50,000.

Lifestyle Sector

African Allsorts



The Wild at Art collection at the August 2008 NYIGF exhibition.

African Allsorts specializes in high-end, handmade, finely sculpted bead and wire art. Its products are available in up-market retailers such as Neiman Marcus, the Zoological Society, Ritz Carlton gift shops, the Philadelphia Museum of Art, Washington Cathedral Museum, and the Field Museum. The company worked with U.S. giftware market experts and has consistently

² The average exchange rate for Jan 1, 2006-Dec 31, 2008 was 7.1. (<http://www.oanda.com/convert/fxhistory>)

attended top U.S. giftware trade shows. From the U.S. giftware expert, the company learned that its product selection was too broad and chose to reduce its lower price point product offering to focus on the top selling mid- and high-end ranges. In addition, the company added a limited edition line of Swarovski crystals that has been well received by buyers.

African Allsorts worked diligently to maintain its high quality and is dedicated to product development. The company has passed independent trade show juries and has been invited to exhibit at trade shows around the United States. It is now a regular exhibitor in the international handmade section of the largest trade show in the United States, the New York International Gift Fair (NYIGF). In 2007 the company was featured on the front page of the NYIGF's trade show publication and was chosen from more than 2,700 exhibitors for an interview with popular U.S. cable program, Home and Garden TV (HGTV), America's leader in home and lifestyle television programming and is distributed to more than 89 million U.S. households. African Allsorts has hired 15 additional full-time staff to complete orders and meet increasing demands. In three years of collaboration with the SAIBL program, the company has sold more than \$75,000 to the United States market.



David Rosenstein, Co-Founder of African Allsorts Gives interview to HGTV host at the August 2008 NYIGF.

Artists of Africa



Maskeo teapot, Lucy, and Tilla vases of the Gallery Collection.

Artists of Africa began in 2004 when Beverly Graney met talented ceramists who lacked a market to sell their work. The company began with 5 staff who worked in a small studio with

rented equipment. Four years later, the company employs 34 staff members, has moved to a larger production site, and owns its own equipment.

Artists of Africa produces unique handmade and hand-painted ceramics with each piece coming signed by its artist. It has three ranges to appeal to a wide customer base: Its signature collection, the three-dimension Gallery line, the everyday-friendly flat ceramics of the Tableware collection, and finally, the Floral collection which include hand-painted ceramics designed with flowers, fauna, and aquatic creatures. The company requested the AGOA team's assistance with U.S. market intelligence, and received further assistance by a giftware consultant to improve production, widen the company's range of products, and refine its price points. The company was able to identify an appropriate U.S. trade show and SAIBL helped to defray some of the initial costs of doing business in the United States. Through these exhibitions, the company found U.S. agent and has sold more than \$195,000 to the United States market.

Petite Designs

Petite Designs, an award winning producer of high-end furniture exhibited at several U.S. trade shows after meeting the AGOA legislation requirements. The company started in 2000 with five employees and has grown to 30 employees. During his recent trip to South Africa, Illinois Senator and 2008 U.S. Presidential candidate Barack Obama visited Petite Designs. Senator Obama visited the production site and applauded the company for its dedication and perseverance, remarking that the hard work has allowed it to reach impressive levels. As a result of contacts made at CCA's U.S.-Africa Business Summit held in 2003, Petite Designs received orders filling a 20 foot container of furniture for a client in Trump Towers, New York and an order from a Mauritian company for \$104, 500. In total, Petite Designs has sold more than \$200,000 to the United States market.



Issy Pinneken, Founder of Petite Designs; Senator Barack Obama, D-IL; Carleene Dei, Director USAID Southern Africa



Senator Obama in springbok chair



Senator Obama speaks to members of staff.

Manufacturing Sector

Shade and Hail: Olympics in Athens

Shade and Hail, a Johannesburg-based company approached the SAIBL program for assistance in accessing the U.S. market. The family-owned company wanted to increase its customer base for its shade cloth carports. The Core component developed a marketing plan and a provision for financial assistance to attend an international trade show. Through a unique partnership with a Greek construction firm, the company manufactured and marketed 60 green and silver shade ports that were exported to Greece for use at security checkpoints at the 2008 Olympic venues in Athens, Greece. Since that time, the company's clientele has increased to include larger South African companies and more internationals, namely Shell SA (Ultra Cities), Sasol Oil (taxi ranks), Sanlam Properties, Liberty Life Properties, RMS Syfrets, and BMW.

Yenza Manufacturing



Yenza Manufacturing, a Port Elizabeth-based company was one of the first BEE companies to manufacture components for three of the leading international automotive companies- DaimlerChrysler, General Motors, and Volkswagen. Yenza has grown from 4 to 30 employees, and although initially funded by the Future Bank Corporation, Yenza is currently self-sustaining.

Also, Yenza become one of the first BEE companies to become a first-tier supplier, manufacturing plate holders, cover foot-parking brakes, and support trays. Its primary products are support brackets.

Yenza supplies two of the components for Mercedes-Benz exported directly to the vehicle assembly production line in Germany, and also exported some components to Mexico through General Motors. The SAIBL program played a crucial role in developing a quality management system for Yenza, helping the company to position itself better for these business opportunities. With assistance from the SAIBL program, Yenza obtained its ISO 9002 accreditation, VDA 6.1 quality certification (a requirement of the German Original Equipment Manufacturers- OEMs), QS9000 certification (demanded by American OEMs), ISO 14001 accreditation, which is an environmental management system

Ukwazi Engineering

Ukwazi Engineering (Pty) Ltd., a small engineering firm located in Middelburg specializes in the design, manufacture, servicing, and distribution of electrical transformers. Established in 2001 by Bright Dube and Sakkie Koekemoer, the company has grown its business and now employs more than 35 workers at its plant. Ukwazi approached the SAIBL program for assistance in identifying new markets in Africa, specifically Zambia. The Trade team developed a Zambian export strategy for the company and identify potential clients that included ZESCO, the largest generator of electricity in Zambia, and Rotek, a large South African company under contract with ZESCO. Rotek subcontracted the manufacturing of transformers to Ukwazi to the value of \$370,000.³ Ukwazi recorded sales in the SADC region of over \$125,000.

Mining Sector

Anglo Platinum

The SAIBL program and Anglo Platinum agreed to collaborate on capacity-building activities for Anglo Platinum's BEE suppliers. SAIBL assisted 44 of Anglo Platinum's suppliers to attend training for general management, marketing management, and customer care. Anglo-Platinum financially co-sponsored all of the capacity building programs and modules under its program aimed at improving its suppliers' competitiveness. The course was accredited by the South African Education Authority (SETA) and offered under the auspices of Business Skills for South Africa (BSSA). Upon completion of the training, 200 small business owners and dignitaries from USAID and Anglo Platinum attended the official launch of the partnership between Anglo Platinum and the SAIBL program. SMEs were awarded certificates for training received in the following areas: Basic Book-Keeping, Financial Management, Business Plan Development, and Tendering Skills. Participants were addressed by Abe Thebyane, Anglo Platinum's Director of Human Resources; Carlene Dei, Mission Director of USAID in South Africa; and Charles Maluleke, Senior General Manager, Environment and Tourism.

³ The exchange rate from Jan to Sept 2001 was 8.

New Programs

Women Entrepreneurship Program

The SAIBL program, the dti's Women Empowerment and Gender Unit, the International Finance Corporation of the World Bank, and ABSA Bank partnered to create the Women Entrepreneurship Program (WEP). WEP helped to facilitate growth for woman-owned entrepreneurs by providing counselling, training, and coaching in a competitive but supportive environment. The SAIBL program provided financial assistance to the University of Pretoria to train women entrepreneurs to develop business plans and ABSA Bank approved their loans. During 2005, 131 women entrepreneurs were trained and six businesses were approved for financing.

Trade Missions

Zambia Trade Mission (May 26-June 4, 2005)

Harcliff Mining Services, Shenka Industries, Yaqin Investments, and Guduza System Technologies participated in a trade mission to the Zambia Agriculture and Mining Expo. The trade mission generated over \$2 million in sales transactions. Below are further details about each company and the results of the trade mission:

Harcliff Mining Services

Harcliff Mining Services is a small Johannesburg based company specializing in the design and manufacture of heavy-duty mining equipment. The Trade team organized meetings for the company with three major mine companies in Zambia. From the meetings, Harcliff formed a joint venture with Stalwart Investments, a small engineering firm based in Kitwe. Harcliff produced girth gears, mill ends, and pinions for \$150,000. Before the Trade team's assistance, Harcliff had never made an export sale to a country in the SADC region.

Yaqin Investments

Yaqin Investments specializes in supplying industrial glues to the wood processing industry and supplies safety equipment to the mining industry. Copperbelt Forestry Company (CFC), a Zambia-based wood processing company awarded Yaqin a trial order for \$4,000. CFC awarded Yaqin monthly orders as a result of the company's consistent and timely deliveries, which lead to the hiring of additional full-time employees.

Shenka Industries

Shenka Industries, a specialist in supplying nuts and bolts of various models and sizes, contacted the SAIBL program to identify a new market of end users and to diversify its supplier base. The SAIBL program organized one-on-one meetings with three mining houses and four suppliers of bolts and nuts.

Automotive Trade Mission (November 1 – 8, 2004)



DaimlerChrysler Automotive Plant in Port Elizabeth, South Africa.

The SAIBL program, CCA, NMSDC, and DaimlerChrysler organized an automotive trade mission to South Africa which brought together 15 U.S. minority-owned businesses enterprises (MBEs) and 50 South African BEEs for a series of workshops in South Africa. The following year during the 2005 CCA U.S.-Africa Business Summit, four of the MBE trade mission participants- Diversified Chemical Engineering, Set Enterprise Inc., The Ideal Group, and Kensa- hosted factory tours for the BEE suppliers. Johnson Controls, a tier one supplier company hosted the delegation at its headquarters in Plymouth, Michigan plant.

From the linkages made during the trade mission and subsequent meetings, one of the participating BEEs Foxtec-Ikhwezi, a BEE manufacturer of aluminum suspension struts with a staff of 18, of which 8 were women, was awarded a 7-year contract for \$2.2 million to supply parts to both DaimlerChrysler South Africa and its German operations. Foxtec-Ikhwezi received training and management support from the SAIBL program enabling it to obtain TS16949, an international quality standard in the automotive sector.

Wine Trade Missions (May 18-26, 2006; October 15-22, 2007)



SAIBL wine clients receive feedback from U.S. market experts.

In 2006 the SAIBL program organized a U.S. trade mission for three of its top BEE wineries. Thandi wines, Bouwland, and Mia Cara spent five days in Seattle and the surrounding wine

regions of Washington State where they visited local wineries, hosted wine tastings, and met with distributors, importers, and retailers. During their site-visits the wineries learned best practices and received technical advice from U.S. wine experts. The delegation attended tasting events in New York City and met with local industry experts. After the trade mission, Bouwland received a sample order for 200 cases of its Cabernet/Merlot blend, Mia Cara a sample order of 400 cases of its Best Red and Reserve Shiraz, and Thandi an order worth \$8,000 for cases of its Chardonnay.

In October 2007, the SAIBL program and Wines of South Africa (WOSA) collaborated on a wine trade mission for Izala Wines, Koopmanskloof, Women in Wine, and M'huudi for the second wine trade mission. The trade mission consisted of four expert panels, consumer and industry-only tasting events, and a major wine fair. The wine trade mission provided the wineries an opportunity to explore additional U.S. markets such as Orlando, Miami, Washington, D.C., and Boston, in addition to a follow-up visit to New York. The wineries met one-on-one with retailers, wholesalers, sommeliers, and importers. These panels conducted provided feedback on price points and the bottle's packaging and labelling.

Giftware Trade Mission (January 18-21, 2008)



Consul General Mrs. Fikile Magubane addresses the dti-SAIBL delegation and invited guests at private reception.

The SAIBL program, the dti, and the South African Consulate in New York collaborated on a Giftware trade mission where 15 South African giftware companies exhibited at the New York International Gift Fair (NYIGF). Three existing clients participated, Zandla Xpressions, Sizana, and Artists of Africa; and from the activity SAIBL also recruited three additional clients- Mogalakwena, Kunye, and Porcupine Ceramics. The trade fair reported 40,000 attendees, 20,000 buyers, and 2755 exhibitors from 50 countries. The South African companies displayed select pieces on a shared booth and exhibited a more comprehensive product selection in a meeting room where they also met with buyers one-on-one. Prior to the show, the companies attended a pre-show training on U.S. market intelligence, forging lasting buyer relationships,

export channels, and pricing. Consul General Mrs. Fikile Magubane welcomed the delegation at a private reception. Artists of Africa, Kunye, Mogalakwena, Sizana, and Zandla Xpressions returned to exhibit at the summer NYIGF. Since the SAIBL program's first intervention, the companies have sold \$79,500 in cash-and-carry at the trade show, and more than double that amount in written order sales.

In the News: Media and Awards



SAIBL client Ms. Sally Marengo of KPL Aluminum and Die Casting received the Outstanding Entrepreneurial Achievement Award from President Mbeki (2001).

- *Naphtronics*, a security company was given the Century International Quality Era award in the Gold category and the Quality Summit International award in the Platinum Category by the Business Initiative Direction.
- *Mrs. Govender's* received the New Millennium Award in February 2005 from the 24th International Awards for Food and Beverages for its All In One Curry Paste. This prize was created in Europe to distinguish companies within the food and ancillary industry.
- *Lindiwe Wines'* Shiraz was selected as the Wine of the Month in March 2005 out of 42 submissions by the "Wine of the Month Club". "Warm spiced meat, smoke and old leather bouquet. Medium-bodied, a welcome dry version ...with savory fruit," noted the awarding judge. Lindiwe Wines also received high marks for its wine and was selected as a '*premium*' wine by Wines of South Africa.
- *Zandla Xpressions* won Exporter of the Year in the small business category, an award honoring businesses in the KwaZulu Natal Province. Zandla Xpressions exported to the United States, Japan, Italy, the United Kingdom, Australia, Sweden, and Canada.
- *South African Jewels* and *Lindiwe Wines* were featured in the December 2005 edition of *Business Day's* "The South African Exporter". Below are excerpts from the articles:
Beads set off up market products
South African Jewels manufactures and sells handmade beaded jewellery aimed at the upper-end of the market. Its products are designed to complement modern fashion and sophisticated American and European tastes. After the USAID-funded South African

International Business Linkages (SAIBL) program helped the company create a business and marketing plan, design and development overseas packaging material, and attend local and U.S. exhibitions, the company is now selling in the United States and Europe. It is now planning to move into Spain.

Breakthrough for black wine-makers

Lindiwe Wines toasted its success this week for accessing the British market with its range of quality wines. The accomplishment followed the company's local success within the large domestic supermarket chains Pick 'n Pay, Checkers, Spar, and Friendly Grocer. Early assistance [that] came from USAID-funded South African International Business Linkages (SAIBL), which financed promotional materials, internal and overseas business development, and marketing trips allowed Lindiwe to bring its wines to at least 7 U.S. states.

- The South African Academy Institute awarded *Phoenix Galvanizing* with the prestigious Golden Peacock Corporate Award for its health and safety standards. The ceremony was held at the company's Durban plant in November 2005. SAIBL helped Phoenix train staff members, implement quality management systems (ISO 14001 and ISO 18001), and introduce rigorous occupational health and safety standards.
- Ms. Shilela Malatje, owner of *Dunkirk Metal Industries* won the Limpopo Business Woman of The Year prize in November 2005. Ms. Malatje and her husband bought an ailing manufacturing company and made it profitable within two years. Today the company employs more than 34 people and is a proud supplier to Woolworths, Boardmans, and Bidvest. Dunkirk developed a marketing strategy and attend exhibitions in Port Elizabeth and Mozambique with assistance from the SAIBL program
- Emerging farmer Mr. Moses Malo from Tswaing was awarded the 2005 Provincial Farmer of the Year Award by the National Developing Farmer of the Year Competition. Mr. Malo attended a skills-sharpening course offered by Grain South Africa with the PAL components assistance. He also attended a week-long course on crop management, soil analysis, plant density, weed control, and effective marketing skills.
- *Eyethu Ships Agencies* was awarded the prestigious Best Managed Maritime Business Enterprise Award in October 2005. Eyethu provides the local and international market with shipping services of bulk and break-bulk cargo (in liquid and dry form). This was Eyethu's second consecutive win of the Ministerial Award. The Chairman of Eyethu, Mr. Chris Magagula is a strong supporter of the SAIBL program's Business Linkage Network, a network promoting procurement partnerships between government and private sector.
- Popular South African television program Vuk'uzenzele ("Get up and Do it For Yourself"), profiled the SAIBL program and one of its clients, *Chem-Fresh*. The program provided information on the program's objective, criteria, and technical assistance fund. The interview highlighted the history of the SABS-approved, BEE cleaning company that was started seven years ago with only R68. Chem-Fresh is now available in Kwik-Spars in Johannesburg and the greater Gauteng Province.

- U.S. newspapers The Union Bulletin and the Chicago Sun Times featured *Bowland Wines* after its participation in the 2006 wine trade mission.
- Montagu Development Trust received a trophy from the Department of Agriculture, Western Cape for The Best Emerging Farmer Group. *The Zionsberg Farm*, an agricultural project of the Montagu Development Trust, identified a market for apricots, Turkish figs, and pomegranates with the SAIBL program's assistance. The crops were sold to Rhodes Food Group and Uni Pack, two large wholesalers in the Western Cape. The farm's income has increased from \$10,770 to \$19,230.⁴
- *Shoki Construction*, a transport and mining services company, was awarded second prize at the National Business Women of the Year Awards Gala in August 2007. The competition is sponsored by Technology for Women in Business, an agency of the dti. Shoki attended a series of training programs on management, tendering, catering, safety, and health that were organized by the SAIBL program through the Anglo Platinum supplier development program.

⁴ Exchange rate of 6.5.

VI. Analysis of Lesson's Learned and Recommendations

In its 10-year span, SAIBL achieved remarkable results in capacity building (more than 3,000 SMEs assisted), SME competitiveness (total sales of \$1.7 billion and \$130 million in exports), and job creation (18,000 jobs). The results are impressive but with the benefit of hindsight they would have certainly been even better. Over the course of the SAIBL program some missteps were made and lessons learned. The following section will explain what the program ascertained from its 10-year tenure.

PROGRAM FINDINGS

1. Corporate demand needs more emphasis. With the BBBEE standards in place it has become a business imperative for companies to increase their pool of black owned suppliers. Too many companies were waiting for the government's legislation to be implemented. With the BBBEE codes and charters now in place, these companies need to be reengaged utilizing a business case as a carrot to the government's stick. Many companies have begun to realize that it is a business imperative to expand their BEE procurement. This realization presents a great opportunity to BEE suppliers who are willing and able to meet this demand, and to SAIBL-like programs that able to assist.

Clearly BEE suppliers need assistance in building sustainable relationships with corporations in South Africa. The need for facilitating such relationships exists among BEE suppliers and corporations as well. The form of assistance, whether training and development, mentorship, coaching etc., is not as important as the need for developing open dialogue and relationships. Many corporate partners stated that the focus on BEE has left a negative perception in the minds of their staff and that change and transformation is needed within their organizations. Therefore it is important to focus on assisting and supporting both BEE SME suppliers and staff within large corporations to make sure that the current business linkages model is improved and successful. Furthermore, it will result in an enhanced business relationship between large and small or medium enterprises.

2. Making a business case for increasing BEE procurement is essential for companies. The economics of this fact in the United States context are quite staggering. It is expected that the combined buying power of African Americans, Asian Americans, Hispanic Americans, and Native Americans will reach \$1.5 trillion in 2008, more than triple its 1990 level. As noted by Business for Social Responsibility (BSR), "While some programs were initially fuelled by mandates related to government contracts, current innovation reflects growing corporate awareness of the business and community benefits of these efforts. Business leaders are creating a more integrated approach to respond to growing ethnic markets, shifting employee demographics and increased demands on their supply chain." The lesson South African companies need to learn from this, is that preferential procurement activities driven by a business model are more successful in achieving the desired outcome than a social responsibility emphasis. This lesson is further compounded that in South Africa, "minorities" (non-whites) make up nearly 90 percent of the population and are the main contributors to the booming middle class. Progressive South African companies have already realized the business benefit of preferential procurement and have in implementing affirmative procurement and supplier diversity and development programs.

The Financial Mail Top Empowerment Companies report found that companies that perform well have approached BEE as a long-term human development program as opposed to an accounting obligation. They have emphasized bringing black people into senior management positions, contributed to skills development, and have significantly procured from black-led firms.

Continued engagement and dialogue between BEE suppliers and corporate management will address the problem of misunderstanding between corporations and entrepreneurs in terms of their respective context and operating culture. The findings from the SAIBL program suggest that companies are most successful when they view the relationship with BEE suppliers as a long-term one with win-win partnership. Moreover, mentorship programs and the investment of additional time and financial resources in suppliers will bear fruit.

3. Corporate champions are essential to the successful implementation of the BEE procurement program. Looking at the examples of U.S. experiences, BSR lists a number of what it terms ‘leadership examples’ in companies, “who represent innovation, higher than average commitment, unusual industry practice or a comprehensive approach to this issue.” Some of the activities corporate champions undertook included mentoring, community outreach, second-tier development, assisting with development of business plans and executive level training. Companies who report significant business benefits as a consequence of these types of diversity activities include Denny’s, Athlete’s Foot, Johnson Controls, Accor, and Texas Instruments.

Motivation for preferential procurement is very important. Some buyers consider it a purely public relations exercise and will focus on quantifiable targets- getting the numbers right. Such buyers lack commitment, and the relationship with their BEE supplier will be a superficial one. They will not extend support and will fail to fully understand the BEE supplier’s needs and challenges.

4. Corporate staffing. Other studies have suggested and implied that the best practice for BEE implementation is for a corporation to create a separate unit or dedicated staff to address preferential procurement issues. In addition, suggestions have also been made that currently staff in these departments are specifically rewarded (or sanctioned) for non-performance.

SAIBL dispels that suggestion. While some companies have PMPs around BEE, most discard the creation of a separate unit. The program found that in the most successful companies, staff were assigned BEE-focused project, not dedicated. In this way, it became part of the normal procurement function (i.e. their normal workload). No additional rewards are given specifically for BEE activities. One company committed to “mission-directed work teams” and implemented extensive functional measurements and targets. Another company has quarterly “culture and climate” meetings where issues are raised and discussed by the employees. Best practice strongly suggests that a separate unit is not created, but it is part and parcel of the normal job description.

5. Corporate targets are a critical success factor. SAIBL has found that companies who set targets and then monitor and evaluate achievements against the targets (and reported the findings at the highest level), are likely to have the most successful BEE procurement programs. The primary corporate emphasis has been often on the ownership status of suppliers with targets

specified as a percentage of the total spend. Many firms have quickly adapted to the BBBEE codes since they came out in 2007 and recognizing them has been a high priority.

Most large companies have stated that they've set detailed targets. The targets set are generally quantitative (percentage of spend) with very few qualitative targets (increased competitiveness, technology transfer, etc.). It is expected that as quantitative targets are set companies will spend more time considering what qualitative targets will be most useful and reflected in PMPs.

6. Leveraging partnerships is essential. The success and impact of the SAIBL program has depended to a great extent, on partnerships with a wide range of USAID-funded programs, South African and U.S. Government agencies, parastatals, and private sector institutions. Partnerships help to leverage resources and results, improve the knowledge base, and ensure ownership and sustainability.

7. Database of accredited BEE suppliers made available to companies. Finding capable BEE suppliers has been referred to as a struggle by companies. The NMSDC's wide range of programs and services include inter alia, certification of minority business enterprises, a national computerized database of more than 15,000 certified minority suppliers, and referrals to corporate buyers of minority suppliers "capable of providing quality goods and services at competitive prices, and in a timely fashion".

On the demand side, for example, Apple provides a web-based user-friendly system of registering in its Apple Supplier Diversity Program. As stated on their website, "We encourage you to be a part of an important commitment to support Historically Underutilized Business (HUB) development. It makes good business sense and benefits both the businesses and communities we serve".

Most South African companies acknowledge that their databases did not give them the comprehensive information they required, and they needed to allocate more effort and resources in this regard. Most report on ownership only, with some having a gender and disability breakdown.

The ideal would be a national NMSDC-like database that would be hosted by a business membership organization (BMO) or similar organization. This would allow fair and open access, as well as the capacity to vet suppliers and access corporate decision makers.

7. Global supply chains are more difficult to penetrate as their directives and priorities do not easily lend themselves to national initiatives. Multinational companies like Daimler and BMW South Africa are part of a procurement system that is managed from Germany. While these companies have satellite offices in South Africa, the companies' missions and organizational targets are set by headquarters with little to no consideration being given to the national priorities of the respective satellite host countries. This has been a difficult puzzle to solve throughout the SAIBL program; however, with the BBBEE codes and industry charters now in place, global manufacturers have recognized that to remain competitive they will need to improve their BEE procurement.

8. Emphasize on trade. Export markets have the potential to fast track the growth of South African companies and given their size, ensure long term and sustainable job creation. Secondly,

once companies meet export standards, they become globally competitive. Companies that are exporting have very high growth rates and sustainable jobs. Opening other markets to South African companies is the key to many other opportunities. This is especially true for BEE companies, as many SAIBL clients found it easier to penetrate the U.S. and European markets than the domestic (South African) marketplace (e.g. wine companies). Many clients have niche products within the domestic that can be transferred easily to the mid- and upper- end of the U.S. and European markets.

9. Assistance in Quality Standards. South African companies need to benchmark themselves against international standards. Work should continue to train and carry these companies through the process of meeting ISO requirements and other standards as demanded. In addition, other requirements such as sanitary standards and presentation requirements such as packaging are critical to enhancing competitiveness.

In 1995, the Centre for Advanced Purchasing Studies (CAPS) in the U.S. undertook a study into what constituted best practice when purchasing from MBEs. The most significant finding pertained to the treatment of MBEs in relation to price, quality, level of service, delivery, capability, and ISO 9000 certification. “By overwhelming margins, respondents indicated that established purchasing practices were not being relaxed in order to support an MBE program”. On the occasions that they were relaxed this was only in the case of “certain start-up or developmental situations and that this was not common practice.”

10. Access to finance. There is consensus that in South Africa, finance for business is not in short supply. However, there is a lack of capital available for SMEs. It is easier to find finance for a project of R10million than funding for one requiring R10,000. Banks still rely on conservative lending practices and are generally reluctant to finance SMEs, and more so if the enterprise is in its early phase of development. Most importantly, understanding the process and conforming to the requirements necessary to access finance is the greatest challenge among SMEs. It is therefore continued assistance to SMEs is recommended through the development of optimal business plans and introducing them to companies that could bring in equity partners.

Experience has shown that many financial institutions are keen to finance SME and HDEs in the expansion stage. One possible solution could be the development of a revolving fund that could be used as a type of bridging finance for the SMEs. Once the SMEs have positive cash flows and good linkages with domestic or international partners, South African financial institutions are found to be willing partners. Unfortunately these institutions are extremely risk averse especially when SMEs are involved. There is a need to mitigate these risks before the SMEs solicit funding. The revolving fund would meet this need.

One clear success story was an instance where the initial hands-off approach to a BEE supplier company comprising of its former employees almost proved fatal to the new business. The company then agreed to provide financial assistance subject to certain conditions:

- Monthly meetings to discuss and review performance
- Open book policy to enable staff to review financial and business performance and give appropriate feedback
- Extensive training to all shareholders (some of whom were illiterate)

- Analysis of business and commercial processes and convert to best practice:
 - Shareholder's agreement
 - Reporting structure
 - Segregation of duties
 - Approval framework
 - Functional responsibilities including high level key result areas (KRAs)
 - Business ethics
 - Productivity improvement

This BEE supplier has now recorded a profit of about R1million. The company has stressed that is encouraging the BEE to seek additional/alternative sources of business in an effort to diversify its business and avoid a total dependency one client.

11. Managing exchange rate dynamics. Understanding exchange rate dynamic is critical to the survival of exporting companies. Many companies were thrown off guard due to the unexpected fast rate of appreciation of the rand. This has led to fast decline of their sales with subsequent decrease in profits. In order to minimize the dangers inherent in exchange rate dynamics, there is a need to train SMEs on issues of hedging and if not, then how to use time trend exchange rates in locking deals rather than operating on spot rates.

12. Training and Mentorship. Among the most appreciated service SAIBL provided was the relevant trainings and mentorships. Clearly, HDE SMEs in particular need hands-on capacity building and mentorship assistance. While there is a need to graduate companies based on achieving agreed upon targets, HDEs will require more long term assistance that joint businesses (a combination of white and black ownership). Perhaps university professors or retired business executives could be organized to fulfil this role as done in the U.S. by the Small Business Administration.

13. Sector Focus. Future work should attempt to emphasize the business sectors in which South Africa has a comparative advantage, and at the same time which have the potential to create jobs. While this was the strategy under SAIBL, many times there was too much emphasis on success stories (or low hanging fruit) which may have been opportunistic. There is an inherent challenge that business development needs to redress and that is to bring into the fore the HDEs. To that end, no matter how difficult it may be, there should be more emphasis on looking for new businesses focused around industry clusters.

14. Breadth versus Depth. The SAIBL evaluation conducted by KNC in 2004 attributed the cost per job under the program as \$2,062 in 2003. Using the same calculation, the average was \$1,746, and \$5,253 in the final year (see Chart 16). In 2006, the Industrial Development Corporation (IDC) was given R4.2 billion with which they estimated they could create 26,200 direct jobs, which equates to approximately \$25,000 per job. This certainly makes the SAIBL program look impressive, but what factors are underlying these numbers? Does IDC's \$25,000 per job result in more global competitiveness, access to finance, certification, international trade shows, or more mentorship? In theory, IDC should be able to buy more stable and agile employment than what many of SAIBL's interventions with BEE SMEs could generate.

Comparing the early years of the SAIBL program where the cost per job was well under \$1,000, to the later years where it was over \$5,000 per job reflects this theory in practice. As the program became more focused and strategic, there was less cherry picking and more nurturing of SMEs. Correspondingly, work on the demand side with South African corporations and the U.S. market followed suite. So the cost per job may have increased but it reflected a much more integrated, holistic, and demand driven approach which carried the SAIBL clients through the necessary steps to make them globally competitive and hence more agile and sustainable.

In addition to understanding that BEE SMEs need much more intensive assistance than perhaps the program was designed for, SAIBL has found that job creation will not just sprout from 'on the ground' attention. Similar programs must work towards systemic impact at the institutional and support layers of the market. These impacts are sometimes resource intensive and require a longer timeframe to come to fruition.

15. CCA Contribution. The evaluation of the program done in 2003 also recommended that CCA set targets toward the number of leads it generated from the U.S. market. For a couple of years this was the operating model CCA followed to market the program to U.S. companies, and then forward the leads to ECI to find suitable BEE SMEs to secure products from. The problem with this approach was there were too few BEE SMEs that had the products requested and even in a position to supply the U.S. market in terms of volume and quality consistency. It may have been demand driven but not in a practical sense.

Instead a much more focused and sector specific approach was implemented with far greater success. CCA determined the sectors in which South Africa had a comparative advantage in the U.S. market place and which of those sectors had a sufficient number of BEE SMEs and/or existing SAIBL clients. Then those potential clients underwent a rapid assessment to determine if:

- 1) They were interested in the U.S. market
- 2) They were ready for the U.S. market

Interventions were then conducted to prepare them for market entry. After a sufficient number in each sector were ready a group trade mission was undertaken where they were introduced to the U.S. market via trade shows, meeting sector experts, and major buyers. In this way every additional trade mission built on the previous and thereby creating more and more traction.

The AGOA component of the program ended with a ROI of 1 to 10, which is double the rate in similar USAID programs with a U.S. trade component. This reflects very well on the focused interventions done with these clients.

It is highly recommended that future work in this area include a U.S. investment component. This would allow a greater transfer of technology and increased capacity for BEE SMEs; it has been found that U.S. companies are willing to offer far more favorable terms than South African firm.

16. Interaction with government agencies. There are some concerns from BEE SMEs that the dti is not effective in its delivery. SMEs submit that the rate at which the dti delivers its promises needs to be accelerated. While government bureaucracy is inevitable, in the competitive business

environment, timing and seizing opportunities optimally is the order of the game. Future programs need to establish a closer working relationship with dti. These programs need to be profiled at higher levels given the inherent low capacity in many of the government institutions. They need to learn from SAIBL, especially as it relates to exporting, as the internal experience with exporting qualifications and expectations is greater with a program that has a division wholly committed to that are.

17. Staffing consideration. SAIBL did a good job of requiring its staff to have the necessary technical skills to get the job done. However, some key items to more carefully consider are the sometimes more ambiguous, but often more important elements of commitment, charisma, market reputation, insight, and other critical skills that allow interventions to go beyond just dispensing assistance, but to influencing thinking and opening up new and innovative channels for partnering and sharing knowledge.

CONCLUSION

High levels of unemployment, which was among the primary rationales for SAIBL in 1998, will continue to plague South Africa for a long time to come. The mission and objectives of the SAIBL program are clearly in tune with the current needs of the country. While the SAIBL program was small in relation to this effort, South Africa's progress in last eight years as evidenced by the transformation of the Johannesburg Stock Exchange (JSE) shows that South Africa is improving its economic growth while transforming racial imbalances. Below are examples of transformation improvements since during the SAIBL program:

- Measuring and comparing JSE-listed companies using the BBBEE scorecard on an annual basis, there has been consistent improvement in the average contribution made by the JSE-listed companies towards the seven BBBEE factors- black ownership, management representation, employment equity, skills development, preferential procurement, enterprise development, and corporate social investment. The average broad-based score achieved by the top 50 BEE-ranked companies has improved from 35% in the 2004 survey to almost 60% in 2006.
- From a handful of companies that were black-owned or black-empowered in 2003, the JSE now boasts more than 30 black-owned and black-empowered companies.
- An increase in the number of JSE-listed companies that have black shareholders or that are in talks with potential black shareholders.
- The level of BEE-related disclosure provided by JSE-listed companies has improved significantly.
- In 2006 the number of blacks in the middle class increased by 421,000.

The main contribution of SAIBL has been to improve the business linkages between small, medium, and large organizations in South Africa. Furthermore this program can highlight the key criteria that companies look for when dealing with BEE SMEs. It might also change the perceptions that large organizations have about SMEs and the need for affirmative procurement. In this respect, the lessons learned by SAIBL should be of interest to both a national and an international audience that might consider doing business with South African SMEs. The

findings of SAIBL should also assist SMEs in improving their dealings with large organizations and increasing the probability of gaining more business from large organizations.

It is important that SMEs know how to best make use of the opportunities created by SAIBL and further leverage interventions from the dti and to eventually create or grow a sustainable business. It is however, also important that SMEs realize that corporations are not in a position to move away or abandon sound business principles regarding procurement because of BBBEE. Prerequisites and criteria such as quality, volume, price etc., will always take precedence when making a business decision. If this is not the case, these large corporations would lose market share and fail to stay domestically and globally competitive. Multinational enterprises such BMW South Africa are also part of a procurement system that is managed from Germany, which will not lower its global standards.

Throughout its 10-year tenure, the SAIBL program learned valuable lessons that can be used by other organizations and agencies. Namely, that affirmative procurement policies must be implemented and approached as a business imperative with economic benefits and internal, senior-level ‘champions’ that answer directly to top management. In addition, BEEs must position themselves as highly qualified competitors for business and not simply rely on BEE status for contracts; this is especially true once companies begin to export. Lastly, the communication between large corporations and BEEs must be improved in order for true and lasting transformation to occur. Much of the success of the SAIBL program was a result of the lasting partnerships with South African government agencies, organizations, and corporations. Other externally-funded programs must include substantive local involvement to ensure a long-lasting and empowered change, one able to move South Africa towards one economy wherein all of its citizens may realize economic prosperity.

VII. MONITORING AND EVALUATION

Table 1. Sales and jobs created by the SAIBL program

SAIBL	Expenditure (USD)	New Jobs Created	Total Sales (USD)
Core/Trade	16,117,027	13,788	1,505,161,072
PAL	84,57,776	4,184	196,000,000
TOTAL	24,574,803	17,972	1,701,161,072

New jobs created and total sales were the two key indicators of the success for the SAIBL program. This table contains the Core/Trade components and the PAL component's side-by-side with its expenditure. The total sales neared 70 times more than the expenditure utilized to implement the SAIBL program.

Table 2. Core and Trade Reporting

	Export Sales (USD)	SADC Exports (USD)	AGOA Exports (USD)	Companies Reporting
Core/Trade	129,923,514	57,495,450	28,581,413	3,258

Table 3. PAL Reporting

	Sales Contacts	Finance Accessed (USD)	Training (Hrs.)	No. of Companies	Sales Contacts
PAL	56,192	46,643,156	64,056	6,184	56,192

Along with total sales and jobs created, other unique factors were reported in each of the components of the SAIBL program. In the Core and Trade components, total export sales were compiled and further segmented into the destination countries. The SADC countries and the United States were the primary destination areas for South African products, comprising almost 70 percent of total exports. The remaining exports were to European and Asian markets. In the PAL component, finance, training hours, and total sales contracts were important contributing factors to the success of the program. Access to finance was roadblock to SMEs development in South Africa, thus it was an important indicator for the SAIBL program to measure. Much of the training hours reported were made possible through the technical assistance fund (TTAF) that companies utilized to gain international certifications, industry specific training, business management, bookkeeping, and international/domestic marketing plans.

Figure 1. Trend in U.S.-South Africa Trade

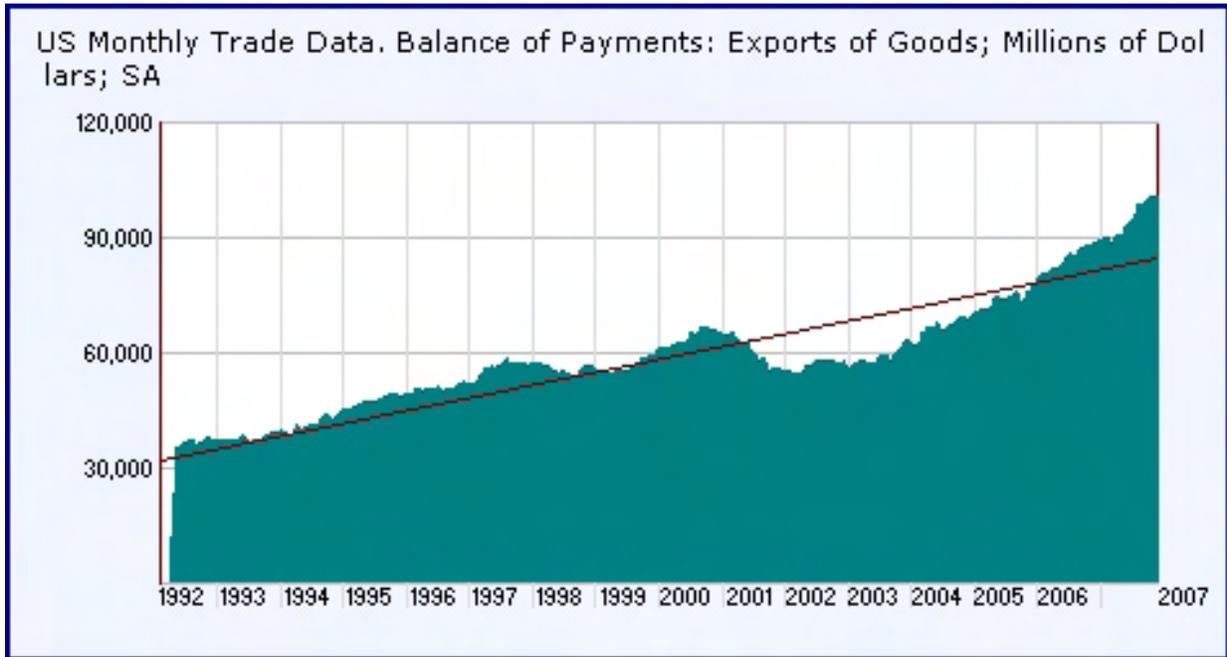


Figure 2. U.S.-South Africa Trade as a result of the SAIBL program

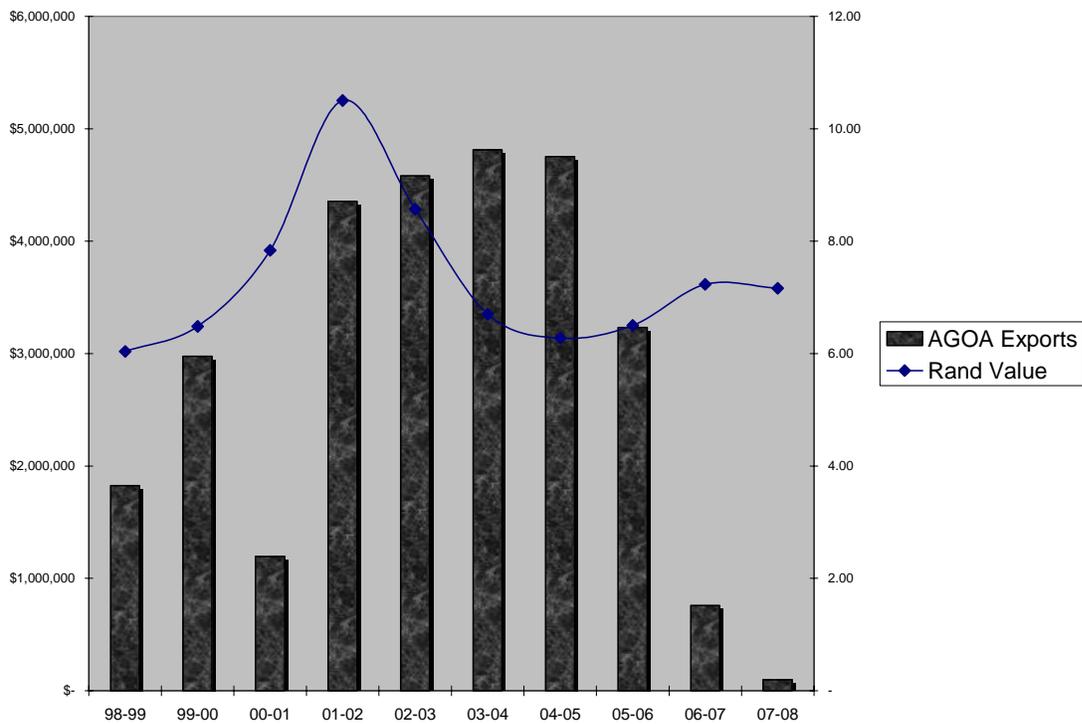


Figure 3. Sales and job creation trends as a result of interventions by the SAIBL program

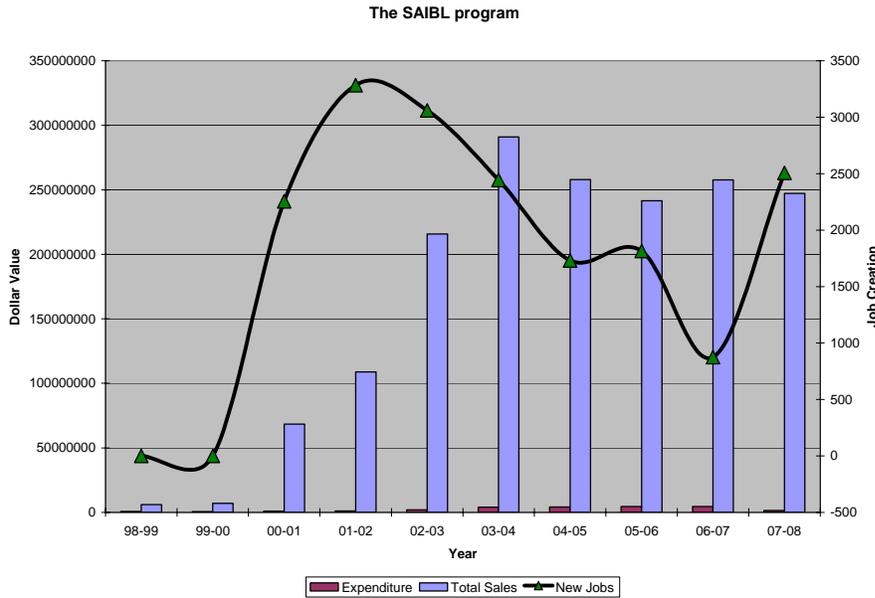


Figure 3 measures the total sales generated by the SAIBL program and the new net jobs created from 1998-2008, against the yearly program expenditure. The yearly expenditure is barely measurable, indicating a high return on investment in sales and job creation.

Figure 4. Job creation trends in the SAIBL program and in South Africa

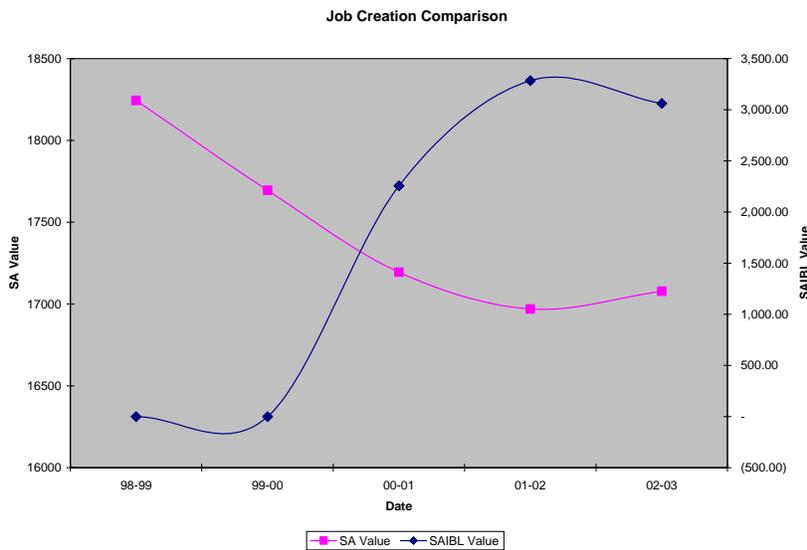


Figure 4 shows a job creation trend more favorable than that reported nationwide. The job creation trend nationwide was impacted by the mechanization of industry and the high cost of labor in South Africa. Although the SAIBL program’s job creation began to slow in 2002, the trajectory remained more favorable than the national average.

Figure 5. Export sales for the SAIBL program and Foreign Exchange Rate (R:USD)

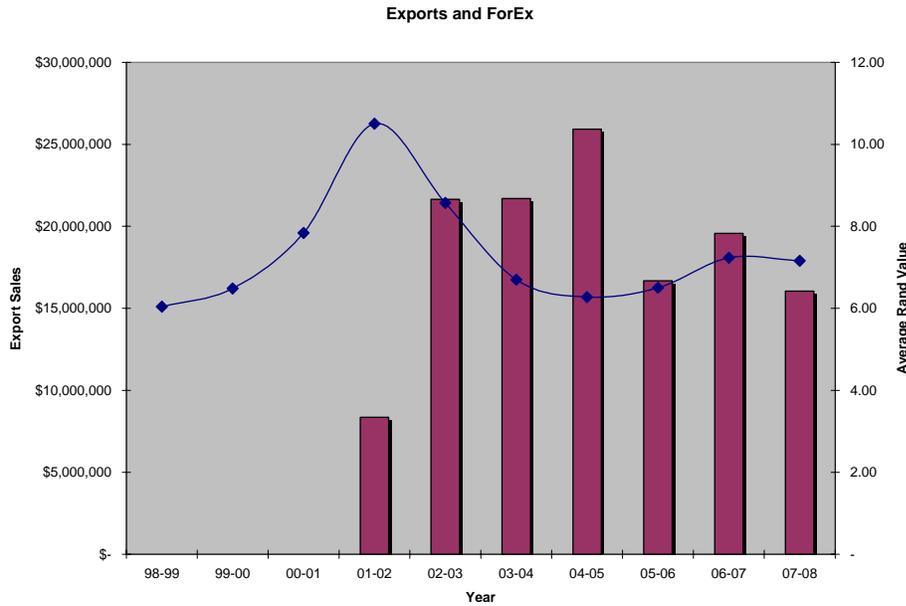


Figure 5 demonstrates that export sales were only slightly impacted by the rand’s foreign exchange rate as it remained fairly constant through the length of the SAIBL program. Even during its most volatile period of 2000-2003, the export sales remain constant and unaffected.

Figure 6. Sales trends in Core & Trade along with the components’ expenditure

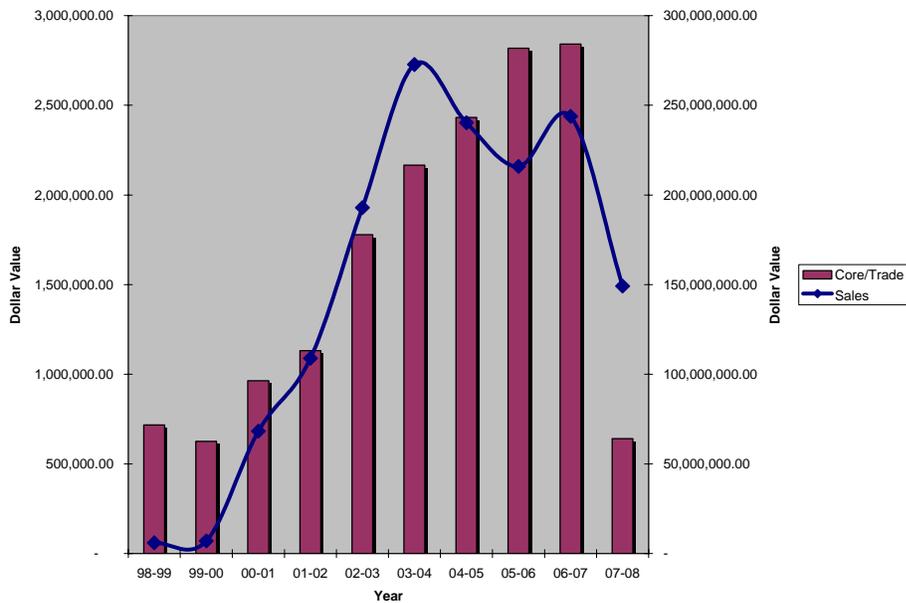


Figure 7. Expenditure and Job Creation reported in Core & Trade

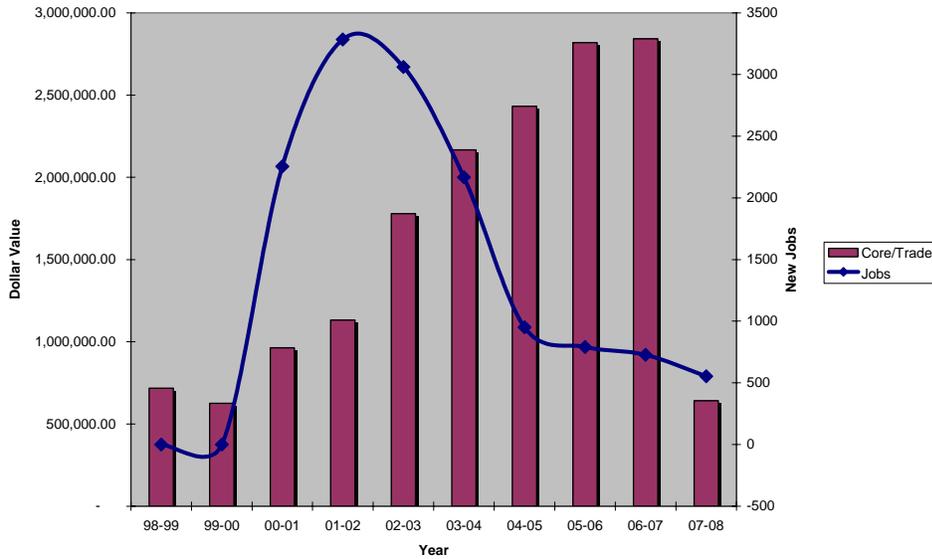


Figure 7 clearly demonstrates the negative effects of mechanization and the South African labor laws on job creation from 1998 to 2008. Growing businesses opted to mechanize rather than hire new full-time employees. This trend in the SAIBL program was consistent with businesses nationwide. It may reflect the more strategic approach SAIBL adopted later in the program where it focused more on higher-skilled and sustainable jobs.

Figure 8. Expenditure and Sales reported in PAL

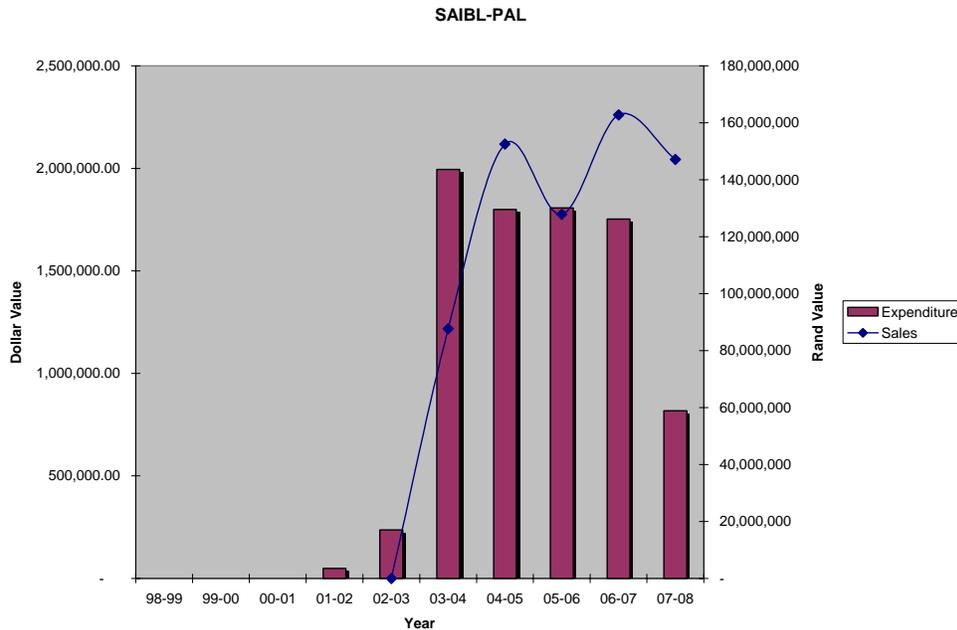


Figure 9. Expenditure and Job Creation reported in PAL

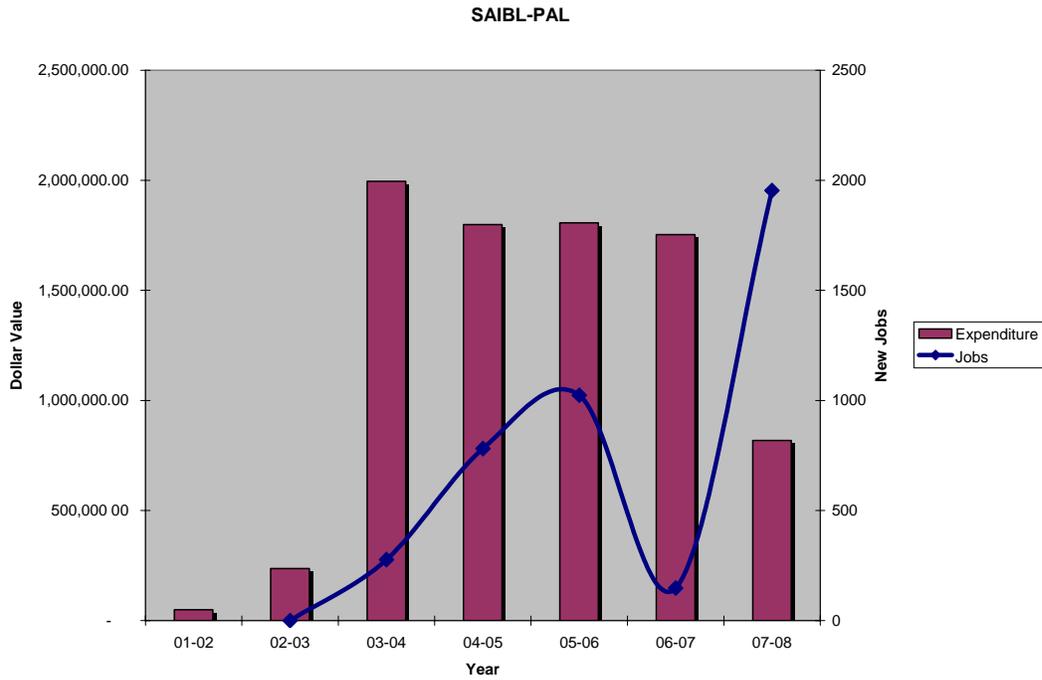
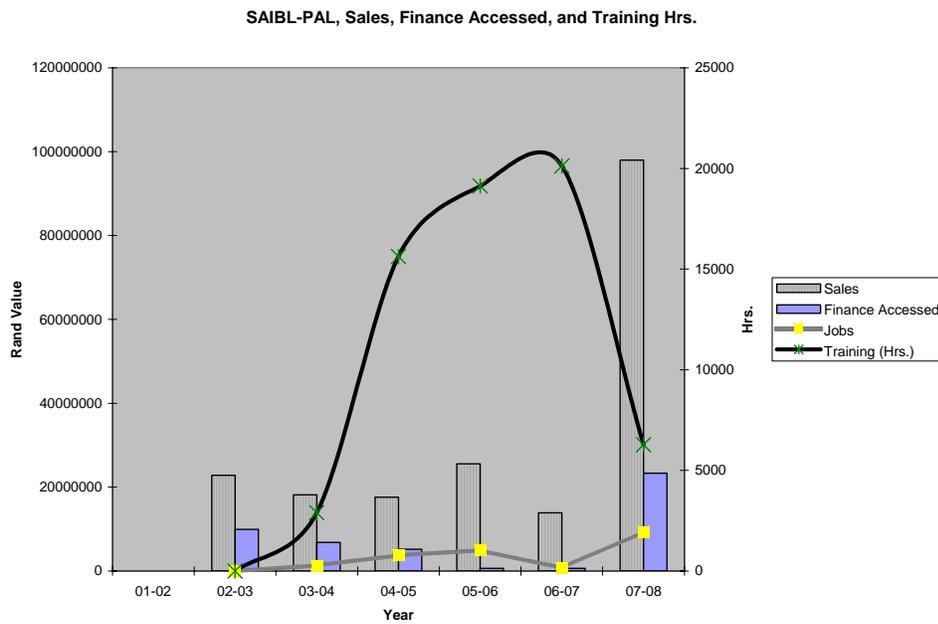
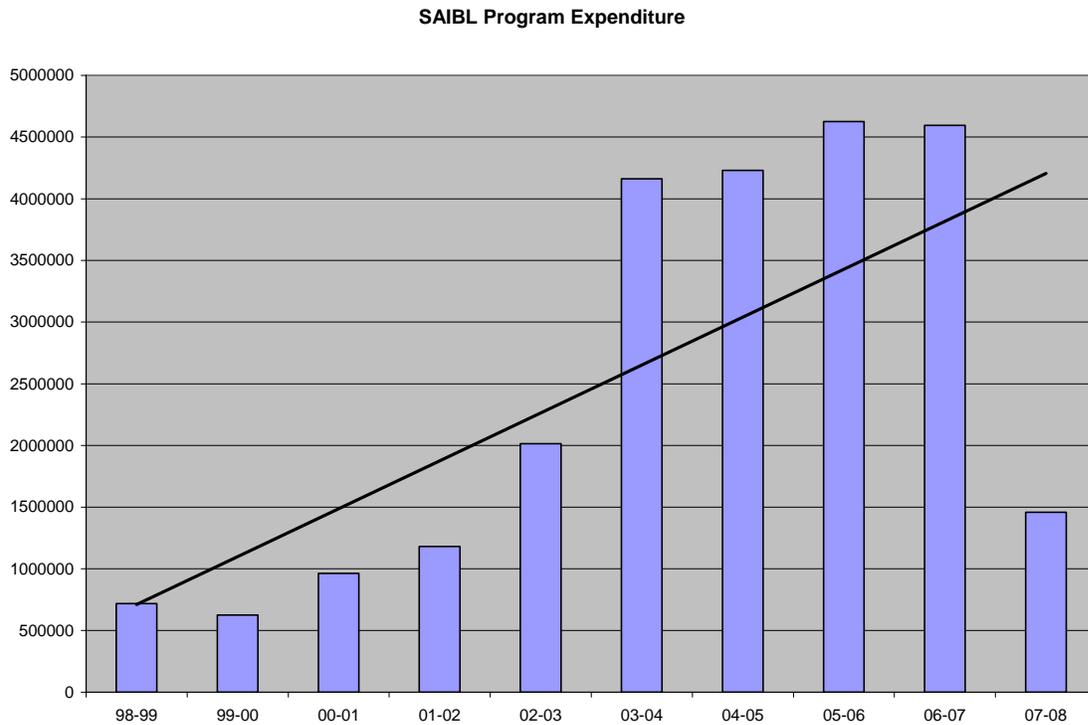


Figure 10. Training Hours and Access to Finance reported in PAL



VIII. FINANCIAL REPORTING AND INVENTORY

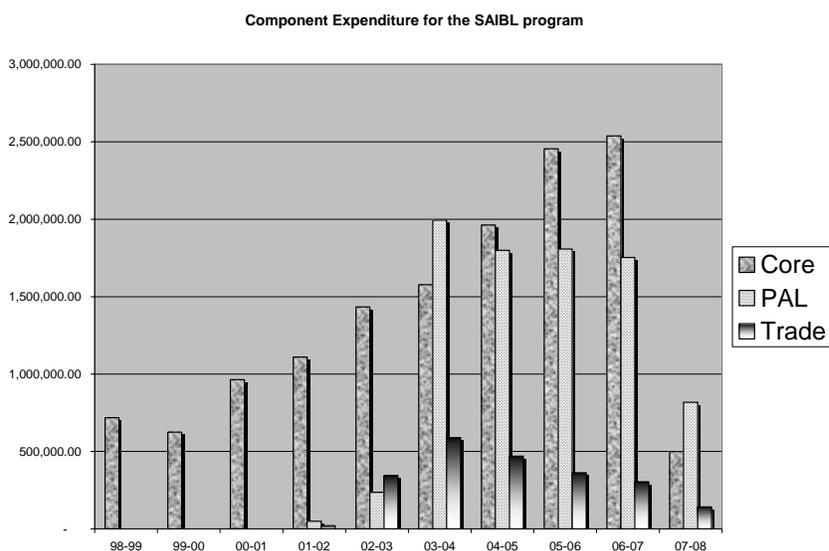
Figure 11. Total expenditure by the SAIBL program



SAIBL	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08
Expenditure (1000, USD)	718	626	964	1,181	2,015	4,162	4,231	4,626	4,595	1,459

The SAIBL program grew steadily throughout its tenure from 1998-2008. A series of financial modifications occurred, most significantly, when USAID added the PAL and Trade components to the existing SAIBL program in 2002. The program's expenditure indicates that from late 2003-2008, the three components of the SAIBL program were in full operation until the program closed on March 31st.

Figure 12. Component expenditure of the SAIBL program



Component expenditure of the SAIBL program

(USD)	Core	PAL	Trade	TOTAL	Obligated Amount	Balance Remaining
98-99	717,722	0	0	717,722		
99-00	625,526	0	0	625,526		
00-01	963,708	0	0	9,63,708		
01-02	1,110,493	490,70	21,067	1,180,630		
02-03	1,432,896	236,361	345,448	2,014,705		
03-04	1,577,549	1,995,003	589,421	4,161,974		
04-05	1,962,233	1,799,306	469,786	4,231,326		
05-06	2,454,966	1,807,021	363,551	4,625,539		
06-07	2,537,079	1,752,957	304,521	4,594,558		
07-08	499,564	818,057	141,494	1,459,115		
TOTAL	13,881,738	8,457,776	2,235,289	24,574,802	24,612,545	37,742

Figure 13. Foreign Exchange Average during the SAIBL program

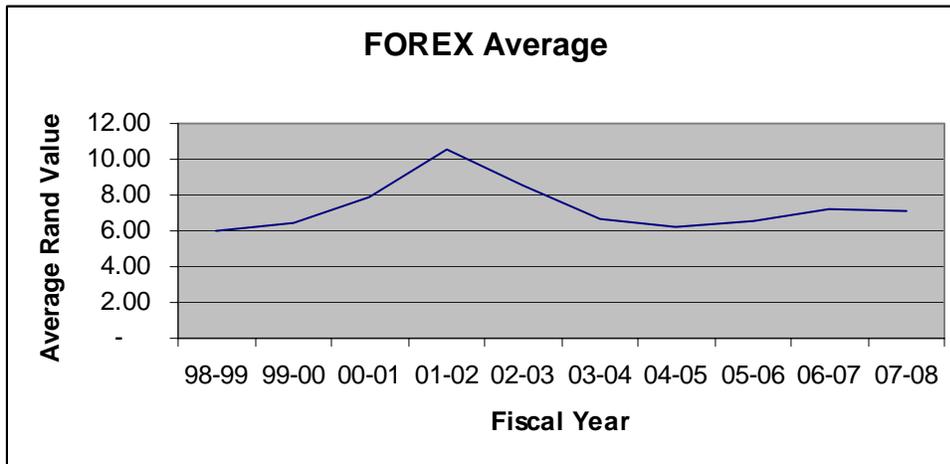


Figure 14. Foreign Exchange during the most volatile period of the SAIBL program

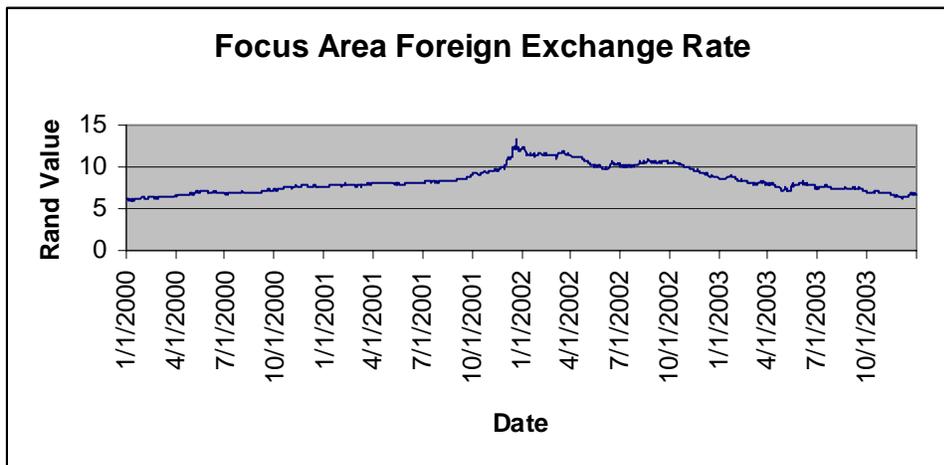


Figure 15. Return on Investment in sales from the SAIBL program

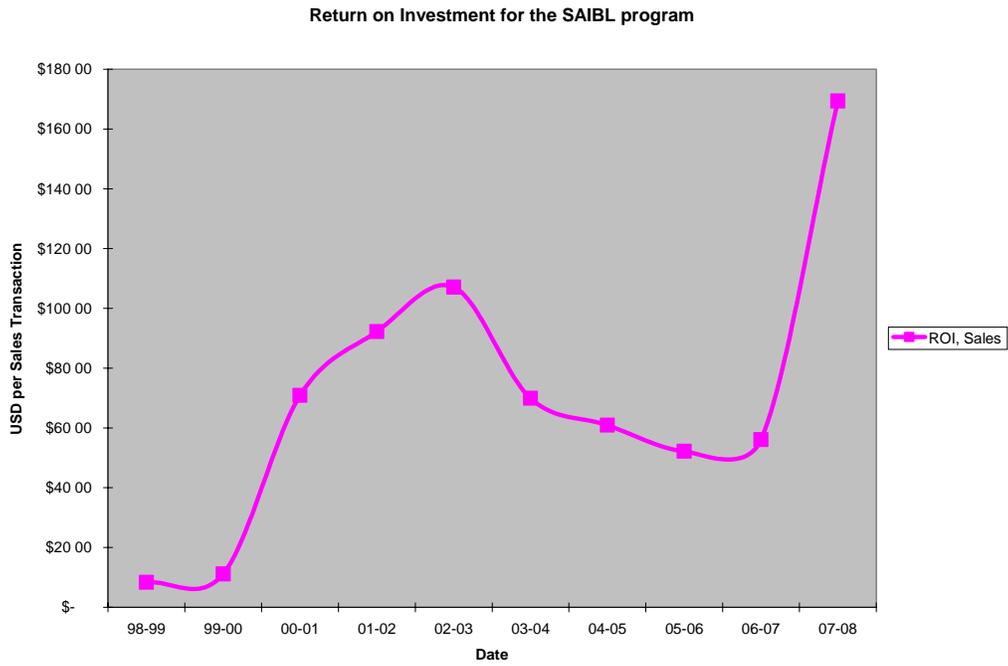


Figure 16. Return on Investment in job creation for the SAIBL program

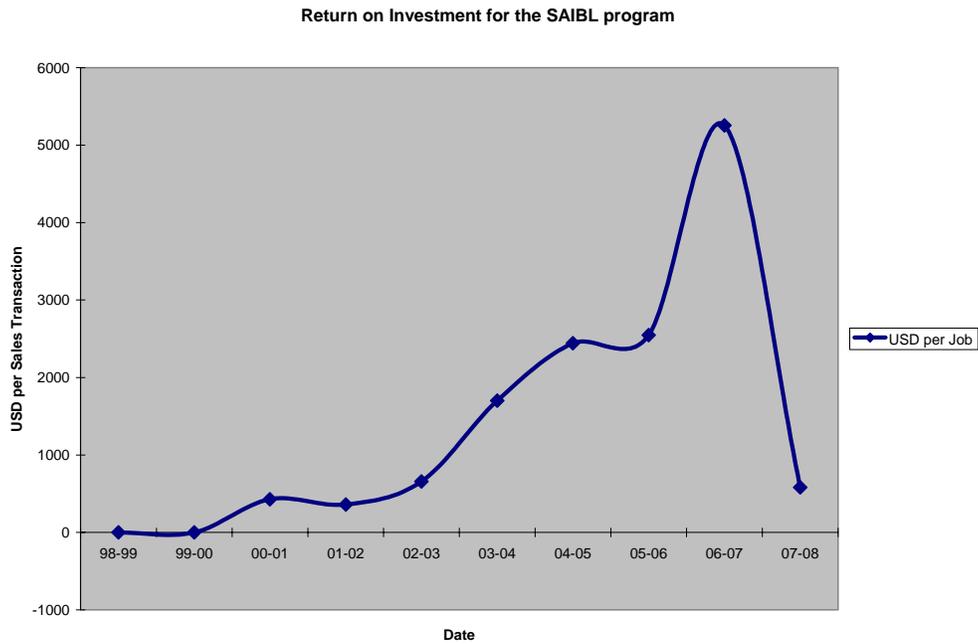


Figure 17. Jobs created by sector in the Core & Trade components for FY 2008

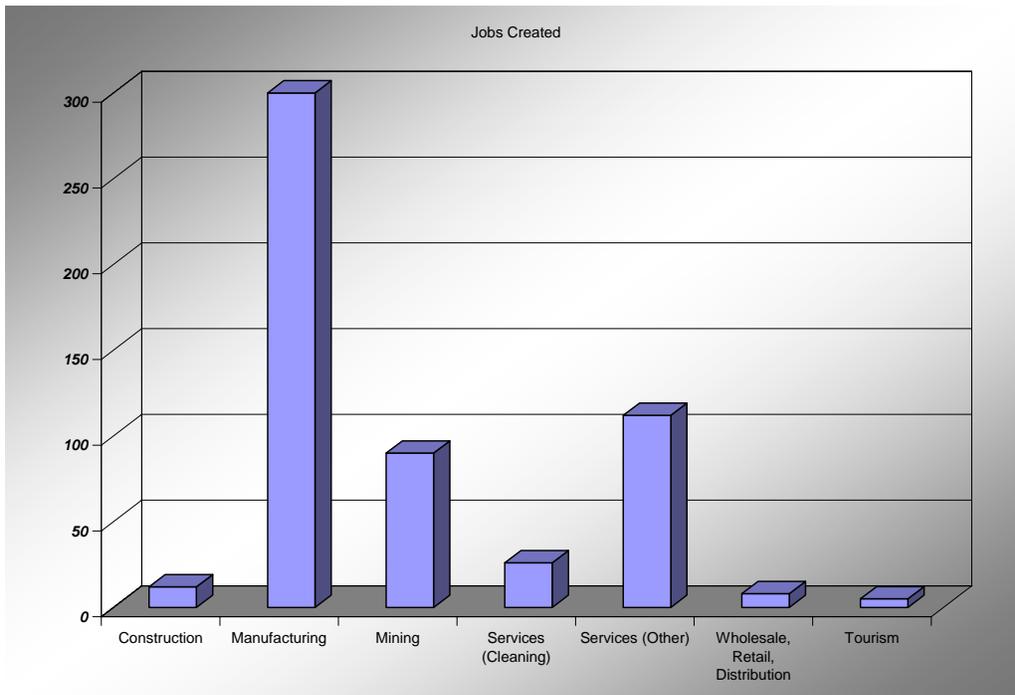


Figure 18. Sales by sector in the Core & Trade components for FY 2008

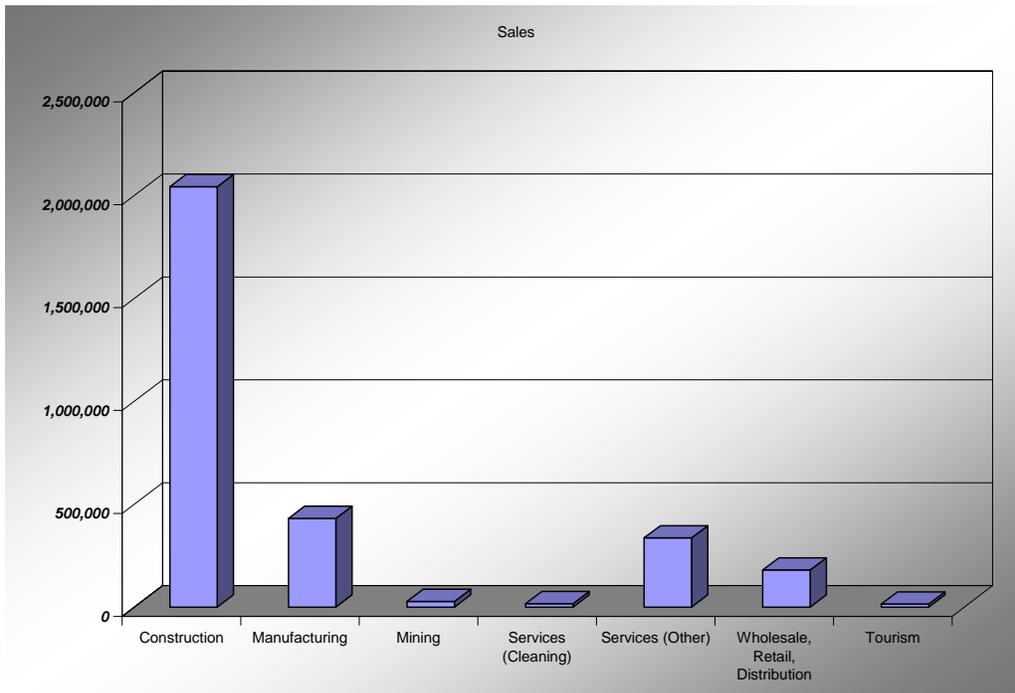


Figure 19. U.S.-South Africa Trade Growth 2003-2007

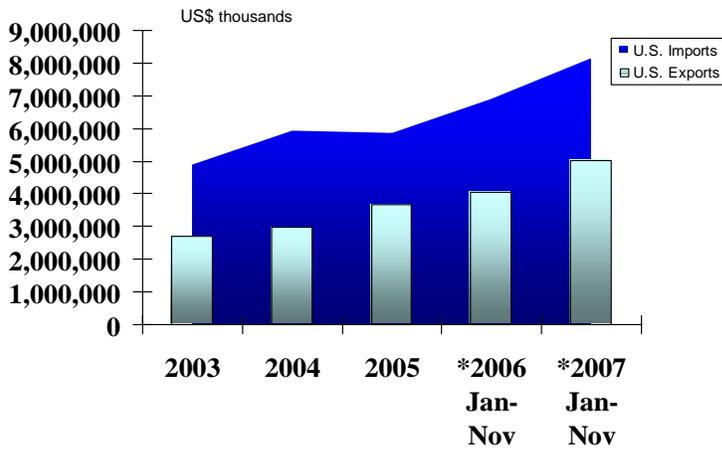


Figure 19 shows the U.S. exports to South Africa and South African imports to the U.S. In 2007, the total trade between the U.S. and South Africa was \$13.2 billion, a 17% growth. This graph demonstrates South Africa's diverse economy and its potential to export to a large market such as the United States.

Figure 20. Trade Balance by trade bloc, (1998-2006)

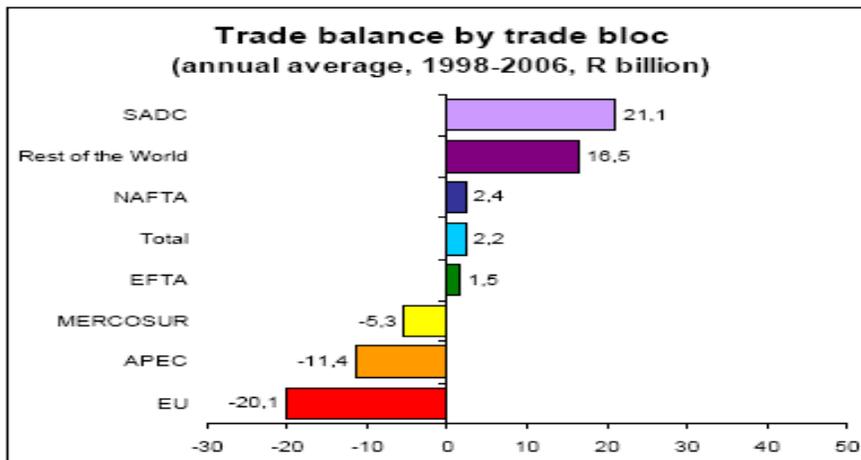
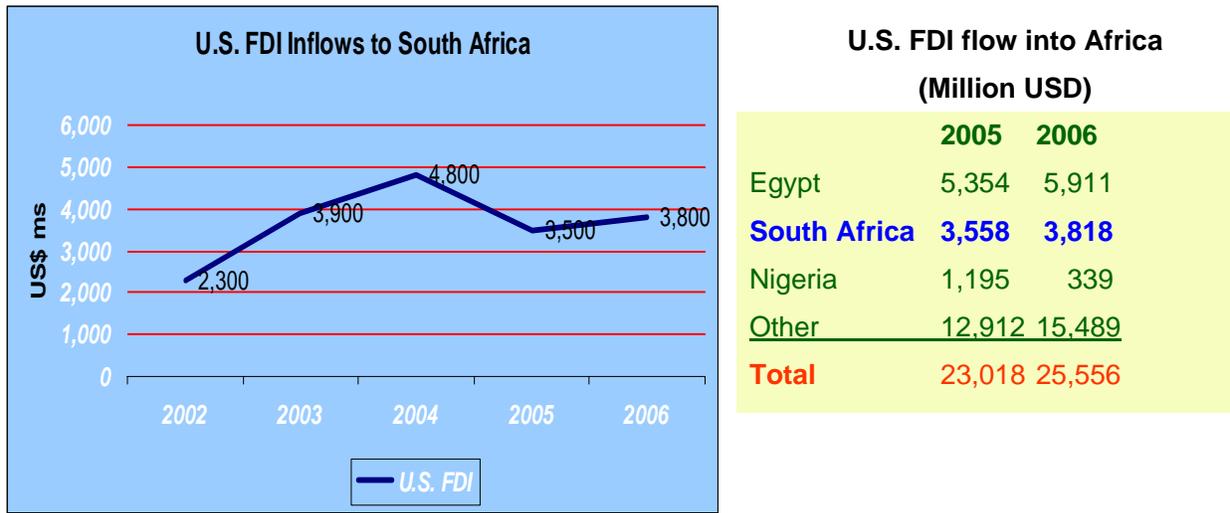


Figure 20 indicates that South Africa runs a significant trade surplus with SADC, a smaller surplus with NAFTA (primarily the United States), and trade deficits with the MERCOSUR, APEC, and the EU. On a regional comparative scale, the U.S.' trade relationship with South Africa is underexploited with much room for growth. The U.S. and South Africa will benefit from structured economic engagement and the potential Free Trade Agreement (FTA) that could open-up trade opportunities in more diverse sectors.

Figure 21. U.S. Foreign Direct Investment Inflows to South Africa



As Figure 21. shows, U.S. FDI to South Africa has stabilized since its drop in 2004, with traditionally U.S. investors remaining in the Johannesburg Stock Exchange as opposed to new capital projects. Still, the Figure points to a positive trends in increased investment, in large part as a result of Ford South Africa’s investment of \$224 million in 2008 and 2009. It is important to note that FDI inflows in the African continent in 2005 and 2006 was concentrated in a few countries and industries, while its share of global FDI remained low at about 3 percent.

Table 4. Report of U.S. Government Inventory in Contractor custody as of March 2008

This report is a summary of the total inventory of computers, office equipment, and vehicles purchased by the SAIBL program. It contains straight line depreciation value for all items that exceed \$500. For furniture and fittings, a 10 percent annual depreciation was used, for computers and office equipment a 20 percent value was used, and 10 percent depreciation was used for motor vehicles. The majority of the items were transferred to the SAIBL2 program awarded to the new CCA consortium, and four vehicles were returned to USAID Southern Africa. The value of all property reported (as of March 31, 2008) is: \$256,200 for motor vehicles; \$3,636 for furniture and office equipment; and \$11,861.37 for other non-expendable properties

Item Description	Serial Number	Acquired Date	Purchase value	Net book value Apr08	Disposition Plan
			(USD)		
COMPUTERS	& OFFICE EQUIP.				
HP Compaq NX 9030		2/10/2005	\$3,052.70	\$991.06	SAIBL2
Hp Compaq NC 8230	CNU52708ON	8/26/2005	\$13,041.31	\$838.86	SAIBL2
HP Compaq 2510p Laptop	CNF80172KR	2/14/2008	\$1,992.82	\$1,882.12	SAIBL2
Projector X1160ZDLP Zom SVGA	EYJ5601018749004055911	2/14/2008	\$560.48	\$521.76	SAIBL2
HP Notebook-6720	CNU8120QWT	4/9/2008	\$568.61	\$568.61	SAIBL2
HP Notebook-6720	CNU8120Q2B	4/9/2008	\$568.61	\$568.61	SAIBL2
HP Notebook-6720	CNU801319W	2/14/2008	\$1,063.45	\$1,004.38	SAIBL2
HP Notebook-6720	CNU801315Y	2/14/2008	\$1,063.45	\$1,004.38	SAIBL2
HP Compaq DX2300	ZAB8080241	2/14/2008	\$648.87	\$604.04	SAIBL2
HP Compaq DX2300	ZAB808023G	2/14/2008	\$648.87	\$604.04	SAIBL2
HP Compaq DX2300	ZAB81402BL	2/14/2008	\$648.87	\$604.04	SAIBL2
Dell Latitude D520	4LZJYB1/Express Code: 10036636525	10/23/2006	\$1,542.89	\$925.73	SAIBL2
Dell Latitude D520	BMZJYB1/Express Code: 25334579053	10/23/2006	\$1,457.23	\$874.34	SAIBL2
Sony HD Camcorder	1644016/ Model: HDRSR1	1/25/2007	1,449.00	\$869.40	SAIBL2
HP Compaq NX 9030		2/10/2005	\$3,052.70	\$991.06	SAIBL2
Hp Compaq NC 8230	CNU52708ON	8/26/2005	\$13,041.31	\$838.86	SAIBL2
HP Compaq 2510p	CNF80172KR	2/14/2008	\$1,992.82	\$1,882.12	SAIBL2
Projector X1160ZDLP Zom SVGA	EYJ5601018749004055911	2/14/2008	\$560.48	\$521.76	SAIBL2
HP Notebook-6720	CNU8120QWT	4/9/2008	\$568.61	\$568.61	SAIBL2

VEHICLES					
Isuzu Single Cab/ Reg # TKL995/GP	31902	8/11/2006	\$21,834.46	\$19,651.01	SAIBL2
Isuzu Single Cab/ Reg # PYM286/GP	115241	2/13/2005	\$28,946.05	\$20,262.24	SAIBL2
Isuzu Double Cab. Reg. # PXC 209/GP	169668	2/28/2004	\$36,467.00	\$21,880.20	SAIBL2
Isuzu Single Cab/ Reg # PYH 738/GP	92097	9/2/2004	\$26,533.88	\$15,920.33	SAIBL2
Isuzu Single Cab/ Reg # P XK096/GP	46084	2/28/2004	\$21,607.30	\$12,964.38	SAIBL2
Isuzu Double Cab/ Reg # PWK886/GP	14399	1/12/2004	\$36,394.60	\$21,836.76	SAIBL2
Isuzu Double Cab/ Reg # PWK912/GP	126386	1/12/2004	\$36,394.60	\$21,836.76	SAIBL2
Isuzu Single Cab/ Reg # PZX638/GP	167207	2005	\$28,946.05	\$20,262.24	
Isuzu Single Cab/ Reg # PYH741	137002	9/2/2004	\$26,533.88	\$15,920.33	SAIBL2
Isuzu Double Cab/ Reg # PWK902/GP	151629	1/12/2004	\$36,394.60	\$21,836.76	SAIBL2
Isuzu Single Cab/ Reg # PYT 038/GP	120782	7/1/2004	\$28,509.06	\$19,956.35	Return USAID
Isuzu Double Cab. Reg. # PWK915/GP	229627	1/12/2004	\$36,394.60	\$21,836.76	Return USAID
Isuzu Double Cab/ Reg # PWK903/GP	198195	1/12/2004	\$36,394.60	\$21,836.76	Return USAID
Toyota Hilux RCL068/GP	252156	No Values. Transferred from EM&I		\$20,056.40	Return USAID
Toyota Hilux Double Cab. Reg. # RCL063/GP	251156	No Values. Transferred from EM&I		\$20,056.40	SAIBL2
Isuzu Single Cab/ Reg. # RCK 248/GP	181098	No Values. Transferred from EM&I		\$20,262.24	Return USAID

ANNEX

Study 1

**IDENTIFYING THE CRITERIA THAT LARGE
CORPORATIONS (JSE-LISTED) MAKE USE OF WHEN
DEALING WITH BROAD BASED BLACK ECONOMIC
EMPOWERED (BBBEE) SMALL AND MEDIUM SIZED
ENTERPRISES (SMEs) IN SOUTH AFRICA**

**Research report
For SAIBL ECI Africa (Pty) Ltd.**

Prepared by: Dr Melodi Botha and Prof Jurie van Vuuren

Date: 31 October 2006

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1. INTRODUCTION AND BACKGROUND

“A more equitable economy will benefit all South Africans. The process of BEE is an inclusive one, and all enterprises operating within South Africa can, and indeed should, participate in this process.” - Department of Trade and Industry (2004: 7)

The objective of this research project is to identify whether larger organisations make use of Black Economic Empowered (BEE) SMEs suppliers and if so to identify the criteria or requirements that large corporations make use of when selecting SMEs as suppliers. The purpose of this investigation is two-folded: firstly, whether large organisations abide by the Codes of Good Practice compiled by the DTI and secondly, whether SMEs use the DTI scorecard codes to accreditate themselves. The findings of the project can create a link between the supply and demand sides of SAIBL’s business linkages model. The final outcome of this project will be to improve the current business linkages model and to enhance the business relationship between large and small or medium enterprises.

A brief background is provided on the large organisations that participated in this research study: **BHP Billiton** is the world’s largest diversified resources company who distinguished themselves from other resource companies by the quality of their assets; their deep inventory of growth

projects; their customer-focussed marketing; their diversification across countries, commodities and markets; and their Petroleum business. They have some 38,000 employees working in more than 100 operations in approximately 25 countries. Reflecting their aim to be a premier global company, they occupy industry leader or near industry leader positions in major commodity businesses, including aluminium, energy coal and metallurgical coal, copper, manganese, iron ore, uranium, nickel, silver and titanium minerals, and have substantial interests in oil, gas, liquefied natural gas and diamonds (Information supplied by www.bhpbilliton.com).

Anglo Platinum Limited is listed on the JSE Securities Exchange, South Africa (JSE) and is the sole listed entity for the Group. It is also listed on The London Stock Exchange. International Depositary Receipts in respect of the Company's shares are listed on the Brussels Bourse. The Group holds a 22,5% share of Northam Platinum, acquired as a consequence of a mineral rights swap. The Group is also in joint venture with: ARM Platinum, a historically disadvantaged South African (HDSA) consortium, to operate the Modikwa Platinum Mine; Royal Bafokeng Resources, an HDSA partner, over the combined Bafokeng-Rasimone Platinum Mine (BRPM)/Styldrift properties; Lonmin Platinum and HDSA partners, the Bapo Ba Mogale Tribe and Mvelaphanda, over the Pandora PGM reserves; and has a Pooling and Sharing agreement (PSA) with Aquarius Platinum (South Africa), covering the shallow reserves of its Kroondal Mine and RPM's Rustenburg Section (Information supplied by www.angloplatinum.com).

Barloworld is an industrial brand management company that achieves durability in business through long-term value creation. They manufacture, market and distribute their products and services and market and distribute leading international brands on behalf of principals. They have operations in 31 countries around the world and approximately half of their twenty five thousand people are in South Africa. They offer their customers business solutions backed by leading industrial brands, supported by service, relationships and attention to detail. These include both the sale of products and services and rental and fleet service options. Through their business philosophy of Value Based Management they focus on creating sustainable value for all their stakeholders simultaneously. Their brands include PPC Surebuild (cement), Plascon, Taubmans, Bristol and White Knight (coatings), Robor (steel tube), Melles Griot (photonics), Sterilin (disposable plastics) and Carbolite (laboratory products). They also have a rapidly growing Barloworld Logistics supply chain solutions business in southern Africa and Europe (Information supplied by www.barloworld.com).

PPC is the leading supplier of cement and lime in South Africa and as already mentioned, is one of the leading brands of Barloworld.

Sasol Limited is an innovative and competitive global energy company. Headquartered in Johannesburg, South Africa it is engaged in the commercial production and marketing of chemicals and liquid fuels; with a growing interest in oil and gas exploration. Sasol was established in 1950 by the South African government to manufacture fuels and chemicals from indigenous raw materials. The company has developed world-leading technology for the commercial production of synthetic fuels and chemicals from low-grade coal as well as the conversion of natural gas to environment-friendly fuels and chemicals. It is committed to sustainable development and is a signatory of Responsible Care®, a worldwide initiative by the chemical industry that strives to improve performance in safety, health and environment. A workforce of 30 000 strong deploy their skills and talents to drive the company forward in

exploration, mining, science, technology R&D and business development (Information supplied by www.sasol.co.za).

BMW South Africa has moved from operating as a Completely Knocked Down (CKD) vehicle production plant, assembling vehicles with limited customisation possibilities for the local market, to a world class plant capable of producing customised cars for discerning customers across the globe. This evolution is largely due to BMW's billion rand investment in the Rosslyn plant in the mid 90's. The investment, used to upgrade the production facility into one of the most modern in the world, brought Rosslyn in line with other BMW plants across the world and earned it the title of BMW World Plant Rosslyn. BMW recently announced the decision to invest a further R2 billion into the South African facility in preparation for the production of future models. It is anticipated that the upgraded plant will be capable of producing up to 60 000 units per annum. This will, in turn, result in a substantial increase in BMW's export capacity to R50 billion worth of BMW exports from South Africa over the lifecycle of future models (Information supplied by www.bmw.co.za).

Transnet is a diversified organisation whose sole shareholder is the South African government. It operates and controls the major transport infrastructures within South Africa, affirming Transnet as the biggest player in the Southern African transport arena. With an excess of over R70 billion in assets and employing 65 000 people, Transnet is uniquely positioned to play a substantial role in the future development of the region. As part of an endeavour to increase the competitiveness of the South African economy, Transnet is committed to delivering integrated, seamless transport solutions to their customers in the bulk and manufacturing sector. Transnet is devoted to transparency, integrity and efficiency. Its logistical responsibilities embrace many South African port, pipeline and rail business units such as Spoornet, National Ports Authority, South African Port Operations, Petronet, Transwerk and Protekon (Information supplied by www.transnet.co.za).

South African Breweries Limited (SAB), born in 1895, is the South African subsidiary of SABMiller plc, one of the largest brewers by volume in the world. SAB plc acquired the Miller Brewing Company in July 2002 and SABMiller was formed. SAB was the first industrial company to be listed on the JSE Securities Exchange, in 1897. The company has paid dividends to its shareholders for the last 108 years in succession. Beer, from growing natural resources through to retailing, is indirectly responsible for at least 800 000 jobs in South Africa. Including ABI (Amalgamated Beverage Industries), this number is more than one million. SAB operates seven breweries in South Africa with the brand portfolio of ten beers and two flavoured alcohol drinks (FADs). SAB has an annual brewing capacity of 3.1-billion litres. SAB Limited employs 4800 at SAB and, including ABI, now some 8200 people in South Africa. SAB's Training Institute recorded more than 15 000 training days in 2004. On average, employees receive between seven and ten days training per year (the international best practice mark is five days). SAB offers and encourages free HIV/AIDS testing and counselling to all employees. They also ensure all employees and their families have access to antiretroviral treatment and therapy. All SAB Ltd's breweries have the ISO 14001 international environmental management system certification (Information supplied by www.sabreweries.co.za).

2. DESK RESEARCH

2.1 Defining constructs used in this study

The Broad-Based Black Economic Empowerment (BBBEE) definitions and classifications used in this research report have been derived from the Black Economic Empowerment Commission Report, 2001, Broad-based Black Economic Empowerment Act 53 of 2003 and the Codes of Good Practice. In terms of this policy document "black" includes all previously disenfranchised and economically disadvantaged groups or individuals in South Africa, such as disabled people, members of the African, Chinese, Coloured (of mixed race), and Indian communities, women and people living in rural areas, through diverse but integrated socio-economic strategies, that include, but are not limited to:

- a) increasing the number of black people who manage, own and control enterprises and productive assets,
- b) facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises,
- c) human resource and skills development,
- d) achieving equitable representation in all occupational categories and levels in the workforce,
- e) preferential procurement, and
- f) investment in enterprises that are owned or managed by black people.

From a narrow definition perspective largely premised on ownership and management it follows that:

- A Black company is one that is majority black owned and managed.
- Black empowered company refers to a supplier that is greater than 25% but < 50% black owned and managed.
- Black empowered company refers to a supplier that is greater than 5% but < 25% black owned and managed.
- Engendered company refers to a supplier that is 30% black woman owned and managed.
- Black management refers to the senior management level that comprises both the executive management as well as board members of the entity. In order to be deemed black management they should participate in the day-to-day management and decision making of the enterprise. They should necessarily have the aptitude and potential to understand all issues involved in the running of the enterprise including knowledge of the product and market within which their enterprise operates. Senior management will be the default custodians of formulating and disseminating the company's strategy.

According to the Department of Trade and Industry (2004: 4) the Broad-Based Black Economic Empowerment Act no. 53 of 2003 and Government's Black Economic Empowerment Strategy, aim to address inequalities resulting from the systematic exclusion of the majority of South Africans from meaningful participation in the economy. The purpose of the Codes of Good Practice is to assist and advise both the public and private sectors in their implementation of the objectives of the BBBEE Act. The Codes of Good Practice provide principles and guidelines that would facilitate and accelerate the implementation of BBBEE in a meaningful and sustainable manner. According to Makgetla (2006: 13) the draft black economic empowerment codes provide equal incentives for:

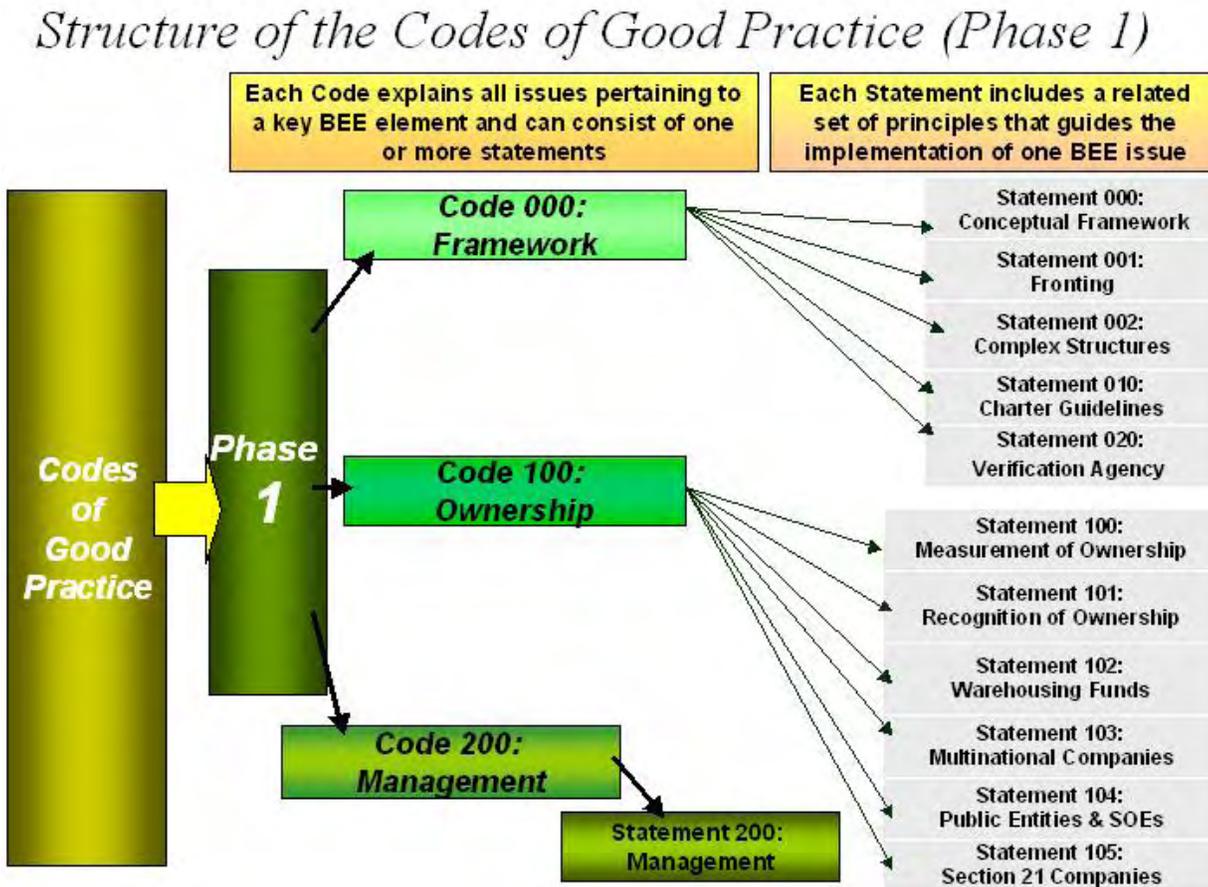
- Ownership and control by black individuals;
- Employment equity and skills development; and
- Support for small enterprise.

The codes do not, however, explicitly incentivise expanded services to poor communities and they provide comparatively weak support for local procurement and collective ownership. Trade-offs emerge because there are limits to what big business will sacrifice in the short run to ensure long run stability and prosperity. If it must pay more to bring in black shareholders, it may invest less in skills, job creation and service to communities (Makgetla, 2006: 13).

2.2 Organisation of the Codes

The codes of good practice have been organised in two phases but will again be adapted as soon as it becomes legislation. Figure 1 and 2 illustrates how the phases are currently laid out.

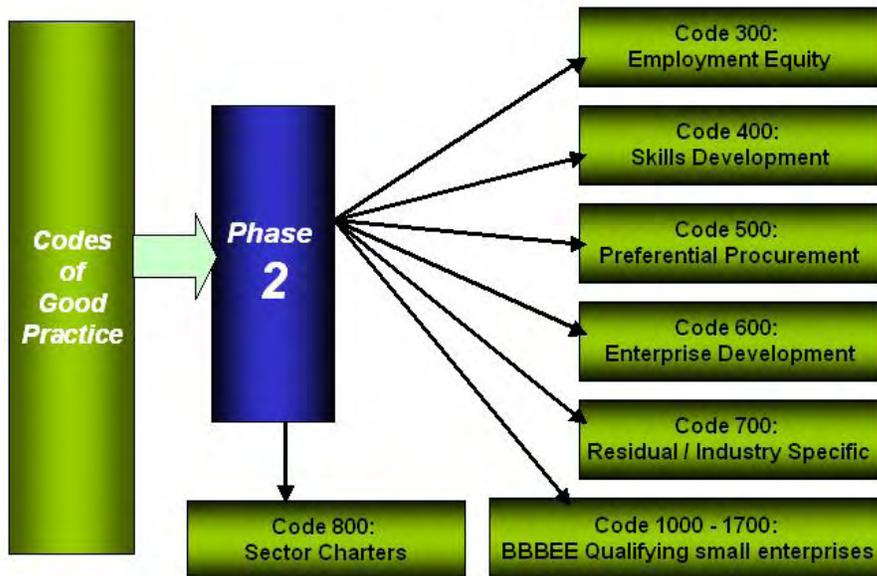
Figure 1: Structure of the Codes of Good Practice (Phase 1)



Source: Schuman (2006a: 3)

Figure 2: Structure of Codes of Good Practice (Phase 2)

*Structure of the Codes of Good Practice
(Phase 2)*



Source: Schuman (2006a: 4)

The codes are classified in the following categories:

2.2.1 Ownership and management

Code 100: Equity ownership (20% weight)

- Exercisable voting rights by black people
- Exercisable voting rights by black women
- Economic interest in enterprise to which black people are entitled
- Economic interest in enterprise to which special groups of black people are entitled, eg. disabled, unemployed and workers

Code 200: Management (10% weight)

- Board participation by black people, measured through exercisable voting rights held by black members of the Board, executive members of the Board and black women executives
- Top management participation, measured through presence of senior and other black top management, black women top management and black women executives
- Black independent non-executive board members

2.2.2 Human resource development

Code 300: Employment Equity (10 % weight)

- Exclude unskilled and semi-skilled
- Target for specific groups of black people:
 - Disabled
 - Senior and middle management and professionals, with special reference to women
 - Technical and junior management, supervisors and academically qualified black people

Code 400: Skills development (20 % weight)

- Basis is Rand spent on skills development as % of total payroll
- Key issues and targets set in terms of:
 - Investment in industry-critical, core skills and value-adding activities
 - SETA-approved learnerships, aligned to NQF
 - Specific targets for black women, disabled, unemployed and rural people
 - Evidence to be provided of
 - BBBEE strategy
 - Appointment of a skills development facilitator
 - A non-discrimination policy
 - Compliance with employment legislation
 - Human Resources plan
 - Annual social audit

2.2.3 Preferential procurement

Figure 3 below is used to illustrate the total measured procurement spend.

Figure 3: Total measured procurement spend



Source: Schuman (2006: 3)

Code 500: Preferential procurement (20 % weight)

- Supplier to present authentic rating certificate
- Measured enterprise may claim Rand as % of total transaction to calculate preferential procurement spend
- Small black enterprises and micro enterprises receive special recognition

2.2.4 Enterprise development

Code 600: Enterprise development (10 % weight)

- Performance calculation based on recoverable and non-recoverable expenditure as % of EBITDA
- Purpose to develop suitable suppliers for supply chain, resulting in import replacement, local manufacturing capacity and local economic development
- Benefit should be in preferential procurement

2.2.5 Residual (CSI) factor

Code 700:

- Applicable to communities where at least 75% are black or projects targeting infrastructural development in underdeveloped or rural communities
- CSI includes:
 - *Development programmes*
 - *Health*
 - *Education for communities, bursaries & scholarships*
 - *Training for communities, adult basic education etc*
 - *Environment focusing on awareness and waste management*
 - *Arts & Culture development of new talent*
 - *Sport development programmes*

SAB uses a public document, compiled by Outsourcing Innovations, that they normally distribute to their suppliers on how to compile their BEE scorecard and this document is highlighted in Annexure B. This document can be given to BEE SME suppliers as a guideline on how to align themselves with existing requirements.

3. OBJECTIVES OF THE STUDY

In order to facilitate business relations and linkages between large corporations and SMEs, the study aims to determine the following:

- The procurement policies of large corporations;
- What targets the large corporations have set for themselves in BEE procurement;
- The pre-qualification and qualification criteria to become a supplier;
- The way to access business or tenders from the large corporations;
- The types and amounts of core (non-discretionary) and non-core (discretionary) business earmarked for SMEs;

- Whether BEE procurement is a high priority, with targets that are set, monitored and reported on at Board level;
- How they set targets and monitor and evaluate achievements against these targets;
- Whether these targets are set at group, company or unit level, and who is responsible and accountable for the targets at each level;
- Whether those responsible for procurement are provided with incentives and high level support for achieving the goals and targets;
- What they have achieved in terms of numbers of SME companies coming onto their supplier base;
- What challenges they have faced and still face and how they are addressing those challenges, and what assistance may be useful in helping them address these challenges;
- What needs they have for advice, design and facilitation of support for their own staff and for the BEE suppliers; and
- What types of support and interventions the corporations see as necessary for growing the BEE SME supplier base and the performance of the suppliers they already have.

4. METHODOLOGY

The research report consists of desk research in the form of a literature review. This is followed by an empirical study. The literature review aims to survey the background of the current codes put into place by the DTI and how the large organisations perceive these codes. It will provide an insight and understanding into the research problem as well as the necessary background to guide the empirical part of the research. The empirical part of the research focuses on the personal interviews and questionnaires (refer Annexure A) as completed by the representatives in each large organisation.

5. RESEARCH DESIGN

5.1 Sample selection and size

For the selection of the target group out of the population it is important to describe the deciding elements that determined the profile of the selected target group. The determining factors that will be taken into consideration when the sample will be selected are known as the sampling frame and the parameters of interest include the following:

Determinant 1 – Large organisations as defined by the Small Business Act 1996 (more than 100 employees);

Determinant 2 – Listed companies on the Johannesburg Stock Exchange;

Determinant 3 – Companies making use of suppliers that are SMEs that are complying with existing BEE requirements.

The sample of the project consists of eight organisations.

5.2 Design of the study

The study will have a case study design. According to Cooper and Schindler (2001: 137) case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. An emphasis on detail provides valuable insight for problem solving, evaluation and strategy. The empirical part of the project consists of quantitative research, in which research questionnaires will be used to obtain information from the organisations.

The questionnaire to capture the above information should, inter alia, include:

- Why the large corporations are procuring from a black company? Is it strategic business decision, good corporate citizenship, social responsibility or a desire to be compliant?
- What are the consequences of procuring from a BEE partner?
- Is there a high-level board champion within Corporate?
- Is procuring from a black company part of their business plan and strategic thrust and are there individual incentives for this?
- What are the opportunities that are open to BEE entrepreneurs for both core (regular) and non-core (discretionary) business?
- What value of business would they likely to be able to offer to BEE partners and will this value increase over the years?

6. DATA COLLECTION AND ANALYSIS

As already mentioned data was gathered by making use of desk research, personal and telephone interviews. Interviews were conducted with the following organisations and individuals as presented in Table 1:

Table 1: Organisations interviewed and contact persons identified

Organisation	Interviewee	Position in organisation	Contact details
BMW South Africa	Kevin Record	Manager: Central Planning and Systems	Tel: (012) 522 3000 Mobile: 083 307 8009 Address: 6 Frans du Toit Street, Rosslyn, 0200 E-mail: Kevin.record@bmw.co.za
BHP Billiton	Calvin Fambisayi	BEE Supply leader	Tel: (013) 653 4042 Mobile: 083 347 9710 Address: Private Bag X15, Leraarsfontein 1083, Witbank E-mail: calvin.fambisayi@bhpbilliton.com
Anglo Platinum	Pumlani Tyali	Group SED Consultant	Tel: (011) 373 6803 Mobile: 083 455 6849

Organisation	Interviewee	Position in organisation	Contact details
			Address: 55 Marshall Street, Johannesburg, 2001 E-mail: ptyalin@angloplat.com
Barloworld Equipment	Fergus Macleod	General Manager Business Development	Tel: (011) 301 4000 Mobile: 082 909 2438 Address: 180 Katherine Street, Sandton, 2146. E-mail: fmacleod@barloworld-equipment.com
Sasol	Leida Schuman	BEE Procurement Programme Manager	Mobile: 0824656388 Address: Secunda Shared Services, Private Bag X1000, Secunda, 2302.
Transnet	Madiboka Mahlabe	BBBEE Specialist (Strategic Supply Chain Management)	Tel: (011) 308 2850 Mobile: 083 444 0062 Address: Carlton Centre, Floor 37, Johannesburg.
PPC	Elmarie Fincham	Procurement Specialist, Group Supply Chain	Tel: (011) 386 9027 Fax: (011) 386 9019 Mobile: 082 602 6384 Pretoria Portland Cement Company Limited Website: www.ppc.co.za
SAB	Jason Murugasa	Corporate Finance Officer	Tel: 011 881 8106 Fax: 0866888016 Website: www.sabreweries.co.za E-mail: Jayson.Murugasa@za.sabmiller.com

7. EMPIRICAL FINDINGS

The following results were obtained from the research questionnaire used:

Regarding the issue, products/services and SME suppliers none of the respondents were prepared to provide a list of current SME suppliers used by the various organisations. The reason being that this information is withheld is perceived as the organisations' intellectual property and the researchers suspect that a competitive edge can be lost if these suppliers are made public.

7.1 Affirmative Procurement Policy

The following information concerning existing procurement policy, expansion of policy and reasons for engaging in procurement was gathered and tabled (refer Table 2).

Table 2: Affirmative procurement policy information

Organisation	Existing procurement policy	Plan to expand procurement policy	Reasons for engaging in a procurement policy
BMW South Africa	No	Yes, but business model complies BMW to make use of multi-nationals	Need procurement policy due to DTI codes (anticipated legislation)
BHP Billiton	Yes	Yes, due to DTI codes (anticipated legislation)	Primary reason: License to trade Secondary reason: Have to change and due to transformation
Anglo Platinum	Yes	Yes, from a supply chain point of view (incremental increase to R1.6 billion)	Three primary reasons: <ul style="list-style-type: none"> • More efficient management • Good corporate citizenship • Guideline to make sure Anglo complies with DTI codes
Barloworld Equipment	Not in place yet	Yes, opportunity for growth	Five primary reasons: <ul style="list-style-type: none"> • Codes of good practice • Long-term benefit policy in company • Due to DTI codes (legislation) • Competitive advantage • Pressure from main customers to engage in procurement
Sasol	Yes	Yes	Four reasons: <ul style="list-style-type: none"> • Business imperative • Interest to invest in future SA economy • Want to develop local suppliers

Organisation	Existing procurement policy	Plan to expand procurement policy	Reasons for engaging in a procurement policy
			<ul style="list-style-type: none"> • Licensing – prerequisite for mining procurement (Have to abide to DTI codes)
Transnet	Yes	Yes	<p>Three reasons</p> <ul style="list-style-type: none"> • Codes created by DTI. Have to abide by it as government is only shareholder • Benefit for SA economy as a whole • Create sustainable jobs via more entrepreneurs in the formal economy
PPC	Yes	Yes, want to make BEE policy apart of current purchasing flowchart (Group Procurement policy)	From strategic point of view it is very important and will not get mining rights when not abiding to BEE codes.
SAB	Yes	Yes	The turn of the millennium co-incided with a turn in SAB's sales volume fortunes, progress with new liquor legislation, growth in the number of licensed liquor retailers and an increasing focus on the socio-economic imperative of BBBEE.

The following procurement policies are in place and were developed as follows:

- **BMW SA** – No formal policy, will use DTI codes when it becomes legislation in future. Will not cut current suppliers because they are not BBBEE.

- **BHP Billiton - BHP Billiton BEE Vision**

To identify, develop and promote the sustainability of BEE businesses through procurement with the ultimate purpose of fostering entrepreneurship in black communities and increasing the participation of BEE suppliers in the mainstream of the resources industry. Special consideration and support needs to be given to businesses that are owned by Historically Disadvantaged South Africans (HDSAs) as distinguished from transformed and resource balanced entities.

Objectives:

- Provide access by black suppliers to BHP Billiton's procurement activities with a resultant greater participation in resource related industries; and
- To ensure that all buying organizations within BHP Billiton have the support to successfully achieve legislated procurement targets.

Policy:

- BEE suppliers will not be treated differently than the norm with regard to quality, price, expected service level or delivery, safety standards, environmental impact or any other commercial or technical requirements. The current BHP Billiton general procurement policies and procedures will therefore apply.
- Support for small black suppliers may include setting aside for black suppliers only, certain tenders in part or whole.

For these categories of spend other business entities will be unable to tender. For other spend categories, where set-aside has not been applied, preference will be given to BEE suppliers to commensurate with their BEE status.

- In order to supplement the abovementioned approaches to promoting BEE procurement, the following additional mechanisms may be used:
 - Indirect black supplier procurement where the principal contractor/supplier will be required to procure a stated percentage of the contract value from BHP Billiton preferred or approved BEE suppliers.
 - Joint venture arrangements as a condition of tender where the value awarded to a BEE joint venture partner will equate to the effort required.
 - When applying for registration as BEE suppliers, suppliers must provide a statement of their ownership and control. BHP Billiton reserves the right to verify the BEE status of a supplier.
 - Any supplier or potential supplier that misrepresents their organisation in terms of BEE status will be penalised by deregistration as a supplier to BHP Billiton. Directors or owners of businesses which have been deregistered, will be delisted and BHP Billiton may refuse to register any new businesses formed by them as suppliers.
- **Anglo Platinum** – Social development and government scorecard was taken into account. Lessons from previous experience guided business strategy for acceptable return of investment (ROI).
- **Barloworld** – No formal policy in place yet. They perceive BEE as a strategic issue and therefore long-term.

- **Sasol** – In 2000 a BEE policy was developed by Sasol and is currently implemented with proper guidelines and processes. The integration of BEE is implemented from supplier accreditation all the way through the supply chain. The BEEP Programme was established to:
 - Contribute to the Sasol BEEP knowledge base through environmental scanning and interpretation of information and networking, including alignment and contribution to design of Sasol Group strategy
 - Contribute to the overall BBBEE compliance scorecard of Sasol in Secunda through the specific elements (total value of 30% of scorecard) of Preferential Procurement and Enterprise Development
 - With acknowledgement of both the Mining and Liquid Fuels Industry Charters
 - Development and implementation of a dynamic and appropriate Supplier and Enterprise Development strategy
 - Participation with the Govan Mbeki Municipality and Mpumalanga Provincial Government in an effective Local Economic Development (LED) initiative
 - Sharing information and communicating Sasol’s progress in terms of BEEP, to improve the relationship between Sasol and its stakeholders
 - Devise and implement a strategy for the effective management of change, with reference to the emotions of participants, actions and attitudes and policies and procedure in dealing with Broad-based BEE

Transnet – In order to promote Black Economic Empowerment within Transnet, it was decided to adopt the Government’s ten point procurement plan, as depicted below:

1. Access to tendering information

Apart from the normal advertising mediums such as newspapers, (including the Sowetan), Transnet also advertises its tender information at no less than 25 institutions, who all promote easier access to suppliers and contractors from the historically disadvantaged communities.

2. Tender Advice Centres

BEE Managers have been appointed in most of the major Transnet Divisions and business units from whom prospective BEE suppliers and contractors can seek assistance with regard to Transnet’s tendering procedures. Furthermore tender briefing sessions or compulsory site meetings are arranged for all major tenders where BEE’s are likely to be interested. At these briefing sessions or site meetings prospective tenderers are taken through the tender documents to familiarise them with Transnet’s requirements, the tender conditions, site conditions, scope of the work etc. Tender documents also indicate names and telephone numbers of contact persons who can be contacted regarding any uncertainties which may arise while completing the tender documents.

3. Relaxed procurement procedures for lower value contracts

Transnet introduced two simplified standard contract documents (the Petty Contract and the Minor Works Contract) which may be used for projects of lower value and lower risk potential, to create entry levels for BEE Contractors. As the BEE’s develop and grow, they are gradually subjected to the larger projects where more comprehensive contract documents, like the E5 is used.

4. Waiver of securities/sureties

Depending on the scope of the work and the risks involved, Transnet may decide to do away with, or relax the customary guarantee, deposit or retention money requirements. Deletion of the standard penalty clause will, however, not be considered without just cause as this could play a major role in the successful and timeous completion of the work and therefore essential, even during the training and development phase, to set the standard for future business relations with emerging BEE's.

5. Break-out procedure (packaging total requirement into smaller packages)

The general rule that the total requirement may not be parcelled into smaller contracts in order to bring it within a person's delegated authority, does not apply to BEE. Contracts where BEE's may be interested to become involved may be subdivided into manageable portions to suit the capabilities of possible BEE enterprises.

6. Early payment cycles

Depending on the BEE enterprise's level of upliftment, Transnet may decide to make special internal arrangements with regard to payment e.g. weekly payments, payments not later than 15 days after date of invoice or delivery, or the cashing of cheques by non-account holders in consultation with Transnet's bankers.

7. Preferences/targeting

Transnet decided to give preference to suppliers/contractors from the historically disadvantaged communities. To this end it introduced a BEE Policy which is so designed to create entry levels for HDI's to enter the mainstream economy. Other than Government's policy which mainly focuses on shareholding or ownership, Transnet also considers factors such as sub-contracting and joint ventures, employment equity, skills transfer and the BEE's own support of fellow BEE's for its own procurement requirements.

8. Simplification of tender submission requirements

Transnet is in the process of implementing: -

- A mechanised tender box at the Carlton Centre, 150 Commissioner Street, Johannesburg which will be open 24 hours a day and 365 days a year for tenderers to deposit their tenders at a time which is convenient for them. This tender box will not only register the date and time a tender document is deposited, but will also issue a receipt as proof of delivery.
- A Transnet website where all Transnet tenders will be displayed, with all relevant information pertaining to such tenders such as closing date time and venue, contact persons, where tender documents can be collected etc.

9. Appointment of procurement ombudsman

In line with Transnet's decision to devolve all operational functions including the procurement function, to divisional level, the Transnet Tender Board has been disbanded with effect from 1 April 2000. Each division, and most of the bigger business units now has its own Tender Board. To promote objectivity and transparency the Chairperson is externally appointed for a period of one year only and not from the division's own ranks.

10. Classification of building and engineering type contracts

In view of the diversity of goods and services acquired by Transnet, it was not considered advisable to classify building and engineering type contracts only. Instead, Transnet left it to the discretion of each division and business unit itself to decide which procurement mechanism can best be utilised to promote BEE in any particular instance e.g. set aside, joint venture, subcontracting, approved list etc. Black Economic Empowerment is a standard requirement on any Transnet procurement transaction, irrespective of the commodity or service required or the value thereof.

PPC – They do have a group procurement policy and BEE policy but it is not integrated into the main group procurement policy. SMEs are selected based on a spend and risk continuum. The supplier spend classifications are listed below:

Supplier Spend Classifications

Following are the classifications according to which spend is to be reported:

- Business transactions with Black enterprises who have a shareholding of greater than 50.1% (**Category 1 – Black Enterprise**)
- Business transaction with Black enterprises who have a shareholding of greater than 25.1% (**Category 2 – Black Empowered Enterprise**)
- Business transaction with black women who have a shareholding greater than 25.1% (**Category 3 – Black woman-owned enterprise**)
- Business transactions with companies in an autonomous association of persons who voluntarily join together to meet economic, social and cultural needs through the formation of a Joint Venture (**Category 4 – Co-operative Enterprise**)
- Business transaction with an enterprise which has an empowerment shareholder who represents a broad base of members such as a local community, people with disabilities etc. Shares are held via direct equity, non-profit organizations and trusts (**Category 5 – Broad based enterprise**)
- Business transactions with enterprises with an annual turnover less than R30m whom employ no more than 200 full-time employees and whom have a total gross asset value (fixed property excluded) no greater than R18 million (**Category 6– SMME**)

SAB – In their procurement policy it states that procurement at SAB is centralised in Johannesburg and operates across the supply chain. This includes packaging materials (including glass bottles, cans, labels and glue, crowns, foils, crates, cartons and pallets), brewing raw materials (a particularly specialised field that purchases malt, barley and hops from predominantly local, but also foreign sources), freight and logistics (a critical link between suppliers, transporters and SAB depots and breweries) and non-production spend (including air travel, cell phone charges, information systems and merchandising material). The company has a dedicated preferential procurement executive to ensure that SAB Ltd's commitment to transformation and black economic empowerment extends fully into its supplier base. SAB embarked on an aggressive economic empowerment campaign during the 1980s in an effort to place a considerable portion of its business with black suppliers. The campaign attempted to alleviate historical inequalities and foster skills and training for disadvantaged individuals.

In its procurement, outsourcing and contract-awarding activities, SAB favours those companies who have demonstrated a tangible and deliverable commitment to black empowerment principles. SAB's definition of a BEE company, applied when dealing with vendors, is consistent with Government's own definition, as outlined in the Black Economic Empowerment Act 2003. The company has developed a comprehensive programme which includes equity ownership, procurement, enterprise development, employment equity, skills development and corporate social investment. SAB is also playing its role in the development and implementation of a liquor industry charter on BEE, which addresses all the core pillars of Empowerment in line with the Broad-Based BEE Act of 2003.

7.1.1 Policy communication

The policy is communicated to senior, middle and junior management in the various organisations in the following ways:

- **BMW SA** – plan to implement over the next ten years
- **BHP Billiton** - BEE supply unit distributes the documentation via internet and intranet
- **Anglo Platinum** – Board sets targets and communicates that down to supply chain and Special Economic Development (SED)
- **Barloworld** – Lack of communication from senior to middle and junior management but use procurement specialist and procurement department
- **Sasol** – Annual reports, BEE brochure that comes out twice annually, website, intranet, management engagement (meetings), roll-out plan for all levels of management, BEE programme (BEEP) approach
- **Transnet** – Strategic Supply Management policy to Divisional Procurement Units which communicate that to BBBEE specialists throughout the organisation.
- **PPC** – All policies on intranet and Achiever (lotus notes). Every month all the divisions report are sent to the procurement specialist to indicate what their spend was and every division has their own targets.
- **SAB** – SAB employs an integrated procurement system where all suppliers are treated as part of a system. BEE procurement is not communicated per se as an intervention residing in one department.

Regarding the scorecard criteria all respondents deemed, Black ownership (20 %), Black management and control (10 %), Employment equity (10 %), Skills development (20 %), Preferential procurement (20 %), Enterprise development (10 %) and Residual factor (10 %) as very important in their organisations except BHP Billiton which only regarded Black ownership and Black management and control as very important. Barloworld regard Skills development and Preferential procurement of utmost importance as they train black employees and suppliers on skills development as part of their procurement policy. PPC drives BEE targets set from top management throughout the organisation to ensure that they score in all the above categories so that they can reach goals set for 2010.

7.2 BBEE Procurement

The department where BBEE is located within the various organisations are as follows:

- **BMW SA** – Department of Central Planning, one of seven sections under Purchasing
- **BHP Billiton** – Regional Supply Offices
- **Anglo Platinum** – Supply Chain Division, use to be under Special Economic Development (SED)
- **Barloworld** – Procurement as sub-section under the Financial Department
- **Sasol** – Procurement and Supply Chain Department
- **Transnet** – Divisional Procurement Units in various subsidiaries
- **PPC** – Corporate Social Transformation Department
- **SAB** – No specific department has the responsibility for BBEE but there is a cross-functional team from various divisions that liaise very closely.

All respondents regard BEE procurement as a high priority in their organisations. However, the following has to be taken into account:

- **BMW SA** – Will set targets when legislation is promulgated
- **BHP Billiton** – Already accommodated in policy
- **Anglo Platinum** – No indication
- **Barloworld** – Struggling to get financial department to support professional procurement policy
- **Sasol** – Three forums in Sasol who coordinates and monitors progress and formalised targets are set.
- **Transnet** – Already accommodated in policy and practice
- **PPC** – Strategic goal for 2010. BEE is on every staff member's internal scorecard and it is communicated throughout the organisation.
- **SAB** – Qualification as a BEE supplier needs to be defined clearly as the status of a supplier is determined by the size of a future contract.

The following table (Table 3) is used to explain how the various organisations set targets, monitor and evaluate achievements against the targets. Table 4 presents the qualification criteria that SMEs must abide by to be considered as suppliers of large organisations.

Table 3: BEE targets set

Organisation	Setting targets, monitor and evaluate achievements	Targets set: Group, Company or unit level	Responsibility and accountability	Incentives provided for achieving targets	Sanctions/punitive measures
BMW South Africa	Concentration on procurement – aim for 10 points for BMW SA but not BMW Germany (multi-national)	Unit level – manager	Manager: Central Planning and Systems	Dealership side – Yes Procurement side – Unsure	None
BHP Billiton	Refer policy	Group level – CEO, Board and Exco	BEE Supply unit, follow up on suppliers in different regions	Yes, performance bonus on quantity of BEE spend	Yes, don't get bonus
Anglo Platinum	No response	Group level – Board, directors, Exco	Supply chain unit	Yes, incentive bonus as part of KPI's on a internal performance scorecard	Yes do not get bonus as part of KPI's
Barloworld Equipment	Have not set formal targets as DTI codes have not been finalised. Intend to commit to 65 % of broadbased scorecard.	Unit level	General manager Business Development – need procurement manager	Yes, performance based incentives based on internal scorecard	Yes, do not get incentives and CEO with address responsible people
Sasol	Use previous year's performance as baseline and analyse the areas that have not performed by setting short to medium term goals and will then set targets accordingly. Monitor all	Group, company and unit level	Procurement and Supply chain manager per business unit	Yes, incentives and bonuses	Yes, do not get bonus or incentive

Table 3: BEE targets set

Organisation	Setting targets, monitor and evaluate achievements	Targets set: Group, Company or unit level	Responsibility and accountability	Incentives provided for achieving targets	Sanctions/punitive measures
	performance and discussed by all procurement managers on a monthly basis				
Transnet	Set realistic goals. Past performance is used as criteria for performance. Each division has it's own BEE manager to monitor performance.	Group and Unit levels.	Strategic Supply Chain Management Different BEE managers respective units	Part of the KPI's of each manager and their bonus is based on BEE performance	Loose bonus
PPC	On all the PPC operations (factory) monitoring is done every month. Formal report and spend on BEE SMEs are done every six months	Group, company and unit level.	Procurement specialist, Group Supply Chain	Yes, gain share (incentives) are given and is done on a performance management scorecard.	Yes gets zero on internal performance management scorecard and reduces gain share (incentives)
SAB	During the financial year. Not prepared to reveal amounts or percentages. In 2004 the company spent over R730-million with empowerment suppliers, constituting approximately 14% of the company's local procurement spend. The goal for the 2005 financial year was R895-million, which was exceeded to reach R938-	Group, Company and Unit level	All members of multi functional team	None – part of normal business (Started 1984 already)	None – part of business as usual

Table 3: BEE targets set

Organisation	Setting targets, monitor and evaluate achievements	Targets set: Group, Company or unit level	Responsibility and accountability	Incentives provided for achieving targets	Sanctions/punitive measures
	million, or 17.3% of total local procurement.				

Table 4: Qualification criteria for SME's to abide by to be considered as suppliers

Criteria		BMW SA	BHP Billiton	Anglo Platinum	Barloworld	Sasol	Transnet	PPC	SAB
1. Using the BEE scorecard, weighting and targets as laid out in phase 1 and 2		X	X	X	X	X	X	X	X
ELEMENT	WEIGHT								
2. Black ownership	20	X	X		X	X	X	X	
3. Black management and control	10		X			X	X	X	X
4. Employment equity	10					X	X	X	X
5. Skills development	20				X	X	X	X	X
6. Preferential procurement	20	X			X	X	X	X	X
7. Enterprise development	10					X		X	X
8. Residual factor	10					X		X	X
9. Insist that the supplier submits the BEE certificate that eliminates “window dressing”				X	X	X*	X	X	X

*Sasol focus on shareholding certificate and declaration that suppliers must sign stating that they have BEE status according to above scorecard. PPC asks BEE SMEs if they have the DTI scorecard and accreditation certificate (SME must obtain letter from accountant or attorney to justify their status), if they don't PPC only focuses on Employment Equity.

SAB has no strong emphasis on Black ownership, as criteria, as this may defeat the objectives of BBBEE. Only a Black ownership score would not lead to success as a supplier, as the heart of their (SAB's) emphasis lies on the Preferential procurement, Equity and Skills development, Enterprise development and Residual factor.

7.2.1 Other pre-qualification and qualification criteria

Other pre-qualification and qualification criteria have been put in place by the various organisations in order for a SME to become a supplier and are presented in Table 5.

Table 5: Criteria that organisations deemed as important in order for SMEs to become suppliers

Criteria	Organisation							
	BMW SA	BHP Billiton	Anglo Platinum	Barloworld	Sasol	Transnet	PCC	SAB
Quality	X		X	X	X	X	X	X
Performance				X		X		
Cost/Price	X	X	X	X			X	X
Volume	X							X
JV w/ current suppliers	X							
Sustainable relationship		X		X		X		
Economics of scale		X						
Safety/Security		X			X	X		
Capacity to deliver (timing)			X	X	X		X	X
Location			X					
Strategic nature of spend							X	

Notes:

BMW SA has very strict specifications and requirements for their suppliers and due to the nature of their business model linked to BMW Germany, they are compelled to procure from large and highly sophisticated suppliers.

Transnet also require proof of registration as organisation, SETA Certificate, employment equity, a clear BEE policy and proof of tax registration.

7.2.2 Contracting methods used to access business or tenders from organisations

The following methods are used by the various organisations:

- **BMW SA** – Do not use tender procedure, only use current supplier. Suppliers have to have direct venture with BMW SA.
- **BHP Billiton** – Suppliers contact BEE supply unit every day but BHP Billiton make use of vendor master list (Current suppliers or suppliers close to securing a contract). Tender open to new BEE suppliers.
- **Anglo Platinum** – Make use of a public tender facility. Used suppliers who are registered and accredited.
- **Barloworld** – Do not have a development tendering process but there is a corporate office buying department where potential suppliers can tender.
- **Sasol** – Closed system – invite suppliers from current supplier list. Will source potential suppliers and invite to tender, if they win, they will be put on Sasol's current supplier list.
- **Transnet** – Open system. All kinds of Media and the 34th floor in Carlton Centre can be visited to see all tenders on offer. Apart from the normal advertising mediums such as newspapers, (including the Sowetan), Transnet also advertises its tender information at no less than 25 institutions, who all promote easier access to suppliers and contractors from the historically disadvantaged communities.
- **PPC** – Tender policy, open tenders and advertisements are placed and any person can put in a tender.
- **SAB** – A public tender system is used via different kinds of media. Open to any person/organisation.

7.2.3 The percentage or amount of core business earmarked for SMEs

- **BMW SA** – 5 % (R4 million of R1.6 billion)
- **BHP Billiton** – 60 % of BEE suppliers are non-core and 40 % of BEE suppliers are core business. Overall 30 % on the whole group is procured from SMEs.
- **Anglo Platinum** – 20 % of core business comes from BEE SMEs.
- **Barloworld** – 10 % of core business comes from BEE SMEs.
- **Sasol** – 30 % of core business comes from BEE SMEs.
- **Transnet** – 40% of core business (R7,7 billion) comes from BEE SMEs.
- **PPC** – 28.1 % of core business comes from BEE SMEs.
- **SAB** – Respondent not at liberty to say. Is seen as part of development of the supply chain.

7.3 Challenges concerning procurement policies and BEE supplier requirements

The following section deals with challenges and barriers that large organisations are facing when dealing with BEE SME suppliers (refer Table 6). It further illustrates how these challenges are addressed and which support, advice and assistance is needed by large corporations (refer Table 7).

Table 6: Challenges concerning procurement policies and BBBEE supplier requirements

Challenges	Organisation							
	BMW SA	BHP Billiton	Anglo Platinum	Barloworld	Sasol	Transnet	PPC	SAB
Spend too low for SMEs	X	X	X	X	X	X		X
“Window-dressing” of BEE SMEs	X		X			X		
DTI Codes not specified or not legislation yet	X		X	X		X	X	X
SMEs do not know scorecard criteria	X					X		X
No BEE SME suppliers exist	X	X	X	X				
Uneducated regarding BEE (organisation)		X				X		
Total cost of ownership		X				X		X
Suppliers too small and lack entrepreneurial training		X		X	X	X		
Employees in organisation negative towards BEE			X		X			
DTI targets unrealistic (cut-off points for Qualifying Small Enterprises and Exempted Micro Enterprises are too low)				X		X	X	X

Challenges	Organisation							
	BMW SA	BHP Billiton	Anglo Platinum	Barloworld	Sasol	Transnet	PPC	SAB
Incompetent BEE suppliers (Quality standards, capacity, safety, financial stability, technology driven)				X	X			
Accreditation bodies put into place					X		X	

To address the above-mentioned challenges the organisations suggested the following:

- **BMW SA** – Government legislation must be put in place and suppliers need to understand their scorecard and how they are evaluated.
- **BHP Billiton** – Develop BEE suppliers by providing expertise skills.
- **Anglo Platinum** – Develop companies and strategies to see more opportunities for black businesses. Training programme for a change in attitude for Anglo Platinum employees. Obtain accreditation from DTI (codes and scorecard).
- **Barloworld** – Internal Skills Development training – change in perceptions. Provide SME training in operation of equipment via an appropriate SETA. Get procurement structures in place. Entrepreneurial Development Programme via SAIBL.
- **Sasol** – BEEP Programme approach. Newest information is send to suppliers and networking opportunities are created via Sasol.
- **Transnet** – State Owned Enterprise Forum (SOEF) intent to list no compliant suppliers. Education of prospective suppliers on completing tender applications. Better communication with prospective and existing suppliers on BBBEE.
- **PPC** – Government legislation must be put in place and need a national centralised databases for SMEs. Need corporate forum for large organisation to develop SMEs.
- **SAB** – New BBBEE suppliers have to become part of SAB’s enterprise development programme. All Corporations must have such comprehensive programmes in place.

Table 7: Kind of assistance needed and type of support provided by the various organisations

Organisation	Assistance needed to address challenges	Advice, design and facilitation of support for organisations' own staff	Type of support provided by organisation
BMW South Africa	SAIBL can assist by selecting appropriate suppliers.	Government need to come up with realistic codes (legislation).	Aim for January 2007: Create portfolio for every technology supplier. SME training must be done on project management, competitive advantage issues and pricing.
BHP Billiton	Government must be prudent and develop framework to assists SMEs with accreditation. Need to provide funds for training of SMEs.	BHP Billiton must transform internally so that all staff can contribute positively toward BEE integration in the company.	Look at current suppliers and their weaknesses for example training them in how to prepare and understand financial statements. Pay for SMEs to do their accreditation, training and development of skills.
Anglo Platinum	SAIBL, DTI must work on long-term relationship between Anglo and themselves. SMEs need technical and soft business skills as well as financial management.	No comment	Use SAIBL's diagnostic tool. Provide in-house venture capital to BEE SMEs. Provide free of charge training, SABS accreditation (SMEs pay only 10 % of cost). Have a black business supply development programme.
Barloworld Equipment	Government must put codes in place with reasonable guidelines and targets. Must focus on promotion of SMEs irrespective of race. Must focus on developing entrepreneurial skills of SMEs.	None	Currently developing six SMEs by putting them in touch with service providers and taking them through a quality process. Training is done on invoicing and computers are given to these SMEs.
Sasol	Government must appoint specialists to assist BEE suppliers.	Government – support with experts. DTI website updated. There must be SETA branches	HBDC/SEDA Branch – Financial assistance (bridging finance) and business and tender advice.

Organisation	Assistance needed to address challenges	Advice, design and facilitation of support for organisations' own staff throughout South Africa.	Type of support provided by organisation
			<p>Siyakha Trust – Equity funding for businesses with potential to become medium sized suppliers.</p> <p>ChemCity – Support to businesses in cosmetics, waste management, plastics and energy (Technology, facilitate funding and business advice).</p> <p>On-site support through BEEP coordinators per business unit, BEE enterprise and supplier development officers and LED officer.</p> <p>Active participation in provincial initiatives like stainless steel cluster.</p>
Transnet	Clear indication by DTI on what is expected from Transnet. Creation of a verification agency to simplify process	Development of Business as well as Technical Capacity of suppliers (existing and new)	A number of supplier forums have been created where common problems of both parties are addressed. On site assistance is provided. Mentorship for initial period of contract.
PPC	Currently use company that held workshops for staff of PPC who helps with development of SMEs	Done internally, a road show must be done nationally to introduce DTI codes and requirements when it becomes legislation	Workshops for SMEs so that they can understand what BEE is all about. Part of Barloworld who gave R20 million to develop BEE suppliers.
SAB	None	None	A particularly successful programme has been the focused linking of SAB KickStart recipients to SAB's commercial department. KickStart is a project aimed at inculcating a culture of entrepreneurship among young people between the ages of 18 and 35

Organisation	Assistance needed to address challenges	Advice, design and facilitation of support for organisations' own staff	Type of support provided by organisation
			<p>by promoting business awareness through training, providing grants as start-up capital and providing mentorship and assistance during the setting up phase of the businesses. Those entrepreneurs who have become successful through an SAB social investment programme are then given the opportunity to supply SAB to make their businesses even more sustainable.</p>

7.4 Organisations willingness to collaborate with SAIBL

On the issue of organisations' willingness to work with SAIBL as an external facilitator to support the development of their BBBEE supplier base, the organisations had the following opinions:

- **BMW SA** – Yes, but SAIBL must focus on suppliers that can deliver the volume and quality that BMW needs.
- **BHP Billiton** – Yes, but need to fund suppliers to develop their technical skills.
- **Anglo Platinum** – Yes, but need to grow the relationship to get quality SME suppliers.
- **Barlworld** – Yes, but struggle to find capable SAIBL suppliers, money must be spend to develop them.
- **Sasol** – Yes, but suppliers need more advice, training and support. Communication must be strengthened between SAIBL and Sasol.
- **Transnet** – Yes it would be appreciate as long as it will not result in any cost for Transnet.
- **PPC** – Yes, but need buy-in from director (Supply Chain).
- **SAB** – Not needed because of the existing internal Enterprise and Entrepreneurship programme put in place in 1984.

8. IMPORTANCE AND BENEFITS OF THE STUDY

The main contribution of this research project is to improve the business linkages between small, medium and large organisations in South Africa. Furthermore this project can highlight the key criteria that companies look for when dealing with SMEs. It might also change perceptions that large organisations have about SMEs. In this respect, the findings of this project is expected to be of interest to both a national and an international audience that might consider doing business with South African SMEs. The findings of this study can assist SMEs in improving their dealings with large organisations and increasing the probability of gaining more business from large organisations.

The importance of research of this nature is further to serve as a guideline to SMEs of how to best make use of the opportunities created by the BBBEE intervention from the DTI and to eventually create or grow a sustainable business that can create jobs in an effort to eliviate poverty. It is however also important that SMEs realise that corporations are not in a position to move away or abandon sound business principles regarding procurement, only because of BBBEE. As indicated prerequisites/criteria like quality, volume, price etc. will always be important to make a decision regarding procurement from the number of suppliers available for certain commodities. If this is not the case they will lose market share and don't stay competitive. Multinational enterprises like BMW SA is also part of a procurement system that is managed from Germany.

Research of this nature also serves as communication tool that can be used to benefit both parties, SME's and corporations. One very important finding was that organisations are uncertain of what is regarded a SME and when are they dealing with a prospective supplier that is not included in BBBEE initiative. This kind of research, although qualitative, also reveals the scope and willingness from corporations to engage in BBBEE and that, as a common belief maybe that all corporations stand negative towards such an initiative is wrong.

9. RECOMMENDATIONS AND SUGGESTIONS

Research of this nature needs to be conducted on a wider scale including a larger sample and less well known corporations. Some of the respondents as mentioned in the findings indicated that they find it difficult to identify/locate prospective BBBEE suppliers. Research with a focus on which commodities is needed by Corporate South Africa from BBBEE needs to be conducted that can build the bridge between need and supply.

Timing for this research was undertaken in a period of uncertainty due to the lack of final indications by the DTI on how the legislation will have to interpret by the corporations. All respondents gave their honest opinions during the interviews but all mentioned that they can not give certain final answers because of the legislation not being in place. The researchers therefore recommend that this research is repeated in 12 months time when the legislation will be in place and corporations and SMEs had the time to start operating in such a dispensation.

It is important to note that only one side of the story is revealed in this report. SMEs need to be included in such research to validate the findings of the study. It is fairly easy for any corporation to respond that they assist their BBBEE suppliers but the experience of the supplier will validate such a response.

A final recommendation regarding this research project is that SAIBL motivates corporations to establish Integrated Development Programmes (IDP) that can be used as a foundation for future business. If these programmes were to be driven by SAIBL a number of opportunities can be exploited and stronger supply chains build for organisations.

10. CONCLUSION

Valuable lessons are learnt from this study that can be used by SAIBL to formulate strategies regarding core and non-core business. There is clearly a need for assistance of BBBEE suppliers to build sustainable relationships between Corporate South Africa and the BBBEE suppliers. The need for facilitating such relationships does not only exist amongst BBBEE suppliers but also amongst corporations. Whether this will be in form of training and development, mentorship, coaching etc. is not really important as this need for facilitation will be serviced by either of the alternatives. Many respondents stated that the focus on BEE has left a negative perception in the minds of their staff and that change and transformation is needed within their organisations. Therefore it is important to focus on assisting and supporting both BEE SME suppliers and staff within large corporations to make sure that the current business linkages model is improved. Furthermore it will result in an enhanced business relationship between large and small or medium enterprises.

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Annexure A: Research questionnaire

The objective of this research project is to identify the criteria or requirements that large corporations make use of when selecting SMEs as suppliers. It further aims to result in a model of best practise that can benefit large corporations and SMEs. The final outcome of this project will be to improve the current business linkages model and to enhance the business relationship between large and small or medium enterprises.

PLEASE NOTE: All information will be treated as **STRICTLY CONFIDENTIAL** and will be used for research purposes.

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PART A: COMPANY PROFILE

1. COMPANY PROFILE				
Company Name				
Physical Address				
Postal Address				
Contact Person				
Managing Director / Member				
How long have you been in operation	Years		Months	
Number of employees	Female		Male	
	Disabled		HDI%	
Form of ownership	Registration No.	VAT No.	Comments (if any)	

2. LIST SOME OF THE PRODUCTS/SERVICES THAT YOU PROCURE FROM SME'S	
Product/Service	SME (Business name)

PART B: AFFIRMATIVE PROCUREMENT POLICY

3. What are the reasons the corporation/company is engaging in affirmative procurement

4. Do you wish to increase its affirmative procurement efforts?

5. How is the policy communicated to senior, middle and junior management?

6. Indicate whether you agree or disagree whether the following scorecard criteria are important in your corporation.

Criteria		Strongly agree	Agree	Disagree	Strongly disagree
1. Using the BEE scorecard, weighting and targets as laid out in phase 1 and 2					
ELEMENT	WEIGHT				
2. Black ownership	20				
3. Black management and control	10				
4. Employment equity	10				
5. Skills development	20				
6. Preferential procurement	20				
7. Enterprise development	10				
8. Residual factor	10				

PART C: BBBEE PROCUREMENT

7. In which department is BEE located?

Human Resource	
Public Affairs	
Social Investment	
Purchasing	
Other.....	

8. Would you regard BEE procurement as a high priority, with targets that are set, monitored and reported on at Board level?

YES	
NO	

Motivate: _____

9. How does your company set targets, monitor and evaluate achievements against these targets?

10. On which level in the hierarchy are these targets set? At group, company or unit level?

11. Who is responsible and accountable for the targets at each level?

12. Are those staff members responsible for procurement provided with incentives and high-level support for achieving the goals and targets?

YES	
NO	

13. Are there any sanctions/punitive measures or consequences that can arise for non-fulfilment of these goals/targets?

YES	
NO	

14. Which procurement policies are in place and how were they were developed?

15. Are there any targets in place regarding BBBEE?

PART D: QUALIFICATION CRITERIA TO BECOME A SUPPLIER

16. Indicate whether you agree or disagree that the following is used in your company as criteria for SME's to abide by in order for them to be considered as suppliers of your company.

Criteria		Strongly agree	Agree	Disagree	Strongly disagree
1. Using the BEE scorecard, weighting and targets as laid out in phase 1 and 2					
ELEMENT	WEIGHT				
2. Black ownership	20				
3. Black management and control	10				
4. Employment equity	10				
5. Skills development	20				
6. Preferential procurement	20				
7. Enterprise development	10				
8. Residual factor	10				
9. Insist that the supplier submits the BEE certificate that eliminates "window dressing"					

17. Which other pre-qualification and qualification criteria have been put in place for a SME to become a supplier?

18. Which contracting methods are used to access business or tenders from the corporation/company?

19. What are the types and amounts of core (non-discretionary) and non-core (discretionary) business earmarked for SMEs?

20. What are the challenges concerning procurement policies and BBBEE supplier requirements that you face?

21. How do you intend to address the challenges mentioned in the previous question?

22. What kind of assistance may be useful in helping you to address these challenges?

23. What are your needs regarding advice, design and facilitation of support for your own staff and for the BBBEE suppliers?

24. What type of support and interventions does your corporation/company see as necessary for growing the BBBEE SME supplier base and for improving the performance of the suppliers you already have?

25. What kind of services, support and financial support does your corporation/company provides for its suppliers?

26. Will you be willing to work with an external facilitator such as SAIBL to support the development of the BBBEE supplier base?

YES	
NO	

**THANK YOU VERY MUCH FOR YOUR CO-OPERATION AND WILLINGNESS
INCOMPLETING THIS QUESTIONNAIRE AND TAKING PART IN THIS RESEARCH
PROJECT**

STUDY 2

**PREFERENTIAL PROCUREMENT -
A NEEDS ASSESSMENT OF LARGE SCALE ENTERPRISES
&
WHAT CONSTITUTES BEST PRACTICE:
A SOUTH AFRICAN PERSPECTIVE**

Report submitted by

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On behalf of SAIBL

(Southern African International Business Linkages)

24 December 2006

SUMMARY

EXECUTIVE SUMMARY

The purpose of this study was to identify best practice suggestions and solutions around the needs and challenges of large-scale enterprises in the context of the Preferential Procurement component of the Broad-Based Black Economic Empowerment Act.

Six entities were surveyed, one based in Richards Bay and five in Durban. Of the six entities, two would be characterised as public sector and four private sector. The latter comprised a diverse grouping of different industries, ownership and size, but the defining characteristic was a high BEE rating or the intention of getting a high rating.

The study identified 10 key challenges that preferential procurement needs to address:

1. Legislative and Regulatory Framework
2. Industry Framework
3. Entity Attitude
4. Driving the Process
5. Risk of Non-Compliance
6. Stakeholder Risk Assessment
7. Policies and Processes
8. Targets
9. Staffing
10. 3rd Party Involvement

The most significant findings that emerged were:

1. The surveyed entities all recognize that it is a business imperative and it is this mindset which should drive the entity's attitude
2. In interacting with suppliers, they should be encouraged rather than forced or coerced to comply
3. Comprehensive information on suppliers will be absolutely critical in driving any firm's preferential procurement activities
4. Business and management skills continue to be the largest impediment to SME development and hence their inability to be mainstreamed into the formal economy by partaking in preferential procurement opportunities
5. Entities who display a strong emphasis on enterprise development and invest time and effort into aspirant suppliers along a variety of dimensions, but underpinned by sound business principles, will be more successful in their efforts than those who do not.
6. A collaborative approach is essential to ensuring that the B-BBEE intentions are realized

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1. Background to this Study

1.1. Introduction

The Broad-Based Black Economic Empowerment Act No. 53, 2003 had the effect of turning the spotlight onto corporate South Africa's contribution to redressing the economic and social imbalances in the country. Essentially through a system of measurement of compliance, the intention is to ensure that any entities who wish to meet qualifying criteria for licences or concessions, supply goods or services to any organ of state or public entity, acquire state-owned enterprises and enter public private partnerships (PPP) would have to demonstrate their commitment to Black Economic Empowerment. Simply put, the higher the score the easier it will be to do business directly or indirectly with National, Provincial or Municipal Government and State Owned Enterprises (SOEs).

1.2. The B-BBEE Codes

One of the key foundations of the Act was to empower the Minister of Trade and Industry to issue the *Codes of Good Practice*. The latter would provide all institutions in South Africa with an objective framework to measure their contribution to B-BBEE along seven elements, rather than focusing solely and exclusively on ownership as a criterion. These are summarized below:

Code	Element	Weighting
100	Ownership	20
200	Management Control	10
300	Employment Equity	10
400	Skills Development	20
500	Preferential Procurement	20
600	Enterprise Development	10
700	Residual Element	10
		<hr/> 100 <hr/>

(At the time of this report being written, the codes had not yet been finalised and hence the above weightings may be subject to change). It is clear from the above that preferential procurement is viewed as being a key contributor to B-BBEE.

1.3. Preferential Procurement

The preferential procurement component is dealt with under Section 9(5): Codes of Good Practice and identifies three criteria, namely BEE Procurement Spend from Suppliers, Qualifying Small Enterprises and Exempted Micro Enterprises. The weighting score given to each criteria is 15, 4 and 1 respectively, which when combined equate to the overall Preferential Procurement score of 20.

In analyzing the government's intention behind this code, it is important to note that companies will have to give recognition to the following:

- a. *Detailed Analysis of Procurement Spend.* Companies will have to distinguish between criteria of suppliers and categories of spend. Insofar as the latter is concerned, some commentators have referred to this as non-discretionary and discretionary spend. For example, suppliers classified as non-discretionary would include government and foreign-based suppliers where there is no local substitute available. The non-

- discretionary suppliers are then excluded from the calculation of Total Measured Procurement Spend.
- b. *Small and micro enterprises* should be included in the procurement process.
 - c. *The process is target driven.* Taking into account the different criteria, government has set BEE Procurement Spend as a percentage of Total Measured Procurement Spend targets at 70% for Suppliers, 15% for Qualifying Small Enterprises and 5% for Exempted Micro Enterprises.

2. Purpose of this Study

The purpose of this study is twofold:

- a. A needs assessment of and challenges faced by large entities within the context of B-BBEE preferential procurement. Essentially factors influencing the demand side of the procurement equation.
- b. Following on from the latter, the study then hopes to make a fundamental contribution to the understanding of what would constitute best practice insofar as preferential procurement is concerned. These ideas of best practice will stem from experience outlined by the surveyed entities and observations and conclusions drawn by the researcher.

It should be recognized that this study is exploratory in nature. Its intention was not to seek the broad based opinions and insights of as many companies as possible, but rather to intensively interview a small selected cross section of entities based in Durban and Richards Bay.

At the outset, it must be stated that this study is not to provide a comprehensive overview or analysis of the B-BBEE codes in general or the preferential code of good practice in particular. Whilst it also does not intend to outline a detailed 'how to manual', it certainly provides some useful insights to any private or public sector organization in formulating and implementing a preferential procurement strategy.

3. Preferential Procurement Dynamics

3.1. Some International Experiences

What are often generally termed 'affirmative action' policies are not unique to South Africa, nor is the negative sentiment expressed towards them.

For instance, in a recent article entitled "preferential programmes and despairing disparities"¹, Raghu Dayal, the former Chairman and Managing Director of Concor, India, argues how Malaysia's focus on *bhumiputras* (sons of the soil) and South Africa's BEE policies have only benefited the elite. He also refers to Thomas Sowell², who has studied and written widely on affirmative action and in 2004, published a seminal book on the subject. He notes, "Sowell refers to evidence that benefits of affirmative action are sharply negative" using examples in Tamil Nadu, Malaysia, Sri Lanka and a small minority of African-Americans in the USA. According to Dayal, the point being made by Sowell is that "Preferential Programmes, even when explicitly designed as 'temporary', have tended not only to persist but also to expand in scope. What is further revealing is that, within the groups designated by the government as recipients of preferential treatment, the benefits have usually gone disproportionately to those members already well placed and more fortunate".

¹ Dayal,R. *Preferential programmes and despairing disparities*, The Hindu Business Line, 15 August 2006

² Sowell,T. *Preferential Policies: An International Perspective and Affirmative Action Around the World: An Empirical Study (2004)*

What is useful to consider, is the life cycle of the US experience of what was initially referred to as purchasing from Minority Business Enterprises (MBEs) and more recently ‘supplier diversity initiatives’. As far back as 1978, the US Federal Government passed (Public Law) PL95-507 that required any firm receiving a contract in excess of \$500 000, or \$1 million for a construction contract, submit a MBE subcontracting plan. The initial emphasis grew out of a social responsibility emphasis. However, in the mid-1990s, some commentators were observing that whilst the Public Law heightened corporate awareness of MBE buying programs, there was a growing recognition, “accelerated by changing demographics, that such programs result in a larger customer base for the corporation’s goods and services. In addition, there is clear evidence that as minorities become economically successful, the entire nation benefits from that success”³.

Looking forward, the economics of this fact become quite staggering. It is expected that the combined buying power of African Americans, Asian Americans and Native Americans will reach \$1.5 trillion in 2008, more than triple its 1990 level⁴. As noted by Business for Social Responsibility (BSR), “While some programs were initially fuelled by mandates related to government contracts, current innovation reflects growing corporate awareness of the business and community benefits of these efforts. Business leaders are creating a more integrated approach to respond to growing ethnic markets, shifting employee demographics and increased demands on their supply chain”.⁵ The lesson that seems to be learnt from this, is that preferential procurement activities, which are driven by a business model, are more successful in achieving the desired outcome than a social responsibility emphasis.

In listing key implementation steps in mounting a diversity programme, BSR make the following important point, “Successful minority- and women-owned business development programs involve the recognition that these efforts are based on business, not charitable, motivations; the setting up of internal structures to support these efforts; and the support and development of key business partners”. Their key steps include:

1. Internal Assessment	Identify business drivers and sources of <i>competitive advantage</i> to target areas for growth
2. Develop Outreach	<i>Work through established organizations</i> already serving the minority- and women-owned business sector as well as community-based organizations. Offer workshops and special events
3. Set Goals and Measures	To ensure <i>demonstrable results</i> and to measure impact on business revenues and potential for growth
4. Workplace Programs	To promote <i>inclusive business relationships</i> and understanding of changing marketplace

Looking at a few (of the many) examples of US experiences, BSR list a number of what they term ‘leadership examples’ of companies, “who represent innovation, higher than average commitment, unusual industry practice or a comprehensive approach to this issue”. Some of the activities include mentoring, community outreach, second-tier development, assisting with development of business plans and executive level training. Companies who report significant

³ Auskalnis,R.J.,Ketchum,C.L., Carter,C. *Purchasing From Minority Business Enterprises: Best Practices*, Center for Advanced Purchasing Studies, 1995—Focus Study (Executive Summary Only)

⁴ The Multicultural Economy 2003 America’s Minority Buying Power, Selig Center for Economic Growth, University of Georgia

⁵ <http://www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=50901>, page 1

business benefits as a consequence of their diversity activities include Dennys, Athlete’s Foot, Johnson Controls, Accor and Texas Instruments.

The National Minority Supplier Development Council, Inc (NMSDC) was established in 1972 to provide business opportunities and increased procurement for minority businesses. It now boasts a corporate membership of 3 500 members. The NMSDC’s wide range of programmes and services include *inter alia*, certification of minority business enterprises, a national computerized database of more than 15 000 certified minority suppliers, referrals to corporate buyers of minority suppliers “capable of providing quality goods and services at competitive prices, and in a timely fashion”.⁶ The NMSDC also offer an annual award, which according to BSR is “regarded as the most significant honor to a major corporation for the utilization of minority suppliers”.

Apple Computers provide a web-based user-friendly system of registering in their Apple Supplier Diversity Programme. As stated on their website, “We encourage you to be a part of an important commitment to support Historically Underutilized Business (HUB) development. It makes good business sense and benefits both business and communities we serve”.⁷

Looking to the United Kingdom and a public sector example, The City of London, in its Core GLA Procurement Strategy, specifically states in its action plan that it will follow “best practice on nurturing supplier diversity”. The Mayor’s Vision is “To develop London as an exemplary sustainable world city” and hence one of the key components of achieving this is that London needs to become a prosperous city, “in which all share in the benefits of wealth created in London’s dynamic economy”.⁸ It is important to note that the first procurement objective stated is to “Purchase goods and services from suppliers that provide best value for money, including through e-procurement”. The fourth objective is to “Nurture a wide range of small and medium size enterprises representing London’s diverse communities and encourage them to tender for GLA contracts”. Best practice would suggest that these objectives are not in conflict with one another.

3.2. What Constitutes Best Practice?

In 1995, the Centre for Advanced Purchasing Studies (CAPS) in the USA undertook a study into what constituted best practice when purchasing from MBEs. “The researchers noted that there were significant dollar award percentages for 15 of the 32 survey questions. These differences strongly suggest their correlation to the success or lack thereof in administering an MBE buying program”⁹. The 15 survey questions and responses are presented in full below:

Question	Overall Response		MBE Performance
1. Does your company have a formal policy regarding minority purchases?	No	13	1.69
	Yes	87	4.03
2. What degree of support do you get from your CEO or President (or equivalent individual) with regard to the MBE program?	No Support	7	1.18
	Slight	17	1.96
	Medium	32	3.00
	Strong	23	4.77
	Very Strong	21	6.04

⁶ http://www.nmsdcus.org/who_we_are/programs.html

⁷ <http://www.apple.com/supplierdiversity/>

⁸ <http://www.london.gov.uk/gla/tenders>

⁹ Auskalmis, R.J., Ketchum, C.L., Carter, C. *Purchasing From Minority Business Enterprises: Best Practices*, Center for Advanced Purchasing Studies, 1995—Focus Study (Executive Summary Only)

3. Does your organization track MBE purchases?	No	7	0.85
	Yes	93	3.95
5. Is a status report of the MBE buying disseminated? - To Buyers? - To Company Management?	No	19	1.47
	Yes	81	4.25
	No	15	1.30
	Yes	85	4.27
7. Does your organization sensitize non-purchasing personnel (requisitioners) on the value of supporting the MBE program?	No	27	1.80
	Yes	73	4.36
8. Do buyers receive any type of training in support of the MBE program?	No	29	2.15
	Yes	71	4.29
9. Are MBE sourcing directories available to each buyer?	No	14	1.49
	Yes	86	4.08
14. Is the buyer's performance with regard to the MBE program a factor in his/her annual performance review?	No	53	2.54
	Yes	47	5.02
15. Do performance reviews of purchasing managers or higher-level individuals include MBE program performance?	No	50	2.38
	Yes	50	5.02
16. Does your organization participate in minority trade fairs?	Never	9	1.14
	1/Yr	19	2.35
	2x/Yr	15	2.46
	3x/Yr	14	3.41
	4x+/Yr	43	5.40
17. Does your organization place ads in minority/other publications to publicize your MBE program?	Never	42	2.32
	1/Yr	13	2.92
	2x/Yr	19	5.60
	3x/Yr	3	2.81
	4x+/Yr	23	5.13
19. Does the customer base of your company influence your MBE program?	No	21	2.39
	Very Little	19	3.01
	Some	29	3.83
	Much	8	2.42
	Very Much	24	5.83
22. Does your company have a full-time MBE coordinator?	No	51	2.72
	Yes	49	4.82
27. Do you use targeted solicitations? (A bid solicitation sent only to MBEs.)	No	72	2.88
	Yes	28	5.96
28. Does your company establish goals for MBE purchases?	No	24	2.60
	Yes	76	4.08

The most significant finding reported pertained to the treatment of MBEs in relation to price, quality, level of service, delivery, EDI capability and ISO 9000 certification. "By overwhelming margins, respondents indicated that established purchasing practices were not being relaxed in order to support an MBE program". On the occasions that they were relaxed this was only in the case of "certain start-up or developmental situations and that this was not common practice".¹⁰

It is generally recognized that the procurement function in a company is to acquire materials, services and capital goods (as determined by the relevant need) at the optimum quality, in the most economic quantity, when required, at the lowest possible cost.

¹⁰ Ibid, page 3

A number of best practices themselves have developed around this function, examples being establishment of cross-functional procurement teams, maintenance of supplier relationships, supply chain management, e-procurement and real-time integration of systems (e.g. accounting and production).

Protagonists of preferential procurement often suggest that the latter in fact compromises the achievement of optimal procurement as it will always contradict the main goal of the procurement function, which is to maximize value at lowest cost.

However, as the CAPS study showed, this need not be the case. One of the questions that this study intended to address was the extent to which this sentiment was expressed by the surveyed entities.

3.3. Preferential Procurement – South African Challenges and Possible Solutions

Before reporting on the research findings, it is perhaps insightful to note some independent research and observations regarding the above. In the ICT Charter, Final Draft¹¹, reference was made to “Research conducted on listed entities reveals that of the R515 billion that was targeted to reach BEE accredited companies, R500 billion did not reach them¹²”.

In a previous draft of the ICT Charter¹³ a number of challenges (and possible solutions) round this were noted. These are summarised in a tabular form below:

Challenges	Possible Solutions
Peripheral and Non-Core Procurement – Limit of black supplier appointment	<ul style="list-style-type: none"> • Pre-condition that the majority of core spend should be directed to black suppliers
Non-Discretionary Spend Principle – Allowing exclusion of goods not ordinarily available from black or local suppliers is inherently open to abuse.	<ul style="list-style-type: none"> • No solution offered but noted that it needs to address this issue as it warrants serious attention and creativity
Lack of Suitable Black Suppliers – Due to lack of supplier development, there is a shortage. Also contributes to fronting.	<ul style="list-style-type: none"> • Focus on Enterprise Development • Encourage sub-contracting
Quality of Product and Delivery – Particularly in relation to inexperienced and emerging SMMEs. Problem sometimes attitudinal, but confirms that these concerns are often genuine.	<ul style="list-style-type: none"> • Improved supply agreements that include quality management processes • Purchasers should seek ways to transfer appropriate skills
Preferential Payment Cycles – Not always offered giving rise to adverse cash flow positions	<ul style="list-style-type: none"> • Spell out what payment terms are reserved for black owned SMMEs

¹¹ ICT Empowerment Charter Working Group, *The ICT Charter*, Final Document, November 2004

¹² Wu,C.Jack,V.Lorio,P.Naidoo,C. and Bodigelo,S.2004 *The Affirmative Gap in the South African Economy*, Nedcor BEE Forum, 26 February 2004

¹³ ICT Empowerment Charter Working Group, *The ICT Charter*, Fourth Working Draft, August 2004

<p>Improved Delivery Mechanisms – Government and State Owned Enterprises (SOEs) are largest buyers of ICT products and services in country</p>	<ul style="list-style-type: none"> • Govt, its agencies and all SOEs have an important role to play in ensuring highest possible compliance with the Charter
<p>Inter-sectoral Co-ordination – Goods and services are bought from a variety of sectors</p>	<ul style="list-style-type: none"> • Effective interaction between different sectors • Cross-reference to other sectoral charters and to principles enshrined in B-BBEE Act
<p>Abuse of black SMMEs for tendering purposes – Use black SMME names for compliance when submitting responses to tenders, but do not engage SMMEs when tenders are awarded</p>	<ul style="list-style-type: none"> • Blacklist firms who abuse/exploit SMMEs • SMME forum should play an active role
<p>Allotment of BEE points for tenders – 10 points out of a 100 awarded for BEE compliance too low. White owned businesses can simply offset this by offering better prices</p>	<ul style="list-style-type: none"> • BEE points to be weighted more heavily to 20 out of a 100
<p>Unfavourable pricing from black SMMEs – Due to lack of size and purchasing power, black SMMEs find it difficult to get sufficient discounts</p>	<ul style="list-style-type: none"> • Set aside purchases for SMMEs
<p>Unfavourable Centralised Procurement Practice – Decisions often made in Gauteng thereby excluding other regions</p>	<ul style="list-style-type: none"> • Allocate portions of spend to local BEE companies in different regions
<p>Procurement Commitments Monitoring at All Levels – When large tenders are awarded, tendency only to screen company tendering, whilst they subsequently outsource or sub-contract to white companies or companies who fail to comply to BEE principles</p>	<ul style="list-style-type: none"> • BEE Council to audit procurement practices of companies • Post contractual audits
<p>Original Equipment Manufacturers (OEM) – Black SMMEs almost always excluded from tender process as they cannot compete on any front</p>	<ul style="list-style-type: none"> • Invitations from overseas should provide a local channel for BEE suppliers to be included • Allow for local products to be offered where they meet technical specs • Foreign enterprises to show how assisting with Enterprise Development
<p>Best Practices in Procurement – No published industry best practice models in procurement &</p>	<ul style="list-style-type: none"> • Council to prepare a code of good practice based on established publications & further

absence of an authorised, recognised and industry backed monitoring and accreditation body	research
Increased Access to Procurement Opportunities by Black SMMEs and Black Engendered Enterprises	<ul style="list-style-type: none"> • Set asides especially for gender and youth
Procurement Emphasis – Over emphasis or reliance on equity to exclusion of other elements of B-BBEE	<ul style="list-style-type: none"> • Black companies to be bound by requirements of charter as well
Procurement spend allocated to black-owned SMMEs – Development threat to black SMMEs by white owned firms who become BEE compliant	<ul style="list-style-type: none"> • Set asides for SMMEs

What is interesting to note is that only the challenges were presented in the final draft, with limited indirect references to the solutions. Perhaps the charter did not want to be too prescriptive. Nevertheless it confirmed that the targeted entities were representative of a possible best practice sample as many are implementing the solutions highlighted above.

4. Methodology

It was decided that a semi-structured, personal interview would be the most appropriate research instrument, thereby giving the researcher the opportunity to ask in-depth questions and note the responses. In advance of the interview session, a series of mainly open-ended questions were e-mailed to the designated person to be interviewed, thereby enabling them to prepare. The minimum required questions that the research study was required to report on can be found in Appendix A. In addition the researcher had in mind to develop a framework, which would lend some structure to the concept of addressing preferential procurement. The questions, which formed the basis of the development of the framework, can be found in Appendix B. These questions were formulated using the minimum required questions and the literature survey which had been conducted. It is however important to note that the purpose of these Appendix B questions were simply to prompt the discussion in the personal interview as opposed to the researcher interacting with the respondent on a ‘cold basis’.

The sessions were not tape-recorded, but the questions were addressed at a pace to enable the researcher to make hand-written notes. One entity provided written answers over and above the personal interviews. Being personal interviews also meant that the emphasis given to each question was not always uniform, in other words it was not possible to give equal coverage to all the questions amongst all the surveyed entities. In this regard the researcher had to be mindful of the surveyed company’s reaction to the question. Sometimes a question did not warrant much discussion to their circumstances, for others it was very relevant and hence more discussion entailed. At the end of the interviews, however, the researcher is confident that sufficient responses have been obtained to draw some meaningful conclusions.

A SAIBL representative was also present in interview sessions with four of the entities. In two cases, the entities were interviewed twice. Some organizations also provided the researcher with copies of policy documents and other material, which they deemed were relevant to the study, which he was able to study afterwards. The interviews averaged about two hours.

5. Profile of Entities Interviewed

Six entities were selected, two classified as public sector and four as private sector. Insofar as the latter were concerned, the key characteristic was that they all had a high BEE rating, or had targeted a higher BEE rating for themselves. Further, the private sector organizations are diverse along a number of dimensions, for example, one is foreign owned, two are service and two are manufacturers. One classifies itself as non-profit; another was on the verge of bankruptcy not so long ago. The benefit of this profile confirmed that there were certain factors that repeated themselves time and time again, which in turn identified commonalities for a best practice scenario, irrespective of the type of entity and its circumstances. However, there were some other unique factors, which confirmed that individual circumstances will need to be addressed, in other words there is no 'one size fits all'. This study attempts to give recognition to both of these categories of findings, though not necessarily in any specific order.

This profile is summarised below:

Entity	Rohm & Haas	Richards Bay Coal Terminal	Universal Print Group	Gold Circle Group	Ethekwini Municipality	UKZN
Sector Classification	Chemical Manufacturer & Supplier	Bulk Freight Handling	Commercial Print	Racing & Gaming	Local Government	Education
Primary Ownership	USA owned global company		80% Family 20% Kagiso	3 000 members through 4 racing clubs	Public Sector	Public Sector
Turnover	R350m (SA)	R350m	R550m	R1.8bn	Capital Budget R3bn	n/a
Number of Employees	65	500	480 perm 150 temp	2 126	20 000	
Main Products Supplied	Coatings raw materials, surface finishes etc	Coal Export	Directories, publications, business, self-adhesive labels	Racing & Gambling	Municipal services, infrastructure, housing	Tertiary Education
No of Suppliers		1 500 active of 2000	1 000	3 000	5 000 active of 18 000	6 000
Person Interviewed	Financial/HR Director & Purchasing Mgr	COO, 3 GMs & Materials Mgr	Group MD Group Marketing Mgr	Executive Director	Deputy Head: Business Support	
Empowerment Rating	Level 6, 60% Recognition Level (Wealth)	Level 4, 100% Recognition Level	Level 2, 125% Recognition Level (AAA Empowerdex)	Level 3, 110% Recognition Level (AA Empowerdex)	N/A	N/A

It must be pointed out that the study hoped to incorporate the needs and challenges of a couple of listed entities. Despite formal approaches being made to three companies, no interviews were forthcoming.

6. The Preferential Procurement ‘Best Practice’ Framework

6.1 Introduction

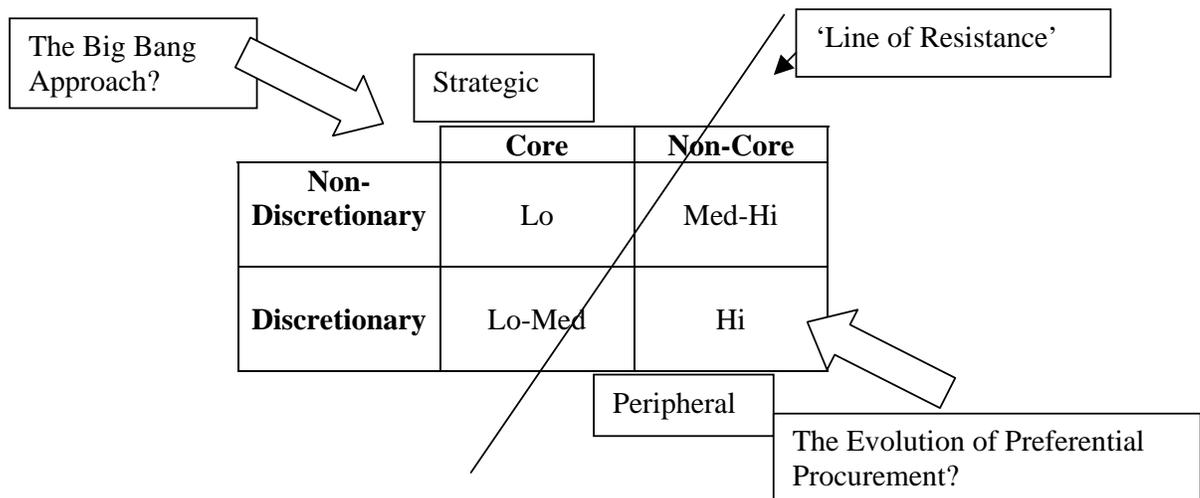
In attempting to formulate a degree of structure and logic to the concept of Preferential Procurement in the South African context, the researcher developed a best practice framework as a point of reference and subsequently refined it after the interviews had been conducted. This is shown on the next page. The questions relevant to each component of the framework can be found in Appendix B. The researcher was also required to address specified questions as shown in Appendix A.

The interpreted responses have been assigned by the researcher on the basis of a Likert scale according to his interpretation of the responses to the Appendix A and B questions.

6.2. The Fundamental South African Challenge

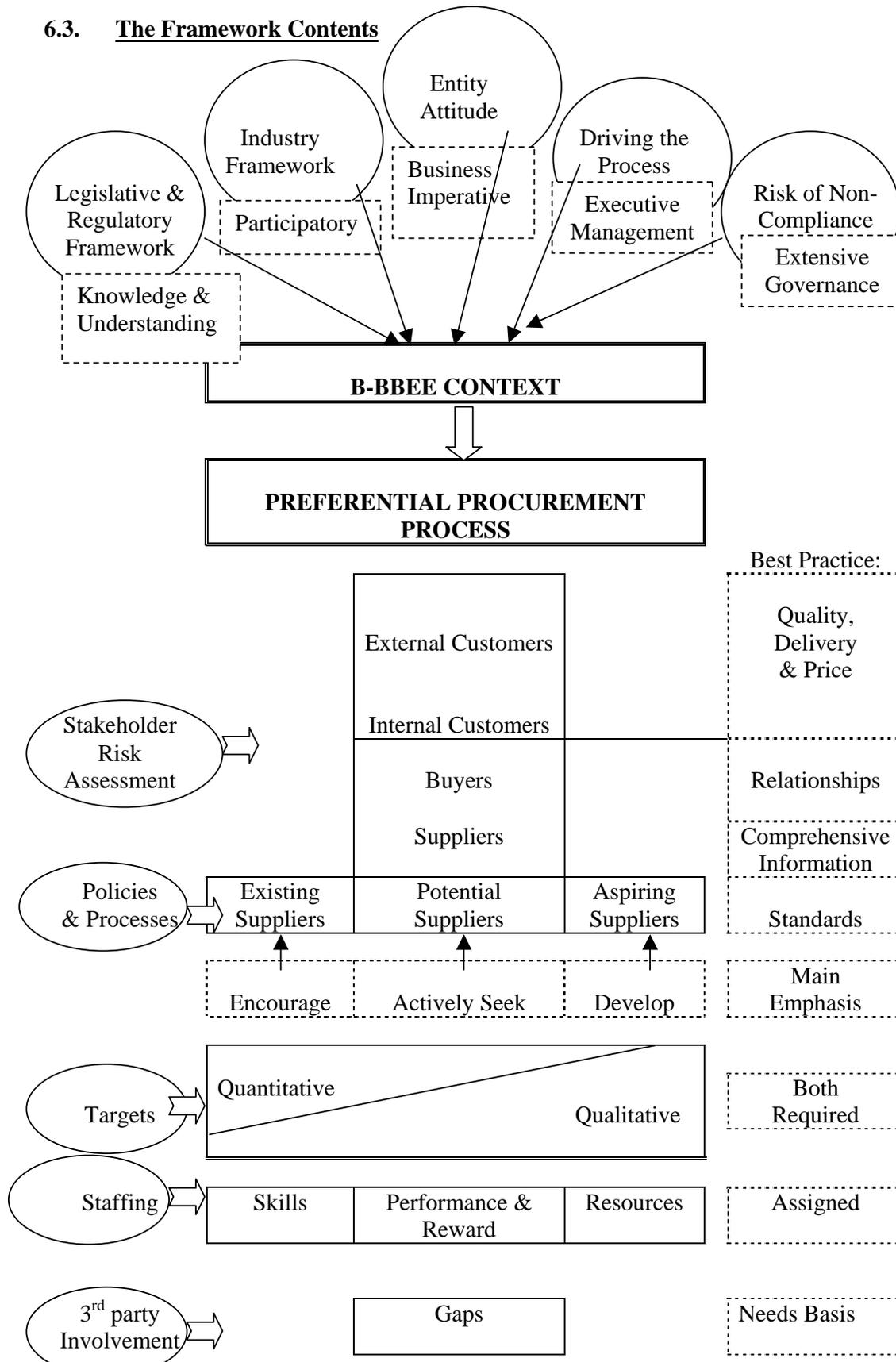
At this point, it is perhaps appropriate to reflect on the current conceptual *status quo* insofar as preferential procurement is concerned. The matrix below attempts to show the perceived potential for preferential procurement to make its mark on the economic landscape. In effect, it is showing that where purchases are classified as core and characterised as non-discretionary, there is *low potential*, unless one encounters a ‘big bang’ approach of a major BEE takeover of an established supplier.

Consequently, most preferential procurement activities start off their lives in the discretionary, non-core quadrant (labelled as high potential). The problem with this, is it simply perpetuates the focus on peripheral activities, as some companies are wary about moving into the other quadrants due to the higher perceived risk. Hence there is an unspoken ‘line of resistance’.



Only time will tell as to how quickly the line of resistance will disappear and whether or not an even spread will develop around the matrix, as opposed to the current skewed weighting towards the bottom right hand quadrant. What follows in the research findings, will hopefully shed some light as to how this will be achieved.

6.3. The Framework Contents



- Note: 1. The circles identify key issues to be addressed
 2. The dashed squares recognize 'best practice' principles

6.3.1. B-BBEE Context

Issue	Best Practice Manifestation	n/a	Likert Scale					Interpretation	Ave
			1	2	3	4	5		
i. Legislative & Regulatory Framework	Knowledge & Understanding		1	2	3	4	5	1=Poor 3=Ave 5=In-Depth	
	No of Responses				1	1	4	$(1 \times 3 + 1 \times 4 + 4 \times 5) / 6 =$	4.50
ii. Industry Framework	Participation in industry transformation (e.g. drafting of charter)		1	2	3	4	5	1=No 3=Indirectly 5=Directly	
	No of Responses	2	1		2		1		3.00
iii. Entity Attitude	Commitment and 'buy-in' to a business imperative		1	2	3	4	5	1=Wait & See 3=Some Progress 5=Full	
	No of Responses					1	5		4.83
iv. Driving the process	3 rd Party Involvement (e.g. consultants)		1	2	3	4	5	1=Full 3=Substantial 5=Needs basis	
	No of Responses				3		3		4.00
v. Risk of Non-Compliance (RONC)	Governance Procedures		1	2	3	4	5	1=Lip Service 3=External Verify 5=Extensive	
	No of Responses				2	2	2		4.00

i. Legislative & Regulatory Framework (Benchmark Score 4.5/5, Rank 2)

It is clear that this is becoming increasingly complex. The most frequently cited pieces of legislation were the Broad-Based Black Economic Empowerment Act, No 53 of 2003 Act and the Employment Equity Act insofar as the private sector entities were concerned. The public sector has even more laws and regulations to contend with, notably the Preferential Procurement Policy Framework Act, No 5 of 2000 (PPPFA), Public Finance Management Act, 1999 (PFMA), Public Service Act (Act no 103 of 1994) (PSA), the National Treasury's Supply Chain Management Guidelines and the Broad-Based Black Economic Empowerment Act, No 53 of 2003. In addition both public sector entities make reference to the Proudly South African Campaign.

One private sector manager noted, "we had an idea of how to do it, but no resources and time. The interpretation of the codes seems to overwhelm you. Understanding of the legislation is onerous and the timeframe sometimes a bit unreasonable. Certain groups feel alienated and say that this cannot go on forever".

A public sector manager had this to say, "Each Act by itself is not complex. The difficulty comes in when trying to tie them together and make reference to what you need to make a decision about – i.e. what pieces of the legislation or regulations are relevant to us".

Nevertheless, the great majority of the entities expressed in-depth knowledge of the legislation and derived a benchmark score of 4.5. Interestingly the one private sector organization that expressed an average knowledge, said "we haven't had 'to do BEE' – we have it already. In a sense it is by accident, not by design".

ii. Industry Framework (Benchmark Score 3/5, Rank 5)

Only one private sector organization was part of an industry that had drafted an industry charter and had also participated in its drafting. Interestingly the researcher's opinion was that this company showed the highest overall 'all-round' perspective on B-BBEE. The company which stated 'No' to this aspect, had decided that the generic codes would suffice, as there were only two players in the industry.

The balance of the firms said that they would refer to the process through their industry associations, which tends to suggest a passive approach to the shaping of the industry charter.

In the researcher's opinion this tends to reflect a possible negative connotation of a lack of industry collaboration. Best practice tends to suggest that there should be a sharing and exchange of ideas and experiences. The single company that had participated in the drafting of an industry charter, confirmed the benefit that they derived from sharing information with other industry players.

iii. Entity Attitude (Benchmark Score 4.83/5, Rank 1)

The researcher could probably stop here and conclude that perhaps not unexpectedly, this is the key finding. Whilst certain cynics may question the motives and bona fides of some of the surveyed companies, the same message came through consistently by all entities surveyed, namely this is a business imperative. Whilst some make reference to redressing the wrongs of the past, this is always the subordinate reason. This finding is consistent with the earlier references made to BSR (refer to page 4).

Some of the more interesting quotes pertaining to this issue were:

"Our thinking on these codes is that they are 'development driven' rather than 'compliance driven'. The spirit of BEE states there are 7 areas where you can make a contribution. For most businesses you can make an impact in the 7 areas. But it all comes down to the manner in which you interpret the codes and how you implement them".

"BEE is meant to change your behaviour and not your mind!" However, the researcher submits that a favourable mindset, will always ensure a positive outcome. One of the most powerful messages, which illustrate the latter point, was by one private sector entity, which said "we do not in fact use the word 'comply' in our vocabulary. This is a strategic imperative because it makes business sense. Our attitude towards it comes from our background. Being a bunch of engineers, when we take on challenges we want it to work out in the end". Some companies also stress that for them it is a source of competitive advantage. One bluntly stated, "This is a beneficiary organization, i.e. we are a BEE company. This is not a white company that needs to benefit. We will do whatever we need to do to make us more competitive".

iv. Driving the Process (Benchmark Score 4.00/5, Rank 3=)

The thrust of this issue is the extent to which the organization can go it alone or have to resort to external parties to assist (e.g. consultants). The general sentiment is that it is possible to achieve most of the requirements of BEE by using in-house skills and consultants should only be used on a needs basis. Two of the private sector firms had used consultants quite substantially. The other two made the point that they were used reluctantly and one in particular stressed that they were used as a last resort. What was noticeable about that

particular organization was in the researcher's opinion the existence of a 'change agent'. It appears that this manager was appointed specifically to bring these skills into the organization.

Another organization, ensures a broad based approach amongst its senior management where the 7 elements of B-BBEE have been allocated to individuals in line with departmental functions, as follows:

Code 100: Company Secretary
Code 200: Executive Chairman & Chief Operating Officer
Code 300:} Training and Development Mgr & OD Adviser
Code 400:}
Code 500:} GM (Finance) & Materials Mgr
Code 600:}
Code 700:}

The B-BBEE Committee is chaired by GM Engineering, who reports to the Strategic Committee chaired by Chief Operating Officer who in turn reports to Executive Chairman.

They also reported limited usage of consultants.

v. Risk of Non-Compliance (Benchmark Score 4/5, Rank 3=)

To the researcher this was one of the most interesting findings and confirmed the situation of there not being a 'one size fits all' scenario.

As was pointed out by a private sector manager to the researcher, there are two parties to a BEE focus, namely the 'instigator' and the 'beneficiary', respectively.

Public sector organizations are primarily instigators. However, private sector organizations can be both instigators and beneficiaries. This gives rise to the potential for exploitation and corrupt practices, particularly if the relationship is likely to have a profound impact on the business model. It implies that verification agencies have a critical role to play in the process and a number of companies expressed some concern about the slow pace in getting these confirmed.

Nevertheless is it sufficient to rely on external verifiers alone? Best practice suggests that entities have an extensive verification process, which includes both external parties and internal resources (e.g. internal audit function). As noted by one public sector entity, "Unfortunately the unscrupulous operators have not gone away. You verify the structure of the organization, but in reality it has token directors. The company changes its name to an African name as a marketing ploy, but nothing has really changed behind it. They come with a rating certificate, but how credible is it?"

vi. Other Issues Identified Under Context

The surveyed entities were asked where their emphasis lies in the codes and where they could make the most and least impact.

Out of this, the researcher hoped to establish whether for instance, (a) the respondents were driven by the weightings or not, (b) if there is any evidence that some are preferred above others and (c) the extent to which preferential procurement really did get serious attention.

The following table summarises the responses:

Emphasis	Responses
- All are Important	2
- First 3 Codes	1
- All except ownership	1

Most Impact	Responses	Least Impact	Responses
Ownership	1	Ownership	2
Enterprise Development	1	Residual	2
Preferential Procurement	2		

Best practice tends to suggest therefore that if you are going to commit to ‘doing B-BBEE’, you might as well go the whole way i.e. given recognition to all of the codes, rather than just focusing on a couple. The single foreign-owned entity (which cannot address the ownership component for obvious reasons), indicated that they welcomed the advent of B-BBEE because it now ‘levelled the playing field’. However, they also acknowledged that if ownership were not something they could fundamentally address, then they would have to compensate for that in the other codes.

It would appear that the entities surveyed are not ‘weightings driven’ nor is there a preference or preponderance except perhaps for the residual element. One comment made was that the Residual was the easiest to address as it literally could be outsourced to any number of firms who had now emerged and offered “to do it for you”. The opinion that was also expressed was that the code’s intended spend was insufficient and hence if it was stipulated to be a higher amount, then companies “might be more serious about where their money is going!” Perhaps there is also a simpler explanation in that the impact of the residual element might be more difficult to measure than the other six codes, which tend to be closer to home. However, what is clear from the above is that preferential procurement is ranked quite highly in terms of impact. Hence one can expect that increased pressure will be brought to bear onto suppliers to become BEE compliant.

The public sector organizations did not offer an emphasis, but both indicated that they would make the biggest impact in preferential procurement. This is not surprising given the government’s intention of using the buying power might of the public sector to drive economic transformation.

6.3.2. Preferential Procurement Process Dynamics

Issue	Best Practice Manifestation	n/a	Likert Scale					Interpretation	Ave
i. Stakeholder Risk Assessment	Undertaken assessment and derived appropriate responses to deal with stakeholders’ concerns (external customers, internal customers, buyers and suppliers)		1	2	3	4	5	1=Not at all 3=Partial 5=Comprehensive	
	No of Responses				1	4	1		4.00

ii. Supplier database	Up to date and comprehensive supplier database		1	2	3	4	5	1=No 3=Partial 5=Yes	
	No of Responses				5	1			3.16
iii. Policies & Processes	Different policies and processes formulated to deal with separate categories of suppliers:								
	- Existing		1	2	3	4	5	1=Coerce 2=Stick & carrot 3=Encourage	
	No of responses						6		5.00
	- Potential		1	2	3	4	5	1=Passive 2=Some effort made 3=Actively seek	
	No of responses			3	1	2			2.83
	- Aspiring		1	2	3	4	5	1=Passive 2=Some effort made 3=Develop in a finite time frame	
	No of responses				3	3			3.50
iv. Targets	Formulated targets that give recognition to the different categories and classes of suppliers:							1=No 3=Partial 5=Comprehensive	
	- Quantitatively		1	2	3	4	5		
	- Qualitatively		1	2	3	4	5		
	No of Responses				6				3.00
v. Staffing	Assigned staff are given appropriate training, rewards and resources to support the preferential procurement process		1	2	3	4	5	1=No 3=Sometimes 5=Yes	
	No of Responses			2	2	2			3.00
vi. 3 rd Party Involvement	Have developed a network of facilitators who we can draw upon to assist on a needs basis		1	2	3	4	5	1=No 3=To some extent 5=Yes	
	No of Responses				4	2			3.33

Note: The above manifestations can be broken down further if deemed necessary e.g. (i) by stakeholder, or (v) assess training, rewards and resources separately.

i. Stakeholder Risk Assessment (Benchmark Score 4/5, Rank = 2)

In the context of BEE, the term risk assessment is sometimes perceived as having negative connotations. However, business sense always says that in a time of change, it is imperative

that an entity recognizes where these changes are likely to impact positively, neutrally or negatively on their operations so that appropriate responses can be made.

As with most external issues, there will be some who view B-BBEE as an opportunity and others a threat. The latter point did emerge on a few occasions. It is still an unfortunate reality in South Africa that race is an issue amongst some people, but if one wants to have a constructive outcome the message seems to be that it should be confronted in a positive way.

The researcher was shown some documentation, normally in the form of e-mails, where suppliers (mostly white) accused the organization and the procurement section, of racism on account of preferential procurement policies. On the other hand, there were also instances outlined where suppliers (mostly black) questioned why they were required to go through tender procedures when they should automatically get the contract, as they were truly BEE. In between the extremes of perceived racism and perceived entitlement, the procurement function has to chart a path, which meets the organizations requirements of quality, delivery and price in a fair, transparent and ethical manner. No easy challenge.

The most interesting entity from a stakeholder point of view was the University given its vast range of stakeholders – academics, students, administration staff, unions, various committees namely audit, finance, as well as colleges, faculties and schools. A decision has been made to centralise the procurement function, which by itself has led to a certain degree of criticism from those who feel that schools should be able to make their own procurement decisions. The centralisation/decentralisation debate often brings in the innuendos about lack of trust, increased inefficiency and so on.

In the private sector, things always look to be a little more straightforward than the public sector, perhaps because the business imperative outweighs accommodation of stakeholders.

However, there were some useful examples from the private sector, which in the final analysis, all come down to communication and inclusiveness. For instance, one company hosted a workshop and invited suppliers to attend where they laid out what their preferential procurement strategy was. Another has a strict open-door policy where suppliers are free to visit and discuss their concerns.

Some of the risks, which were identified in the course of the interviews, were:

- External Customers:
 - your B-BBEE status (i.e. you are a supplier to them)
 - if you change a substantial supplier, what the reaction of your customer might be
- Internal Customers:
 - if you change a substantial supplier, what the reaction of the internal customer might be
 - questioning integrity of colleagues in the procurement process
- Buyers:
 - removing them from their comfort zone of existing supplier relationships
 - additional workload around information requirements and verification procedures
- Suppliers:
 - meet quality, safety, delivery and price standards
 - meet BEE requirements

- dealing with long time suppliers who don't want to change, because there is no incentive for them to do so
- dealing with a supplier who is more powerful than you
- committing to a supplier who is a new entrant and does not have a track record
- applying the philosophy of 'no free lunch' when the supplier does in fact, need your support in the start-up phase

That this risk assessment should not be taken lightly, was illustrated by one company who at the time the research interview was being conducted, was engaging one of their large suppliers about the latter being named by the Dept of Labour as not having submitted their employment equity report on time. The company in question claimed that it was a misunderstanding, however, it had the effect of a more detailed assessment being done on their BEE credentials.

This assessment also gave rise to a discussion on the odd occasion as to whether you get rated first and then do your strategy or vice-versa. Most go with the former as it enables gaps to be identified.

ii. Supplier Database (Benchmark Score 3.16/5, Rank = 5)

The key issue here was how well do you know your suppliers? This also gives rise to a risk assessment implication, however, this aspect was identified as such an important characteristic of any preferential procurement strategy, it was deemed essential that it be dealt with in its own right and on its own merits.

The requirements involved in sourcing this information and ensuring that it remains up to date, and is verified are not to be underestimated. One company noted that it took them eight months to obtain the information about their suppliers from their own buyers.

The University lamented that it did not have a proper supplier database and so had to resort to its creditor lists as a surrogate. They are currently reviewing a software system called 'Purco B-BBEE toolkit' which, is intended to be used by all Universities and will provide a single database of all higher education institutions' supplier B-BBEE status.

Most companies acknowledged that their databases did not give them the comprehensive information that was needed and more effort and resources were required in this regard. Most report on ownership only, with some having a gender and disability breakdown.

One of the better-resourced companies in terms of procurement information, had the latter freely available on the intranet and it was regularly updated and communicated. More specifically, was the approved vendor list indicating the BEE status of the respective suppliers. Recently another company had asked to view their system so they could apply it in their circumstances.

In the opinion of one company, the ideal situation for them would display the following:

Supplier	12 mth spend	Rated	Who	Rating	Weighting	Our business as % of their business
XX etc						
YY etc						

One company went further and reported monthly 'spend by region' as a percentage of total spend.

The issue here is always a rhetorical one, namely ‘how long is a piece of string?’, but in the researcher’s opinion, this is an area that should not be compromised. In today’s age of web-based systems, it is reasonably easy to capture information on-line, into a template. The company can also provide a facility to assist SMEs who may not have on-line access.

Random audits and personal visits can then be undertaken (as some of the surveyed companies do) to assess the credentials of the supplier.

The researcher also feels that this has important implications in relation to enterprise development, as it would give the company the opportunity to identify active, periodic and non-active SMEs and perhaps investigate if there are impediments preventing them from doing business with the large entity that can be reasonably addressed.

It is also important to note that both public sector institutions expressed some reservation about the rating agencies scores. Whilst they made the point that they did not deny that some of them were doing a good job, it once again confirmed that companies should not rely solely on external verification if they are truly committed to the goal of broad based preferential procurement.

One of the most valid points made though was “yes, a comprehensive supplier database would be a good tool to have, but a tool we can easily upload. There is no point in doing it as a ‘bolt on’ to an existing system – which then requires excessive manipulation and interpretation”.

The researcher is surprised at the low ranking, but expects that it will increase in the future.

iii. Policies and Processes

This contains a number of components, namely pre-qualifying and qualifying criteria and processes involved in appointing suppliers.

It is clear from the responses shown that both public sector organizations have very rigid policies and processes to the point of being pedantic. This is understandable, given that they are entrusted with public funds. eThekweni in particular have three committees all involving different people, namely ‘bid specification’, bid evaluation’ and ‘bid adjudication’. The entire process can take up to 2 months to complete from beginning to end. They stress that there are three components namely functionality, price and BEE points on a 90/10 or 80/20 weighting depending on the value of the contract.

Whilst the private sector firms had their stated policies, it is clear that they tend to be far more flexible in their dealings. This aspect is understandable, where speed and efficiency are the order of the day in terms of the commercial imperative.

The researcher identified three categories of suppliers namely existing, potential and aspiring:

(a) Existing Suppliers (Benchmark Score 5/5, Rank = 1)

Insofar as the existing suppliers who are not BEE compliant are concerned, the message that was absolutely consistent across all the companies was that they firmly encourage their suppliers to comply within a reasonable timeframe. At this stage, no company saw any point in threatening their suppliers or applying punitive measures as a consequence of their lack of compliance. Whilst they conceded that non-compliant ones could not go on indefinitely, and

down the line they may have to resort to 'strong arm tactics', they stressed yet again that they were confident that it would not come to that. In fact, some have told their suppliers that they will assist them in their compliancy endeavours, as it will bring future benefits to everybody.

(b) Potential Suppliers (Benchmark Score 2.83/5, Rank = 8)

For potential suppliers, in most cases, the BEE status is a pre-requisite of becoming a new supplier. If it falls under the definition of 'critical supply', then a technical audit is undertaken, The area of 'critical supply' is very problematic due to skills shortage and confirms the need for skills and enterprise development.

There has been some movement in this area, but most companies confirmed that this is a very difficult issue to address. In the researcher's opinion, it confirms the need for greater collaboration by companies. There are some important lessons to be learnt from the Richards Bay area where they have both a 'Chief Executive Forum' as well as a 'CSI Forum' that meets regularly to discuss issues of common concern and identify where they can collaborate. For instance from this process, it was confirmed the need to set up a college to address the shortage of artisan and technicians who are leaving the country.

RBCT is also a founder member of the Zululand Business Development Centre. One of the managers had this to say in the interview, "Once we started this development forum, my vendor list was pooled, verified and accredited. We also discovered that 80% of our lists were the same. As soon as they did that, I didn't need my Excel list anymore. We now have one centre that we can knock on the door to get advice and it confirms the benefit of sharing information on this".

Some companies indicated an active approach to the seeking of potential suppliers but others conceded they were still tending towards the passive phase and could do more.

The example of Gold Circle indicated that with some creativity and a different way of approaching it, potential suppliers could be sought. For instance, they have a specific person who seeks out BEE companies; they have advertised, gone outside of the region to find suppliers and used BEE companies at high profile events.

(c) Aspiring Suppliers (Benchmark Score 3.50/5, Rank = 3)

Aspiring suppliers are classified as SMEs, particularly black owned, who may be an existing or potential supplier but have aspirations of becoming a bigger supplier or moving into the more substantive quadrants, identified in the matrix shown earlier. There is a clear development focus here that borders on enterprise development initiatives and falls under the definition of a 'vertical linkage'. It should be noted, that no company interviewed made reference to the factoring benefit available, "Where a Measured Entity can demonstrate that it procures goods and services directly from a Supplier, which is also a recipient of enterprise development contributions to BEE made by the Measured Entity and which are recognized in terms of any statement in Code 600, all BEE Procurement Spend from that Supplier shall be multiplied by a factor of 1.2 when calculating the BEE Procurement Spend of the Measured Entity".¹⁴

The researcher's sense is that the public sector tends to be a little harder on the timeline of development. For instance, eThekweni state that three years is enough and after that the entity should be treated like any other normal supplier.

¹⁴ Key Measurement Principle 6.3, Section 9(5): Codes of Good Practice, 2005, DTI, pg 500-4,

The private sector entities all stressed that there is no 'free lunch' and business principles apply, consistent with best practice. However, it was also clear to the researcher that the surveyed companies had more than a passing interest in their aspiring suppliers. More often than not there was a fair investment of management time in the operations of these businesses. Clearly they want them to succeed, but there is always the potential danger that both entities enter into a 'comfort zone' of using each other as the thought of going through the exercise with another entity from scratch is too much of a 'hassle factor'.

In the context of vertical linkages, there were three clear examples of companies who had outsourced previous in-house activities to black owned SMEs and/or former employees. The process that one adopted was as follows:

- Business process mapping
- Analyze and define "core"
- Undertake feasibility study (cost/benefit)
- Compile scope of work
- Identify possible service providers and send out enquiries
- Adjudication including reviewing of initial business plan
- Conclude outsource agreement/contract

Whilst a number of these outsourcing arrangements would be defined as peripheral activities, it nevertheless demonstrates a commitment to enterprise development.

Activities included the normal cleaning, gardening and security services, but there were also more substantive examples of laboratory testing (this company had now relocated to Johannesburg and had many clients) and engineering services. In all cases there was strong evidence of mentoring and management time on the part of the company to assist the SME.

One clear success story was an instance where the initial hands-off approach to a BEE supplier company comprising their former employees almost proved fatal to the business. The company then agreed to provide financial assistance subject to certain conditions:

- Monthly meeting to discuss and review performance
- Open book policy to enable them to review financial and business performance and give appropriate feedback
- Extensive training to all shareholders (some of whom are illiterate)
- Analyse their business and commercial processes and convert to best practice:
 - shareholders agreement
 - reporting structure
 - segregation of duties
 - approval framework
 - functional responsibilities including high level KPA's
 - business ethics
 - productivity improvement

This BEE supplier has now recorded a profit of about R1million and appears to have turned the corner. The company has stressed that they strive not to make any BEE supplier totally dependent on them and are now encouraging this business to seek additional/alternative sources of business. However, they did confirm that it might require that this BEE supplier bring in an entrepreneurial partner who has some marketing flair.

Of course this begs the question, where do you draw the line? On the one hand some critics may argue that a false situation has been created as there is still some element of dependency and ultimately who was running the entity. Others would argue that a viable business has been created and the hard work put in by the company has paid off, because they saw the bigger picture.

The Business Support Unit at eThekweni provides advice and support to SMEs who are attempting to obtain contracts from the Council. Workshops are offered and there are dedicated staff of the Unit who are there to assist with queries. One of the priorities that have been recognized though is to provide a simple written guide to aspiring suppliers to help them to understand the process. However, resources are constraining this from happening. Dealing with queries on a face to face basis is often very time intensive, so a simple guide may enable staff to apply the ‘by exception’ policy i.e. “read this and then by all means contact us for items that you need clarification on”.

A whole range of support activities and interventions were given, ranging from use of premises, financial support, to mentoring and training.

What is interesting to note about the specific challenges pertaining to SME suppliers, is that most of these challenges pertain to management issues rather than technical issues. It verifies the tremendous need for business support services to be made available to SMEs in both the public and private sector domain. The hard reality of this is that unless it is addressed, the enterprise development component of B-BBEE will always be compromised.

What also emerged from the public sector analysis was the increasing recognition being given to what might be termed, ‘2nd Tier Enterprise Development’ which will be driven through the procurement activities. Various contract methods, which gives recognition to this, is shown below:

Contract Method with SME	Characteristic	Risk Lies With
Domestic	Left to Principal Contractor to run the process and engage with an SME.	SME
Selected	The SME goes through the Normal Procurement Process, but Principal Contractor will agree to sub-contract if happy with the assessment.	Shared by all parties
Nominated	Instigator nominates SME to engage with Principal Contractor	Instigator

With the ‘domestic’ method the SME is often at the mercy of the principal contractor and in a developmental type environment this might not be completely desirable unless the principal contractor has a strong enterprise development focus them self. The ‘nominated’ method is very rarely followed (unless there are very good reasons for doing so) as the risk lies with the instigator who will have to make good to the principal contractor if the SME does not perform. In fact, a case was related to the researcher where the entity was sued by the principal contractor and the former agreed to pay.

The recommended approach is to adopt the 'selected', which has the maximum potential to be a win-win for all parties. It is a competitive process insofar as the SMEs are concerned, but is done in a fair and transparent manner.

It was also reported that on occasions, re-tendering had occurred when there had been insufficient BEE involvement, but it was felt there was scope to include it.

(d) Other types of linkages

A question was also posed around the scope for forward and horizontal linkages. The former pertains to the company formalising a relationship with an SME further along the value chain. Horizontal linkages refer to a group of SMEs forming an alliance or joint venture type arrangement so as to pool resources and derive economies of scale when supplying to the larger entity. Very little activity was reported here.

One company cited six examples of what would be classified as forward linkages where a contract had been obtained from a Government Dept, and these SMEs were looking to the large entity to supply them. In all six cases, the SMEs were not able to fulfil the contract, largely due to working capital constraints. The large entity had assisted with preferential terms, costing and pricing and given management time to the process. Did they go far enough? It could be argued that they did as much as they could do, without actually doing it for them – which would defeat the object of the enterprise development. Again, this is a hard question to answer in relation to 'drawing the line', but it seems a bitter pill to swallow when all six have a contract awarded them and none can deliver.

iv. Targets (Benchmark Score 3/5, Rank = 6=)

All but one of the surveyed entities reported that targets were set and reported at the highest level. However, at this stage the main emphasis is on the ownership status of suppliers with the targets specified as a % of total spend. However, most reported that they will give recognition to B-BBEE codes in 2007 to the extent that this will become the major priority.

One entity confirmed that this was in fact their key focus at the moment and more detailed targets would be set.

The targets set are generally quantitative (percentage spend) and there was little evidence of qualitative targets (increased competitiveness, technology transfer). Any targets set, tended to be related to the large entity itself (e.g. provision of mentoring) as opposed to the preferential supplier (extent to which spend has increased).

One of the disappointing findings of the study (simply because of the researcher's own personal interest in SME development) was the lack of targets specified for SMEs. Certainly one hopes that this situation will be redressed in the future.

Of course it is important to put this into context. Whilst all the entities confirmed that all the codes were important, you also can't do everything at once and in all likelihood the strategic areas will be dealt with first. As one manager stated, "When you ask the question around targets and impacts, I'm thinking impacts in terms of my rating. Where can I get the most benefit from the least effort".

Another said, that the process must be done on the basis of "chewable chunks in a sequential fashion". The focus is firstly on strategic areas of the business.

Returning once again to the discretionary and non-discretionary issue, one company indicated that as a policy they did not accept the concept of non-discretionary spend, unless the item to be purchased was simply not available locally. In other words, any potential local spend is classified as discretionary.

On the other hand, another company felt that it was essential to distinguish between discretionary and non-discretionary. “Procurement is always going to be a moving target. Suddenly one of your suppliers becomes BEE compliant and your score changes for the better and yet you have actually done nothing. I should point out that we source material internationally which is classified as discretionary, and some material locally which is non-discretionary. You have to do the maths properly, otherwise you could end up losing the tender because it is a competitive process”.

v. Staffing (Benchmark Score 3/5, Rank = 6=)

Prior to undertaking this research, based on evidence seen in other studies, the researcher would have suggested that best practice states that a separate unit or dedicated staff should be appointed to address preferential procurement issues. In addition, suggestions have also been made that staff are specifically rewarded and sanctions applied for non-performance.

This study dispels that main suggestion. Whilst some companies have KPAs around BEE, all discard the creation of a separate unit.

Virtually all the entities indicated that staff were assigned and not dedicated, and it was part of the normal procurement function (i.e. their normal workload). No additional rewards are given specifically for BEE activities. Once again the word encouragement was utilised, the end result being a positive outcome, where people ‘buy in’ through a process of consultation and communication. One company is committed to “mission-directed work teams” and have extensive functional measurements and targets in place. Another company has quarterly “culture and climate” meetings where issues are raised and discussed by the employees.

There is no ‘special’ BEE training – but rather any training is approached within the context of the procurement function.

One company noted that B-BBEE required innumeracy in interpreting and reporting on the codes and hence they relied quite extensively on people with finance and accounting backgrounds to unravel it.

As far as resources are concerned, it appears that most companies do not allocate a specific budget for the procurement process. However, being a strategic project, resources can be accessed if required.

The biggest lament from the two public sector entities was the lack of staffing resources allocated to them. So much so, that it in fact compromised some of the things that they wanted to achieve. It was hoped that this situation would be urgently redressed.

vi. 3rd Party Involvement (Benchmark Score 3.33/5, Rank = 4)

There are two categories of companies that emerged here, ones who use 3rd parties reluctantly and the other quite actively. However, there was not a single instance where none were ever used. The key issue appears to be, that they be used on a needs basis once a proper gap analysis has been undertaken.

Two companies are using consultants to help them shape and refine their B-BBEE strategy, others were adamant that they could do it themselves.

However, the researcher did not want to limit 3rd party involvement to consultants. The study also hoped to identify the extent to which relationships had been forged with government agencies and other entities that assist in SME development.

eThekwini probably had the widest network and a number of initiatives are being pursued here, both with private and public sector funding. Richards Bay has the ZBDC, which is used quite extensively by companies in the area.

However, regarding interaction with other agencies, the evidence was very thin. This begs the question, is the government being active enough in marketing its own programmes and resources that are available? It would appear not. Some limited interaction has taken place with the DTI, but virtually no contact was reported with financing agencies and other governmental business support institutions.

Where concerns were also raised was a proper verification system. Again this is something that the government will have to address.

7. Key Challenges - Summary

Each entity surveyed offered a different challenge, so it is useful to summarise them here:

- a. The man in the street to understand why B-BBEE is important. This will hopefully address some of the negative perceptions that still exist so that everybody 'buys in' to what the government is attempting to achieve and is committed to it.
- b. Management and business skills of SMEs. This continues to be a huge impediment to their potential to be mainstreamed into the formal economy.
- c. Broad based ownership. Whilst one respondent noted that "there are a lot of people who have a jaundiced view of this ownership thing, only benefiting the so-called elite and so on, and hence the B-BBEE initiatives are to be welcomed", nevertheless when it comes down to it, our society will only be fully normalised when the majority of people feel that they have meaningful ownership.
- d. Managing expectations by balancing short-term competitive challenges with the long term needs of the country.
- e. Shortage of resources and skills in the large entities themselves.

8. Conclusion

The key findings that emerged from this study and which reflect best practice in the context of preferential procurement:

1. Positive attitude – first and foremost the entities all stressed that it was a business imperative. This came visibly from the top of the organization.
2. Encourage – in implementing preferential procurement, the focus should be strongly on encouragement, whether it is suppliers or staff.
3. Information – whilst this had a relatively low ranking in terms of the current status, the researcher is of the opinion that this situation will change and hence it has now been listed third in order of priority.

There is still significant work that needs to be done in setting of targets, bringing potential suppliers in and resourcing of staff. Insofar as the latter is concerned, best practice strongly suggests that a separate unit is not created, but it is part and parcel of your normal job description. The government will also need to address the verification agencies as soon as possible.

The solutions to the challenges listed earlier, are not easy to achieve, but in the researcher's opinion it comes down to a more collaborative and integrated approach by government, industry associations and various third party service providers (whether commercially driven or NGOs). At the heart of this lies communication and sharing and exchange of ideas, which is precisely what this study has hoped to achieve.

APPENDIX A
MINIMUM QUESTIONS, THE STUDY WAS REQUIRED TO ADDRESS

- For what reasons the corporation is engaging in affirmative/preferential procurement or would wish to increase its affirmative/preferential procurement
- The procurement policies that the corporation has in place and how they were developed
- What targets the corporation has set for BEE procurement
- The pre-qualification and qualification criteria to become a supplier
- The contracting methods to access business or tenders from the corporation
- The types and amounts of core (non-discretionary) and non-core (discretionary) business earmarked for SMEs
- Whether BEE procurement is a high priority, with targets that are set, monitored and reported on at Board level
- How they set targets and monitor and evaluate achievements against these targets
- Whether these targets are set at group, company or unit level, and who is responsible and accountable for the targets at each level
- Whether those responsible for procurement are provided with incentives and high level support for achieving the goals and targets, and what sanctions or consequences arise for non-fulfillment
- What they have achieved in terms of numbers of SME companies coming onto their supplier base
- What challenges they have faced and still face and how they are addressing those challenges, and what assistance may be useful in helping them address these challenges
- What needs they have for advice, design and facilitation of support for their own staff and for the BEE suppliers
- What types of support and interventions the corporation sees as necessary for growing the SME supplier base and for improving the performance of the suppliers they already have
- What services, support and financial support the corporation provides for its suppliers
- Whether they would be willing to work with an external facilitator such as SAIBL, to support the development of the BEE supplier base

APPENDIX B

SAIBL – PREFERENTIAL PROCUREMENT STUDY

PERSONAL INTERVIEW QUESTIONS

A YOUR BACKGROUND			
1	Industry Sector Classification		
2	Primary Ownership	South African	Foreign
3	Type	Manufacturer	Service
4	Turnover R	No of Employees	
5	Main products		
6	Other Info		
B B-BBEE CONTEXT			
7a	Does your industry have a charter?	Yes	No
7b	If yes, have you participated directly in the drafting of the charter?	Yes	No
7c	If no, what are the industry's intentions?		
8	Who in your organization is responsible for reporting on/ensuring compliance with/ or at the very least, understanding: <ul style="list-style-type: none"> - Competition Act - Employment Equity Act - Preferential Procurement Act - National Empowerment Fund Act - National Small Business Act - Broad Based BEE Act Are there any other Acts that you are required to take cognisance of?		
9	How would you rate the knowledge of B-BBEE issues in your institution? (Circle appropriate response) 1. Poor 2. Average 3. In-depth knowledge		
10a	Level of commitment to BBBEE? (Circle appropriate) 1. Wait and see 2. Ad-hoc 3. Making some moves, but still some way to go 4. Good efforts thus far, but don't have total organizational buy-in 5. Substantial progress and full commitment If none of the above, your own explanation		
10b	Why?		
11	Where does your institution's emphasis lie in the codes? Where do you think you can make the largest impact? The least amount of impact?		
12	Have you been rated?		
13	Score/s?		
14	What does this mean for your institution?		
15	If you don't comply or have a low score, is this likely to have a substantial, limited or insignificant impact on your business? In what way?		

C	PREFERENTIAL PROCUREMENT	
16	<u>The Players</u> Who do you identify as being the stakeholders in this aspect of B-BBEE? Are some likely to encounter negative consequences arising out of this? How are you managing this process?	
17	Hard Data What is your current mix of supplier category, in other words how do you report on the breakdown? (Rand value, quantities etc) Do you perhaps have some visual representation of this, e.g. pie charts, to illustrate this?	
18	What do you intend it to be and by when?	
19	What proportion of the above categories on your supplier list is currently active/non-active? What policies and procedures do you have in place regarding these non-active suppliers?	
20	What Targets have you specified both quantitative (e.g. time, Rand Value, Quantities) and qualitative (e.g. increased competitiveness, technology transfer)?	
21	<u>Your Staffing</u> Do you have dedicated staff to address this?	
22	What are their backgrounds? How did you recruit them? Have you had to offer them specialized training? From whom? What costs have been involved in establishing this 'unit'?	
23	What budget allocation do they have?	
24	How is this budget determined?	
25	How is their performance measured?	
26	What is the reporting structure? Can you draw an organogram?	
27	<u>The Process</u> Are you able to provide a flowchart to indicate processes involved in your preferential procurement activities?	
28	What policies, pre-qualifying and qualifying criteria do you have in place for each of the following categories? - Existing suppliers - Potential suppliers - Aspiring suppliers	
29	Do you adopt a passive (wait and see if any pitch up) or active (go out of our way to find them) approach to black suppliers?	
30	Have you undertaken an activity audit to evaluate which activities currently done in-house can be outsourced?	
31	Which are core and which is non-core?	
32	Motive for doing this?	
33	Would existing employees be given first option?	
34	To what extent have you adopted an integrated approach? <div style="text-align: center;"> <pre> graph TD A[Preferential procurement] --- B[Enterprise development] A --- C[Residual element] B --- C </pre> </div> (Ideally we would like to construct a visual model of this to reflect best practice that shows how they interact and relate to one another).	

	<u>Third Party Involvement</u>	
35	Have you had intermediary involvement in facilitating the process? What have you used them for? Do you see this as being ongoing and necessary? Where do you see the most important roles of the intermediary?	
36	Have you interacted with DTI and other government agencies (e.g. UYF) on any issues, and experiences in this regard?	
37	Have you interacted with financial institutions (e.g. Khula, IDC, Banks) and made use of funding schemes available (e.g. Black Business Supplier Development Programme), and experiences in this regard?	
38	<u>Specific Categories</u> Specific policies in relation to SMEs, Gender, Youth? Specific challenges you have encountered and progress in relation to these?	
	<u>Additional Support</u>	
39	Any special arrangements for the above categories?	
40	Any capacity building programmes with suppliers undertaken using in-house personnel and/or external trainers/mentors etc?	
41	Where have you encountered the greatest need? In which programmes have you obtained the biggest 'bang for your buck'?	
42	<u>Linkages</u> Is there scope for forward linkages? Is there scope for horizontal linkages?	
43	<u>Stories</u> Do you have any 'stories' you can relate about experiences, successes or failures? Any potential case studies which could be written about and placed in the public domain?	
44	<u>Any Other Issues Not Raised Above?</u>	

STUDY 3



Study on the Procurement Relationship between large Corporations and mainly black owned or empowered SMEs

Research commissioned by ECI Africa Consulting (Pty) Ltd

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1. BACKGROUND TO THE STUDY

1.1 What initiated the study

The South African International Business Linkages (SAIBL), a programme managed by ECI Africa Consulting (Pty) Ltd approached the UCT Centre for Innovation and Entrepreneurship (CIE) at the Graduate School of Business to lead a business linkages opportunities and affirmative procurement feasibility study. The study was undertaken to better understand the business relationship between large corporations situated in the Cape Metropole area and mainly black owned or empowered SMEs.

1.2 Aims of the study

The aims of the study were to better understand how large corporates interact with black owned or empowered SMEs and to identify how the Government's BEE policy was being implemented and whether it was essentially effective.

The study was designed to furnish SAIBL with information, conclusions and recommendations on a variety of topics, but also to ignite a relationship between SAIBL and some of the corporations to determine how best to work together to bring about successful black supplier development and procurement.

The study attempted to determine:-

- What rationale corporations have for engaging in black supplier development and/or affirmative procurement.
- What policies, resources and metrics are in place to underpin black supplier development and/or affirmative procurement.
- How companies measure success or failure and what positive and negative consequences result, and
- What challenges they face and where and how they can use help.

However, before commenting on the results of the survey, cognisance should be taken of a method of benchmarking corporations as to their minority supplier policies and practices (John James) which categorises companies as to their different levels.

<p><u>Level 1: Token programme</u></p> <ul style="list-style-type: none"> • No programme ownership • No budget or resources • No written policies or process • No measurable targets • No outreach programme • No serious reporting • Basic goods and services 	<p><u>Level 2: Basic Programme</u></p> <ul style="list-style-type: none"> • SME/BEE Co-ordinator • Programme brochure • Compliance driven • Broad targets • Limited outreach • Non-core goods and services • Sub-contracting • Low level ownership
<p><u>Level 3: Advanced Programme</u></p> <ul style="list-style-type: none"> • Programme Director • CEO/Senior Managers involved • Written policies and process • Integrated company-wide • Well defined, measurable targets • Regular tracking and reporting • Performance incentives • Outreach programme 	<p><u>Level 4: Best Practice Process</u></p> <ul style="list-style-type: none"> • Board level champion • Senior management leaders • Part of company strategy • Targets at all levels • Sophisticated measurement • No serious reporting • Focus on core goods & services • Strong outreach & marketing • Training of staff • Tied to KRI and incentives

Companies participating in the study will be categorised according to these levels. Corporate executives then need to question whether;

- compliance with various BEE Charters is enough
- they can afford to adopt a “wait & see” approach
- their corporate social investment policy is keeping abreast of the changing business climate in South Africa, and
- they have the will, the staff and the resources to adapt to a vital and critical business imperative.

1.3 The sample

Sixteen large corporations representing a variety of different sectors, all located in the Western Cape and in close proximity to Cape Town were selected and key personnel interviewed. Eight interviews were held during August and a further eight towards the end of November, early December 2006.

Table 1: Affirmative Procurement Study – Companies Interviewed

Name of Company	Contact Person	Designation	Contact number	E-mail
1. SANS Fibres	Anthea Hart	Procurement Manager	(021) 959 4002	hartar@sans.co.za
2. Cape Span	Angelo Petersen	Assistant to the Group MD & interim CEO of Cape Span Foundation	(021) 917 2600	Angelo_petersent@capspan.co.za
3. Auto & General	Juan Manuel	Regional General Manager	(021) 529 8610	juan@autogen.co.za
4. Globe Engineering	George du Toit	Buyer	(021) 448 4640	
5. Engen	Alistair Collair	Group Procurement Manager	(021) 403 4911	Alistair.collair@engenoil.com
6. Safmarine	Bernard Seymour-Hall	Systems Manager	(021) 408 6330 083 799 6330	bseymourhall@za.safmarine.com
7. Pick 'n Pay	Suzanne Ackerman	Director	(021) 658 100	thindley@pnp.co.za
8. Old Mutual	Phila Jordan	Procurement Compliance Manager	(021) 509 4882	Pjordan@oldmutual.com
9. Cape Winelands District Municipality	Rhian van Wyk Eric Nyembezi-Makoni	Director: Local Economic & Social Dev. Snr LED Information Analyst	(021) 888 5746 082 856 9588 (021) 888 5134 082 303 2576	rhian@bolanddm.co.za
10. Media24	Francois Groepe Ashoek Adh kari	Financial Director General Mngr: Regulatory Affairs	(021) 406 3598 082 827 6149	fgroepe@media24.com aadh.kari@media24.com
11. Cape Winelands District Municipality	Kotie Falck Charl Jooste	Deputy Director: Expenditure Revenue Manager	(021) 888 5144 (021) 888 5165	kotie@bolanddm.co.za charl@bolanddm.co.za
12. Tiger Brands	Andries Cronje	Agricultural Analyst: Culinary	(021) 970 4100 082 370 9216	andries.cronje@tigerbrands.com
13. University of CPT	Carol Paulse	Vendor Management Officer	(021) 650 3751	Carol.Paulse@uct.ac.za
14. City of Cape Town	Sechaba Raliijeje	Mngr: Procurement, Tender & Contract Management: Finance	(021) 400 3213	Sechaba.raliijeje@capetown.gov.za
15. House of Monatic	Wendy Nathan	HR Director	(021) 442 9430	wendy@monatic.co.za
16. Protea Hotel	Benjamin Memani	Group HR Director	(021) 430 5000	benjamin@proteahotels.com
17. Independent Newspapers	Peter Rhoda		082 490 5718	Peterr@incape.co.za

1.4 Procedure for data gathering

Each person identified was sent a covering letter and questionnaire (Appendix 1 & 2) prior to the interview. The questionnaire was designed to cover both quantitative and qualitative aspects and was approved by the management of SAIBL. Each face-to-face interview took approximately 60 minutes with the questionnaire being completed by the interviewer as several of the questions were open-ended. The results were collated and analysed.

2. BACKGROUND RESEARCH TO BEE PROCUREMENT

2.1 Introduction and Background

The seeds of economic transformation for South Africa were sown in the vision of an empowered economy articulated in the ANC's freedom charter of 1955:

"The people shall share in the Country's Wealth!

The national wealth of our country, the heritage of South Africans, shall be restored to our people;

The mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole;

All other industry and trade shall be controlled to assist the well being of the people;

All people shall have equal rights to trade where they choose, to manufacture and enter all trades, crafts and professions."

(quoted in Burger, Munian and de Groot , 2003)

In 1994, when South Africa entered democracy, less than 5% of the private economy was owned or controlled by the black majority. This figure represents the Apartheid legacy of systematic dispossession, disempowerment and exclusion. In order to achieve the objective of transformation of the economic landscape of South Africa to include significant black participation in economic activities, a systematic response for redress was required. The response vehicle was Black Economic Empowerment (BEE), an attempt at a coherent and integrated socioeconomic process located within the context of South Africa's national transformation programme (Burger Munian and de Groot, 2003). An Essential mechanism of BEE implementation was promulgated by the Broad Based Black Economic Empowerment (BBBEE) Act 53 of 2003

(Simayi, 2005). To achieve its objective, BEE must incorporate "comprehensive strategies aimed at increasing access to productive assets and to simultaneously ensure the productivity of those assets" (Simayi, 2005).

One such strategy is that of preferential procurement. This background report will look broadly at the concept of preferential procurement, within the South African context, as a backdrop of the UCT CIE/SAIBL survey. It describes the landscape against which the corporates surveyed are conducting their procurement from BEE suppliers. The report is divided into four sections:

1. The procurement function and the place of preferential procurement within that function.
2. Problems within the implementation of preferential procurement.
3. Preferential procurement best practice.
4. The state of preferential procurement in South Africa.

Procurement reform in South Africa formally began around 1995 and focused on 2 areas:

- Good governance in procurement and
- Attainment of socioeconomic objectives through procurement (Chinje, 2003)

Preferential procurement encourages and facilitates the adoption of BBBEE by aligning it with business imperatives. Preferential procurement is often practiced alongside Enterprise Development Initiatives. Enterprise Development Initiatives assist and accelerate the development of operational and financial capacity of small and medium enterprises owned and controlled by black people. This allows them to increase capacity in order to position themselves to exploit opportunities presented by preferential procurement. Together they aim to achieve meaningful economic empowerment benefits as part of the systematic response to transforming the economy of South Africa.

The King 2 Report supports the principle behind these initiatives, "well managed enterprises should be aware of, and respond to the society in which they exist to ensure long-term growth and sustainability" (Simayi, 2005). The concept and implementation of BBBEE was subject to conflict and misinterpretation. The 2001 Black Empowerment commission, pointed to the problem of inconsistent definitional yardsticks (Chinje, 2003).

This presented a challenge to practitioners and target beneficiaries alike. Progress could not be reliably gauged as verification and rating agencies were applying standards inconsistently (Vuyo Jack co director of Empowerdex quoted in Mawanza, 2005).

In response, the Codes of Good Practice were developed to provide principles and guidelines to facilitate and accelerate implementation in a meaningful and sustainable manner.

The Codes articulate the objective of preferential procurement which encourages established enterprises to procure from black-owned, black-controlled businesses. This allows participation through market access. It integrates black business into the mainstream of the economy and contributes to sustainability. The DTI created a generic scorecard to measure progress of businesses in achieving BBBEE. This scorecard suggests that a minimum of 20% of procurement spend should be allocated to BEE enterprises (Simayi, 2005). These codes will have an overarching effect on current and future empowerment transactions.

2.2 The Procurement function and the place of Preferential Procurement within that function

Saunders (1997) and Chinje (2003) found that procurement has evolved from an operationally oriented back office function to a strategic supply chain management function. Supply chain management is often a source of competitiveness and value for money. Procurement demands have become more challenging because of technological and information advancements. At the same time, outcomes have become more visible, with transparent accountability.

Watermeyer (2003) studied the Implementation of Preferential Procurement Policies, particularly in the public sector in SA. Here, his useful discussion on the tensions inherent within the process is reproduced to offer a deeper understanding of the procurement function and the place of preferential procurement within that function.

SA is one of few countries in world to have procurement subject to its Constitution. The concept of preferential procurement as a policy is not without question and controversy around its legitimacy and effectiveness. There are implementation costs and concerns around compromising the core procurement values that must be considered.

Preferential procurement policy is a policy that promotes objectives **additional** to those of the immediate objective of the procurement itself. This being so, the question arises as to whether or not the objectives of preferential procurement policy conflicts with primary procurement objectives. If this is so, the question arises - to what extent do they conflict and how can this be managed within acceptable limits?

The primary objective of the system is to be fair, equitable, transparent, competitive and cost effective. The secondary objective is that the procurement system may provide for :

- Categories of preference in the allocation of contracts and
- Protection or advancement of persons disadvantaged by unfair discrimination.

The Public Procurement Research Group identified a taxonomy of 9 different methods of using procurement to promote non-commercial objectives.

Methods used to implement preferential procurement policies:

Scheme type	Methods		Actions associated with methods
Reservation	1	Set asides	Allow only enterprises with prescribed characteristics to compete for contract or portions thereof – reserved for their exclusive execution
	2	Qualification criteria	Exclude firms that cannot meet specified requirement or norm related to policy objective from participation in contracts
	3	Contractual conditions	Make policy objectives a contractual condition – e.g. fixed% of work to be subcontracted out to enterprises that have prescribed characteristics
	4	Offering back	Offer tenderers that satisfy criteria relating to policy objectives opportunity to undertake whole/part of contract if tenderer is prepared to match price and quality of best tender received
Preferencing	5	Preference at the	Limit number of suppliers invited to tender

		shortlist stage	on basis of qualification. Give a weighting to policy objectives in addition to commercial criteria at short listing stage
	6	Tender evaluation criteria	Award weighting to policy objectives along with usual commercial criteria at the awards stage
Indirect	7	Product/service specification	State requirements in product or service spec, e.g. specifying labour-based construction methods
	8	Design of specs contract conditions and proc processes to benefit particular contractors	Design specs or contract terms that facilitate participation by targeted groups of suppliers
Supply side	9	General Assistance	Provide support for targeted groups to compete for business, without giving these parties any favourable treatment in the actual procurement process

Concerns regarding undermining the primary procurement objectives are invariably expressed whenever procurement is used as an instrument of socio-economic reform.

Typically, concerns revolve around the following risks when implementing a preferential procurement policy.

- Loss of economy and efficiency within procurement
- Exclusion of eligible tenderers from competing
- Reduction in competition
- Unfair and inequitable treatment of contractors
- Lack of integrity or fairness
- Lack of transparency in procurement procedures
- Failure to achieve socioeconomic objectives through procurement

Watermeyer's analysis suggests that preferencing schemes - methods 5 and 6 - whilst not guaranteeing socio-economic objectives will be met, are the methods most likely not to compromise immediate/primary procurement objectives if properly managed.

Methods 3, 7 and 8 under certain circumstances have the potential to satisfy primary objectives. Methods 1, 2 & 4 are most likely to compromise such objectives.

Several methods are available to implement procurement policy. South African legislative framework for procurement is enshrined in the Constitution and the Implementation of Preferential Procurement Policy Framework Act. Apart from a requirement of a 20% weighting in respect of relatively low value contracts, it is in line with international best practice. Care must be exercised in implementing to ensure that socioeconomic objectives are promoted, through evaluation mechanisms.

South African national standards provide tools for implementing preferential procurement policy in accordance with legislative framework. These provide practical guidance on how to formulate policies, define target groups, monitor contract compliance.

2.3 Problems within the Preferential Procurement

Research has identified the following barriers to participation of BEE suppliers in preferential procurement. The implication is that effective implementation of preferential procurement initiatives will be compromised if these barriers are not addressed. At each level, a recommendation is offered to address the problem identified (Chinje, 2003). There are, however, numerous abuses and problems associated with the system.

2.3.1 Fronting

This occurs when White owned companies circumvent empowerment requirements because they don't want to miss out on preferential procurement opportunities. Fronting also creates a false impression around the number of BEE suppliers available in the market (Mawanza, 2005).

2.3.2 Narrow-based empowerment

This occurs when the same Black companies win opportunities. Benefits are not spread, but are concentrated in the hands of a minority of BEE suppliers. Reanna Russouw in Finance Week criticizes the so-called Connectivity Syndrome where economically and politically connected entrepreneurs with easy access to capital seize the lion's share of empowerment opportunities. This results in a skewed empowerment landscape which is dominated by "emerging black oligarchs" (Mawanza, 2005).

The results of these abuses of the system means benefits are not reaching the intended beneficiaries. Thus the broad objective will not be achieved. Such abuses erode the legitimacy of the programme (Chinje, 2003).

Recommendation

Very strict screening systems to protect against fraudulent claims of status and thus to create more opportunities for genuinely black-owned business (Chinje, 2003). The codes of good practice address issues such as narrow based empowerment. Its objectives are intended to stem perpetuation of this sort of abuse. Measurements are also more clearly defined and companies might be compelled to restructure or lose points (Mawanza, 2005).

The playing fields need to be leveled and entrepreneurship networks and development should be encouraged so that those who are “less connected” have increased access to advisory and financial support.

2.3.3 Difficulties with the tender process

The tender process is unwieldy and often considered inaccessible by BEE suppliers. There is often unnecessary bureaucracy, legislation and complication which makes it difficult to understand and respond to the requirements of the tender. This also puts off potential new entrants. There is a lack of proper feedback mechanism to unsuccessful tenderers. This makes it difficult for them to identify errors in their tendering documents. They are thus likely to repeat mistakes, instead of learning from them and affecting the necessary improvements (Chinje, 2003).

Recommendation

Streamlining tender documentations to remove unnecessary complications. Training programmes could be created to demystify the process and to teach tendering best practice. Networking events where buyers and SMMEs can interact. Buyers could address SMMEs on what they are looking for within a tender application. Feedback to be offered to tenderers to tell them where they went wrong.

2.3.4 Weak approach to BEE supplier management

Staff professionalism, institutional weaknesses and chronic lack of appropriate skills leads to a weak approach to supplier management. Some organisations do not support preferential procurement. Reasons vary from that of “Discrimination Pockets” of racism that still exists amongst procurers as observed in the study by Chinje to some that are resistant to change (Chinje, 2003).

Even within organisations that support preferential procurement, there are sometimes individual buyers that lack commitment to support BEE suppliers. Passive aggressive behaviour is often exhibited by such buyers. They need to purchase from BEE suppliers, but will practice subtle sabotage of the process. This could derail the process and hamper achievement of the organisation’s BEE goals. This internal resistance makes it even more difficult for the BEE supplier to secure business from corporates.

Resistance can also be due to the fact that established networks already exist within the procurement function. In South Africa, these networks were previously designed to exclude Black business. BEE suppliers then face the challenge of breaking into an established procurement process, where buyers have long-term relationships with non-BEE suppliers (Shah & Ram, 2005).

Motivation for preferential procurement is very important. Some buyers consider it a purely public relations exercise and will focus on quantifiable targets – getting the numbers right. Such buyers lack commitment and the relationship between them and the BEE supplier will be a superficial one. They will not extend to them the support and understanding BEE suppliers need (Shah & Ram, 2005).

Recommendation

Training is vital across all levels of the organization to ensure that there is a unified goal and approach to preferential procurement. When the process is driven from the top, championed and monitored, it stands a better chance of successfully addressing resistance. It needs to be inculcated as part of the corporate culture of the organisation. Training and development of buyers should also target the skills development within the area of preferential procurement to improve their ability to procure effectively. Simayi (2005) recommends that “Blacks should trust other Blacks.” It is often incorrectly assumed that racism and discrimination is a one dimensional “white on black” occurrence. However the reality is that there are situations of racist and discriminatory attitudes amongst blacks towards other blacks.

2.3.5 Access to information on procurement opportunities

BEE suppliers often do not have the sophisticated information networks needed to access timely and accurate tender information.

Perceived access to markets for Black business will facilitate the ability of black SMMEs to diversify from traditional low value-add activities. This ability is hampered by their inability to exploit mainstream market opportunity in the private sector, public sector and white consumers (Chinje, 2003).

This phenomenon was also identified amongst ethnic minority businesses in the United Kingdom. The prospect of public and private contracts facilitated the process and encouraged them to move out of “low value niches”. State and local government set-aside programmes set the pace and led to millions of dollars in contracting opportunities. These initiatives increased minority employment (Shah & Ram, 2005).

Recommendation

Raise awareness around opportunities, so that Black business is aware of options and areas of possible demand and diversification.

2.3.6 Capacity Issues of BEE Suppliers

Schwabl (1999) identified the fact that some large corporates prefer to deal with large suppliers. Corporates sometimes do not trust SMMEs to have the proper skills and to deliver the required quality. There are also concerns around the SMME's reliability.

Size does not favour black business, as they often have limited resources which affect their ability to compete for and capacitate large contracts. Often, with the awarding of the contract, the BEE supplier faces their greatest challenge – that of securing the finance to execute the contract (Chinje, 2003).

To add to their financial woes, inexperienced Black business often underestimate the contract costs. Thus, they value the contract cheaply and stand a greatest chance of winning the tender. However, the discrepancy between the incorrectly estimated cost and actual cost of fulfillment of the contract must be borne by the supplier (Chinje, 2003).

Procurers often complain that there is a shortage of BEE suppliers who they are able to procure from. A similar problem was experienced in the United Kingdom. Procurers cited that they had difficulty sourcing quality minority businesses with requisite capacity. This was also a problem in the States, as evidenced in the Pearsons Survey of American companies which identified the availability of qualified Minority Business Enterprises as a major impediment to supplier diversity programmes. It was found that minority businesses

were clustered in relatively few industries, lacked specialist skills and flexibility and capital. This meant that finding willing, able and confident suppliers presented a major challenge (Shah & Ram, 2005).

It is understandable that there might be difficulty in sourcing businesses in these countries, as they do represent *minority* populations. It is a sad fact of the South African situation that we experience a similar problem in sourcing from the *majority* of our population.

There are abundantly skilled black people in South Africa. However, many of them do not choose the entrepreneurial route. Mputhi Mphuti of Empowerment SA in Financeweek identifies the fact that Government, public corporations and multinationals scramble to hire skilled black labour, thus removing them from a possible entrepreneurial pool. This is where mentorship programmes are useful to create a bridge between the skilled blacks within Corporates and BEE suppliers (Mawanza, 2005).

Recommendations

Costing issues could be addressed by in-depth costing conducted independently by the procurer. This could be incorporated within the tender brief as a specification that estimates should fall within a particular range (Chinje, 2003).

Access to finance issues need be addressed in innovative ways such as short term loans, quick pay provisions, direct payment of subcontractors and the financing of assets (Chinje, 2003).

Payment processing should be expedited and delays should be avoided. Special payment cycles for black suppliers could assist potential cash flow problems (Simayi, 2005).

Mentoring programmes could address the lack of experience. A deeper involvement also allows for better monitoring, thereby increasing reliability of performance (Chinje, 2003). Track record requirements need to be realistic and performance management procedures need to be in place (Simayi, 2005). Development programmes for SMMEs allow Corporates to grow their own timber which would facilitate the necessary increase of the pools of suppliers.

Entrepreneurship as an alternative career path for black professionals should be showcased and encouraged.

2.3.6 Access to information on BEE suppliers

Alongside the problem of a possible shortage of eligible BEE suppliers, there is also the problem that where these suppliers do exist, they are not known to the procuring companies. Procurement information on potential Black suppliers is of poor quality. The procurers often rely on the information presented to them, as there is a lack of reliable, independent information on black businesses competing for contracts. The procurers requires a comprehensive data set on characteristics of eligible black businesses (Chinje, 2003).

Recommendation

Create a national database of BEE suppliers that is comprehensive and easily accessible, both to procurers and suppliers (Simayi, 2005).

2.3.7 Lack of measurement, evaluation and recording of impact

Harris as referenced in Chinje (2003) reports the fact that understanding preferential procurement is difficult. Most organizations have yet to organise for, capture, monitor and report systematically on preferential procurement activities.

In addition, the reporting is often merely a superficial listing and numerical quantification, as goals are not often expressed in real results. A comprehensive evaluation of the actual socioeconomic results of the programme is absent. Thus, it is difficult to assess the full impact of the initiative.

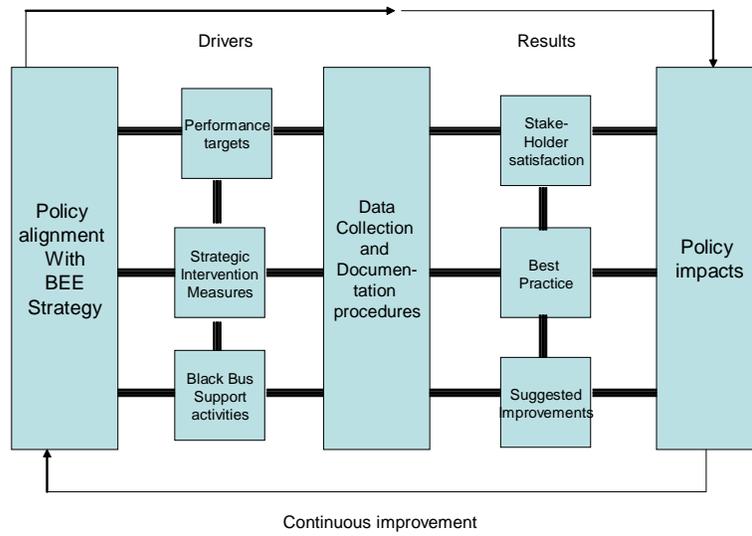
There is also an absence of research on preferential procurement within South Africa. Implementation has not been extensively researched and documented (Chinje, 2003).

Monitoring and reporting, when done properly is a complex and comprehensive exercise which will place additional pressure on procurement managers and subsequent demand on human and financial resources (Shah & Ram, 2005).

Qualitative and quantitative data on outcomes of implementation of preferential procurement policies is generally lacking. This lack of procedures at both national and provincial level to enable accurate assessment to be made means that it is difficult to assess how effective preferential procurement policies are in reaching those for whom they are intended. (World Bank findings came to similar conclusion in review of South African procurement arrangements). Unfortunately, in the absence of a current solution, we are relying on subjective estimates (Financial Mail Top Empowerment Companies Report).

Recommendation

Chinje (2003) recommends the Development and implementation of a Preferential Procurement Evaluation Framework, which is both comprehensive and holistic as pictured below.



2.4 Preferential Procurement Best Practice

2.4.1 The role of the Government

Simayi (2005) recommends, based on his consultation with experts, informants and practitioners that government:-

- Ensures alignment of preferential procurement best practice with legislation.
- Establishes a national procurement agency that conducts
 - periodical auditing and monitoring to check preferential procurement status.
 - conducts pre-qualification and records this in a national database of suitable suppliers.

Credible intermediary organizations should be identified and created to assist government in this task.

Shah & Ram (2005) noted that the Government played an important role as catalyst within both American and English implementation of supplier diversity programmes. “The catalytic impact of legislation on corporate thinking cannot be overstated. Provide fuel for the creation and innovation of initiatives.”

The government should not only champion the cause, provide pressure through legislation and provide a monitoring and evaluation function, but as a big budget holder, should also actively engage in preferential procurement.

2.4.2 Internal alignment

Schwabl (1999), identifies the most likely characteristic of successful corporate affirmative procurement is that it is integrated into overall corporate strategy. Whereas previously, preferential procurement was essentially a Corporate Social Responsibility Initiative, it has now developed into a strategic imperative.

Ram and Jones 1998 observed that Ford in the USA confirmed that 1990's saw a move away from considering preferential procurement a matter of goodwill and social responsibility to a more commercial rationale. Findings highlight the importance of the business case in explaining corporate receptiveness to supplier diversity. Added value to overall performance of the company – provides firm with market access to the new growth and strategically important market segment, brings flexibility to supply chain, provides stakeholder satisfaction and enhances stakeholder's ability to access government contracts (Shah & Ram, 2005).

Good preferential procurement practice should be deeply embedded in the firm's culture. In order to achieve this, one of the most important challenges need to be addressed - securing senior manager buy in. This can be facilitated when there is strong commitment from top management and executive structures. A champion and driver of the programme should manage the portfolio (Schwabl,1999). This will ensure consistent treatment of related issues. An advisory council could be tasked with planning and controlling implementation across different business units. Communication of programme goals should happen throughout company. Measurement and reporting should be implemented to track supplier performance and internal goals.

By sending a strong message down the chain this could influence suppliers in choice of second tier subcontractors (Shah & Ram, 2005).

2.5 Outreach

The Centre for advanced purchasing studies in the UK did research in 1995 on Purchasing from Minority Business Enterprise: Best practices. They surveyed 132 organisations about outreach activities. The Centre found direct correlation between the frequency of participation in trade shows and

the number of businesses awarded contracts. Outreach initiatives are a means of engaging with the targeted businesses. One such example was a virtual trade show which was a cost effective way of countrywide exposure and outreach (Shah & Ram, 2005).

2.6 Developing Long term relationships

A long-term strategy to secure minority businesses with requisite credentials is necessary. Internationally, there have been successful mentoring relationships between corporates and minority businesses. For example, Unisys' Success Partnership and JPMorgan's Success Programme (Shah & Ram, 2005).

The Financial Mail Top Empowerment Companies report found that companies that perform well have approached BEE as a long term human development programme as opposed to an accounting entity. They have emphasized bringing black people into senior management positions, contributed to skills development and have practiced significant procurement from black-led firms.

A continuing engagement and dialogue between BEE suppliers and corporate management will address the problem of corporate and entrepreneurs not understanding and empathizing with the other's context and operating culture. Schwabl (1999) suggests that corporates view the relationship with the BEE supplier as a long term win- win partnership. Mentoring and initial time and money invested in suppliers to get them up to speed will bear fruit (Schwabl,1999).

2.7 Dissemination of information

Often the stories of successes within preferential procurement are not celebrated or publicized. There is a lack of awareness around initiatives. Recently, South African Breweries and Old Mutual had radio advertisements profiling the success of two of their BEE suppliers. This practice has many benefits. It profiles the business as a credible and well performing BEE supplier. It creates a positive response to the organisation's initiative and builds that company's profile as a supporter of BEE suppliers. This practice has the additional benefit of social marketing, as the target communities will also feel more positively disposed toward the company. This positive disposition is generally translated into increased sales and support. It also encourages other companies to do the same, thereby building momentum.

Schwabl (1999) also recommends the internal publishing of successes. This sends a strong message of commitment to BEE suppliers within the organisation. A record of best practice should be created, with possible round table discussions around preferential procurement experiences amongst corporates. A cross pollination of experience could then take place. Some corporates are still grappling with issues that others have successfully negotiated (Shah & Ram, 2005).

Schwabl (1999) suggests that South African corporates have the opportunity to learn from other countries and from their past mistakes, to establish an ethical, legitimate and effective preferential procurement policy.

2.8 The State of Preferential Procurement in South Africa

Public and private sector face challenges in using procurement initiatives and enterprise development as vehicles for BEE (Simayi, 2005).

Even though the SAIBL/CIE survey conducted focuses on procurement of corporates, it is worthwhile to consider the role of government in preferential procurement. The Government is a champion of BBBEE policy, yet in light of its procurement spend, is not supporting the policy in its practices. It is not “walking the talk”.

The South African Government is the largest procurer of goods and services in the country. The World Trade Organisation cited by Simayi in 2005 reported that between 1992 and 1996, the South African government spent R56 billion on procurement. Less than R2 billion a mere 3.8% of this spent went to PDI businesses.

Government, including SOEs, and private enterprise have not spent sufficiently on preferential procurement. They are also guilty of poor and often non-existent monitoring and evaluation of contract awards. This needs to be accelerated to achieve BEE objectives (Simayi, 2005).

Key findings of the Siyabonga Simayi report show that enterprises do not adequately support black owned and black empowered companies by procuring from them. Most companies do not have a focused program for developing small enterprises (Simayi, 2005).

Top empowerment companies report published by the Financial Mail (2006) describes the landscape as: “After more than 10 years, companies in all sectors face enormous challenges. When you closely examine BEE – this is what you find: Unavailability of BEE funding and dubious funding structures, window dressing and skills shortage, skills development initiatives are not having the impact that they should. Attempts to beef up legislative framework spooks the market. There is resistance to the new order.”

Even though we have not achieved all that we wanted to in terms of economic transformation and preferential procurement, we must not lose sight of what has actually been achieved thus far. The achievements are substantial.

Chia Chao Wu, the Executive Director of Empowerdex, describes what we have achieved so far as a “miracle”. Contrary to historical experience, SA is demonstrating a system where positive economic growth can be managed to provide significant improvements in transforming its socioeconomic structures. This should, in time, generate further economic growth.

South Africa’s progress in last 4 years as evidenced by the transformation of the JSE, shows that we are improving our economic growth whilst transforming racial imbalances.

- Measuring and comparing JSE-listed companies using the broad-based black economic empowerment (BEE) scorecard on an annual basis, we have found consistent improvement in the average contribution made by the JSE-listed companies towards the seven broad-based BEE factors - black ownership, management representation, employment equity, skills development, preferential procurement, enterprise development and corporate social investment. The average broad-based score achieved by the top 50 BEE-ranked companies has improved from 35% in the 2004 survey (based on 2003 figures) to almost 60% this year.
- From a handful of companies that were black-owned or black-empowered in 2003, the JSE now boasts more than 30 black-owned and black-empowered companies.
- An increase in the number of JSE-listed companies that have black shareholders or that are in talks with potential black shareholders.
- The level of BEE-related disclosure provided by JSE-listed companies has improved significantly.
- The increase in the numbers of the black middle class (421 000) over the past 12 months (Wu, 2006).

The top empowerment companies report used ranking tools based on the scorecard offered by the codes of good practice to identify the top performing companies in terms of empowerment. Their methodology provides a sustainable and comparative tool for measuring empowerment. According to the ranking, these are the top performing companies in terms of preferential procurement:

PROCUREMENT

Rank	Overall rank	Top 10 companies	Sector	Spend %	Total score procurement %
1	52	Command Holdings	Services	70,0	20,0
2	7	Adcorp Holdings	Services	67,0	19,1
3	5	Telkom	Information Technology	61,9	17,7
4	6	Mustek	Information Technology	56,5	16,2
5	11	Phumelela Gaming & Leisure	Tourism	55,2	15,8
6	22	Alexander Forbes	Financials	54,9	15,7
7	3	Sun International	Tourism	52,0	14,9
8	43	Western Areas	Resources	48,7	13,9
9	29	Omnia	Basic Industries	47,6	13,6
10	63	Venfin	Financials	46,9	13,4

Source: Empowerdex

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3. ANALYSIS OF THE FINDINGS

A consolidation of all the interviews conducted is summarised in Appendix 3.

3.1 Developing Long term relationships

Of the 17 companies interviewed, only one (Globe Engineering) was not actively involved in affirmative procurement. The reason given is that in July 2006 the company had been acquired by a BEE consortium and the new owners were busy re-looking at the company and formulating future strategy. This did not, however, explain why very little procurement from BEE suppliers had not been done in the past.

3.2 Affirmative procurement policies

Nine or just over 50% of the companies interviewed had a written affirmative procurement policy. The remainder said they were either in the process of drafting such a policy, and several (Cape Winelands, Tiger Brands) stated that they relied on the scorecard to ensure an acceptable level of BEE procurement.

A number of companies (SANS Fibres, Engen, Safmarine, Cape Span & Cape Winelands) are trying to compile a data base of suitable BEE suppliers, but are experiencing difficulties in maintaining records as supplying companies change their status with regards to Black ownership.

In all companies, the affirmative procurement policy has been endorsed by the Board and CEO except in the case of the Winelands District Municipality where the structure is different and needed to be ratified by Council.

The majority of organisations (59%) had goals and objectives, but with the exception of Cape Span, Pick 'n Pay, Old Mutual, Tiger Brands and City of Cape Town, had no budgets or resources allocated for implementation. In many companies (Cape Span, Engen, Pick 'n Pay,

Old Mutual, Cape Winelands, Tiger Brands and University of Cape Town) managers were specifically assigned responsibility and accountability for implementation of their BEE procurement policy.

The department(s) responsible for the programme varied considerably although it tended to be directed towards the executive responsible for finance/administration.

A table showing BEE procurement commitment is given below:

Company	Written BEE Proc Policy	Champion Director or Board Level	Targets set	Reasons for BEE	Monitoring	Incentives
SANS Fibres	√	X	X	Board commitment	X	X
Cape Span	X	√	√	Future investment	√	X
Auto & General	X	√	√	Charter guidelines	√	√
Globe Engineering	X	√	X	Government contracts	X	X
Engen	√	√	X	BEE shareholders	√	X
Safmarine	X	X	X	Board commitment	X	X
Pick 'n Pay	√	√	√	Board commitment	√	X
Old Mutual	√	√	√	Business imperative	√	√
Cape Winelands Municipality	√	√	X	Business imperative	√	√
Media24	√	√	√	Business imperative	X	√
Cape Winelands Municipality II	√	√	X	Business imperative & Legislation	√	X
Tiger Brands	X	√	√	Business imperative	√	X
University of Cape Town	√	n/a	√	Council commitment	√	X
City of Cape Town	√	√	X	Business imperative & council Commitment	√	X
House of Monatic	X	√	√	Business imperative	√	X
Protea Hotels	X	√	√	Board commitment & business imperative	√	X
Independent Newspapers	X	X	X	Busines imperative	X	X

3.3 Date of implementation of affirmative procurement

In all companies, except three (Pick 'n Pay, Tiger Brands & Protea Hotels) affirmative procurement started many years after Independence in 1994 suggesting either it may have been initiated as a result of government policy or “forced” along because of business imperative. The latter hypothesis suggests that organisations realise where their future markets lie and hence are accelerating the process of BEE procurement before being compelled to by market demand. Market growth is coming from the Black sector and by

sheer weight of numbers, start-ups and new businesses will predominantly come from this sector.

3.4 BEE suppliers

Organisations varied considerably in the number of BEE suppliers, but in all cases the percentage of such suppliers relative to the total supply base was very small. The range was from low as 2% (SANS Fibres) to as high as 20% (Cape Winelands District Municipality).

The low base clearly indicates that a lot more work could be done in this area and that a concerted plan needs to be formulated by most organisations. Targets need to be set and regularly monitored. This represents a huge opportunity for companies and more importantly gives the perfect platform to spread the wealth base in South Africa and create new entrepreneurial ventures. Such action will have a “knock-on” effect by moving towards alleviating poverty, creating employment and reducing crime.

Provincial location of the BEE suppliers is primarily determined by the location of the Head Office or factories. In many cases, companies were “forced” to buy outside the Western Cape because of the specialised nature of the product being purchased e.g. Cape Winelands and fire fighting equipment, Tiger Brands and crops which can only be grown in specific areas and Media24/Independent Newspapers for paper and inks.

3.5 Product and/or services procured from BEE suppliers

The products and/or service procured varied considerably depending upon the activities of the Corporation. These included:-

- transport
- stationery supplies
- personnel services (recruitment)
- packaging & printing
- advertising
- professional services (consulting, legal and accounting), where required
- travel

- maintenance (plumbers, electricians and builders)
- catering
- cleaning
- road maintenance (Cape Winelands Municipality)
- raw materials (Tiger Brands & Pick 'n Pay)

All companies indicated that they wished to increase their proportion of procurement from BEE suppliers with the percentage increase ranging from 20% to 100%.

However, the impression gained during the interviews was that the desired increase was not planned and would just evolve over time. This represents an enormous opportunity for Black SMEs, but needs to be formalised and assisted by an “outside” independent organisation.

3.6 Women & Youth

Only 3 companies (Cape Span, Engen and Old Mutual) had specific targets for procurement from women and youth owned businesses. However, in businesses owned by the youth, concern was expressed about reliability, quality and consistency.

3.7 Qualification criteria

The majority of companies merely assess BEE suppliers based upon their BEE scorecard. Some companies (Auto & General, Old Mutual) look at the sustainability of the supplier, examine samples of work done with particular importance being placed upon quality. Where possible they visit the supplier. Pick 'n Pay adopts a more holistic approach and look at what the company is doing with regards to training and development of staff.

Upfront performance guarantees were required from 11 of the organisations although the smaller suppliers do not like this practice.

Tiger Brands has a totally different approach which is dictated by their supply chain requirements and their necessity of having to ensure a continuous and steady supply of raw material.

Ultimately, all organisations base their continued procurement from BEE suppliers upon the quality of the product/service supplied and delivery. If it is basic material suppliers, quality is of paramount importance as in the case of Media24 with paper and inks, Tiger Brands with fruits and vegetables and Safmarine.

Pick 'n Pay and Old Mutual review all their suppliers on an annual basis.

3.8 Communication with BEE suppliers

Organisations communicate and contact BEE suppliers in a variety of ways and the methods used differ depending upon requirements. There is no general pattern.

Company	Supplier comes to company	Advertising	Tender procedure	Forum	Buyer sources	Website
SANS Fibres	√	X	X	X	√	X
Cape Span	√	X	√	X	√	X
Auto & General	√	X	X	X	√	X
Globe Engineering	X	X	√	X	√	X
Engen	X	X	√	X	√	X
Safmarine	√	X	√	X	√	X
Pick 'n Pay	√	X	X	X	√	X
Old Mutual	√	X	√	X	√	X
Cape Winelands Municipality	X	√	X	X	X	√
Media24	√	X	√	X	√	X
Cape Winelands H/O	X	√	X	X	X	√
Tiger Brands	√	X	√	√	√	X
University of Cape Town	√	√	√	X	X	X
City of Cape Town	X	√	√	X	X	√
House of Monatic	√	X	X	X	√	X
Protea Hotels	√	X	X	X	X	X
Independent Newspapers	√	X	X	X	√	X

In all cases where the contract is large, the company goes out on tender as is the case with Cape Span, Globe Engineering, Engen, Safmarine, Old Mutual, Media24, the University of Cape Town and the City of Cape Town. In many cases the supplier comes to the Company requesting the opportunity to provide goods and services, but this creates its own set of problems.

3.9 Sourcing of BEE suppliers

As can be seen from the previous table, there is no formal method or national database for finding and sourcing suitable BEE suppliers. The method varies depending upon the specific requirements of the organisation. For example, Cape Span and Tiger Brands rely on raw material produced by farmers so their method of sourcing supply has to, by its very nature, be different to the methods adopted by Old Mutual, Media 24 etc.

This suggests that a national database (such as the one SEDA is trying to develop) would be of little practical value. If a meaningful and practical database were to be developed it would have to be done both regionally and sectorally so as to target and satisfy specific industry needs.

At present 70% of the corporations interviewed relied on suppliers contacting the company or by word of mouth contact. This is not a particularly sound method as it could lead to obtaining suppliers who either cannot meet quality standards or who may not be sustainable. A better method is to have dedicated buyers, technologists or other personnel whose responsibility is to source BEE suppliers. This is occurring in just under 50% of the corporations interviewed.

Eleven organisations stated that they have access to a pool of qualified black enterprises. However, the question could be asked whether this “pool” has evolved over time and whether a concerted effort has been made to find new BEE suppliers or help nurture and develop fledgling suppliers who lack the funds and knowledge to grow their business and become “mainstream” vendors.

3.10 Quantity of work done by BEE suppliers

Most of the corporations interviewed were either reluctant to disclose the Rand value for on the amount of core (non-discretionary) and non-core (discretionary) business allocated to BEE SMEs or they did not have the figure readily available.

This suggests that the majority of companies interviewed did not specifically separate or track BEE and non-BEE purchases. It was more by “feel”. Companies were “working on it”, but none were readily able to give a print-out which itemised BEE purchases by supplier.

However, from the information gathered, it is evident that the value of purchases from BEE suppliers remains low and ranges from as little as 0,08% (Globe Engineering) to as high as 60% (Cape Winelands Municipality). Cognisance must be taken of the fact that some of the figures may be skewed as several corporates reported figures based only on local South African purchases. For example:-

- SANS Fibres total procurement is R1,2 billion of which approximately R250 – R300 million is local and R70 million is from BEE companies i.e. 25%.
- Cape Span purchases 25% from BEE suppliers out of a total purchase of R600 million.
- Engen’s major purchases are crude oil and this is excluded in the figures given.
- The University of Cape Town “purchase” from large Corporations e.g. mining houses for research, and these may or may not be classified as BEE companies.
- Independent Newspapers purchase from Mondi (a BEE company) and this value, which is significant, is omitted from the figures.

Nonetheless, the percentage of procurement from BEE suppliers remains low and represents an enormous potential opportunity. The reasons given as to why this base was low included:-

- an apparent “lack” of suitable BEE suppliers

- the nature of the organisation's business dictates that the bulk of the procurement is either made from overseas or is extremely specialised as is the case with;
 - SANS Fibres (raw polymer and machinery)
 - Globe Engineering (specialised engine parts)
 - Engen (crude oil)
 - Media24 (paper and inks)

3.11 Targets

59% of the organisations interviewed has no targets for procurement from BEE suppliers. Of those that did not set targets, these were monitored, but the method varied for each organisation viz;

- Cape Span sets targets within each department, but the employees are not rewarded on results as BEE procurement forms part of their standard contract.
- Pick 'n Pay sets targets which are monitored via a BEE committee, but bonuses are not linked to these targets.
- Old Mutual also sets targets which are monitored by the executive responsible for BEE procurement. However, bonuses although not linked to these targets are linked to performance management and forms part of an overall incentive bonus.
- Tiger Brands monitored on the basis of monetary value purchased.
- At the University of Cape Town, reports are presented on a quarterly basis to the Executive Director of Finance.
- Media24 review regularly at executive level.

Targets, when set and monitored, emanate from different levels of management. There seems to be no consistency in this. In general, it appears that if incentives are given they are not solely dedicated towards the level of BEE procurement, but may form part of the executives overall KPI's.

3.12 Challenges of procuring from BEE suppliers

Corporates face a variety of challenges with regards to procuring from BEE suppliers and although they may differ slightly from organisation to organisation there is a general trend encompassing six different areas. These are;

- a lack of basic business administrative and financial skills which could well include technical capability which hinders and prevents the BEE supplier from rendering a good commercial service.
- a culture of entitlement from BEE suppliers who believe that it is their right to obtain business from large corporations.
- the lack of adherence to quality and to delivery timelines for the product or service being supplied.
- lack of knowledge on the part of large organisations as to who are reliable BEE suppliers. One of the problems which exists is that many BEE suppliers believe that they do not need to register into a single database or do not want to be registered for fear of government red tape such as UIF, VAT, Income Tax etc.
- sustainability is a major problem and this comes in many forms which includes lack of access to finance, insufficient working capital and the fact that many small businesses falls into a single client trap. They form dependence upon big clients instead of actively innovating and marketing themselves to a wider base.
- Fronting. This creates a specific problem amongst large corporations as many “BEE suppliers” have white shareholders in the majority and in many cases are represented in meetings by “white faces”. Large corporations also find it problematic to maintain scorecard records as shareholdings of small suppliers tend to change over time.

Both the House of Monatic and Protea Hotels stated that they, more importantly, had to change the mindset of the buyers within their own organisations.

Company	Lacking business skill	Entitlement	Quality and delivery	Knowledge of BEE suppliers	Sustainability (access to finance)	Fronting and scorecards
SANS Fibres	√	√	√	√	-	-
Cape Span	√	√	-	-	√	-
Auto & General	√	√	-	-	√	-
Globe Engineering	√	-	-	-	√	-
Engen	-	-	√	√	-	-
Safmarine	-	-	-	√	-	-
Pick 'n Pay	-	-	-	-	√	-
Old Mutual	√	√	-	-	√	-
Cape Winelands (Agriculture)	-	-	√	-	√	√
Media24	-	-	-	-	-	√
Cape Winelands H/O	√	-	-	-	-	√
Tiger Brands	√	-	√	-	√	-
University of Cape Town	-	-	-	-	-	√
City of Cape Town	√	-	√	-	√	-
House of Monatic	-	-	-	-	-	-
Protea Hotels	-	-	-	-	-	-
Independent Newspapers	-	-	√	√	√	-

Nonetheless, if these challenges can be overcome it again represents and offers major opportunities for business development and employment within South Africa.

Of the companies interviewed, the majority are addressing the above challenges in a variety of ways, which include;

- Assistance in financially funding selected BEE suppliers (SANS Fibres, Pick 'n Pay, Cape Winelands Municipality and Tiger Brands).
- Feedback on performance (Cape Span, Pick 'n Pay, Media24, Tiger Brands, University of Cape Town and City of Cape Town).
- Training (Pick 'n Pay, Old Mutual, Cape Span and Tiger Brands).

3.13 Assistance and support required

53% of the companies interviewed indicated that they would welcome assistance in addressing the various challenges of procuring from BEE suppliers. This assistance could come in the form of;

- Primary business training of cash flow and financial management.
- Understanding the dynamics of a growing economy and what it requires.
- Assistance in compiling an effective and usable database.
- Systems training
- Expansion
- Technical training

Other companies were a little skeptical about assistance as they were unable to define exactly what assistance should be given and how it would be of benefit to their organisation. Of all the companies interviewed, only one indicated that they did not need any intervention. It is also interesting to note that just over 50% of organisations offered favourable payment terms for BEE suppliers. These favourable terms could take the form of;

- Early payment, e.g. 7 or 14 days, as against the normal 30 days nett of statement.

- Advanced payments or production loans.
- Up-front partial payments

3.14 Willingness to work with an external facilitator

All companies interviewed indicated that they would be willing to work with an external facilitator such as SAIBL in areas ranging from;

- Assistance in developing a standard procurement policy and having a trusted third party negotiator (SANS Fibres)
- Identifying new BEE suppliers (Cape Span, Globe Engineering, Engen and Pick 'n Pay)
- Business mentoring (Old Mutual)

However, although organisations indicated that they would be willing to work with such a facilitator they would want to meet and discuss what assistance could be offered, how long the intervention would take and what would be the cost.

3.15 Conclusions

There is considerable work still to be done in the field of Black economic procurement by large Corporates.

- Only a very small proportion of procurement spend is being directed towards black-owned businesses.
- Most Corporates are only starting to think about written policies, targets and incentives for black economic procurement.
- Training in basic financial and administrative skills for black-owned business is poor and not readily available at reasonable costs.

There is an opportunity for SAIBL to play a meaningful role in enhancing the relationship between large Corporations and black-owned or empowered SMEs by:

- helping to create a meaningful and user friendly database of Black SME suppliers. This would need to be done both regionally and sectorally.

- coordinating programmes for training in basic management, tendering and operations.

More interviews with Corporations in other Provinces needs to be done. The findings reported on represent the views of 17 companies and lacks participation from organisations from the banking, mining and fishing sectors and Government.

APPENDIX 1



Attn:
Dear

- Does your company seek competitive, competent black suppliers?
- Would you like to see improvements in the performance of your black suppliers?
- Would you like to see an increase in your pool of black suppliers?
- Would you like to be assured that your black suppliers are legitimate?

If your answer is yes to any of these questions, we can work with you to provide the solutions.

The South African International Business Linkages (SAIBL) project facilitates business linkages between large companies and black-owned and black empowered companies. SAIBL is a R154 million USAID sponsored project run by ECIAfrica International Consulting, a leading black empowered consulting company in enterprise development. ECIAfrica also manages and implements a R135 million Tourism Enterprise Project (TEP) on behalf of the Business Trust, and Department of Environment and Tourism.

SAIBL has assisted over 400 SMEs to improve their management, production, quality and competitiveness enabling them to compete for business with large companies, without compromising on business standards. Many of these SMEs are supplying large companies in the automotive, general manufacturing, mining and services sectors, generating millions in revenue and contributing to building a new middle class, jobs and increased purchasing power. This is good for business, economic development and democracy.

ECIAfrica is continuously applying the knowledge and experience gained through the SAIBL project, to find more innovative and practical ways to facilitate successful linkages between large companies and black suppliers, build tools and find solutions that companies can adopt and adapt for their own needs and use.

It is very important to understand the challenges and needs large companies are faced with in meeting their targets for procuring from black suppliers. With improved knowledge and understanding of your needs, the SAIBL project will become a better partner in facilitating business linkages with competitive black suppliers.

The Centre for Innovation & Entrepreneurship of the UCT Graduate School of Business, is working with ECIAfrica in carrying out the needs assessment of large corporations in procurement from black suppliers.

The purpose of this letter is to introduce to you Dr Mike Herrington, the Project Leader, who will be contacting you shortly to arrange a meeting to discuss this further. There will be no cost to you other than the availability of your managers responsible for procurement and black suppliers.

This is an opportunity which you may not wish to miss, and which will yield significant benefits for your company.

Yours sincerely


 John James
 Project Director, SAIBL


 Mike Herrington
 Project Leader and Director, UCT Centre for Entrepreneurship

APPENDIX 2

SAIBL: Survey with Corporate Organisations

This study has been commissioned by the South African International Business Linkages (SAIBL) of ECI Africa to ascertain what linkages exist between large corporations and mainly black-owned or empowered SMEs.

List of companies interviewed:

1. SANS Fibres
2. Cape Span
3. Auto & General
4. Globe Engineering
5. Engen
6. Safmarine
7. Pick 'n Pay
8. Old Mutual
9. Cape Winelands District Municipality (Agriculture)
10. Media 24
11. Cape Winelands District Municipality (Overall)
12. Tiger Brands
13. University of Cape Town
14. City of Cape Town
15. House of Monatic
16. Protea Hotels
17. Independent Newspapers (Cape)

1. Is your company engaged in affirmative procurement?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes	√	√	√		√	√	√	√	√	√	√	√	√	√	√	√	√
No				√													
In process																	

1.1 Does your company have an affirmative procurement policy?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes	√				√		√	√	√	√	√		√	√			
No		√	√	√		√						√			√	√	√

2	Cape Span is busy drafting a micro-economic BEE policy, but their goal is that 50% of all procurement must come from BEE suppliers.
3	The company does not have a written affirmative procurement policy, although they do go the route of using the BEE scorecard, particularly with contractors such as those who own panel-beating shops.
4	A policy is in the process of being developed. The company was purchased by BEE partners on the 1 st of July 2006.
5	The procurement policy is included within the overall company's BEE policy. An analysis is currently being done by category and industry with regards to BEE and non-BEE spend.
6	The policy is not formalised, but Safmarine are attempting to classify all their suppliers and ascertain which of those are BEE compliant.

9	Cape Winelands District Municipality has a written BEE procurement policy relating to management ownership, race and gender.
10	The company lives within a set of resolutions laid down by the Board and all employees must adhere to them.
11	They generally use the scorecard for assessing BEE procurement.
15	There is no formal policy in place. There is an initiative run by the HR Director, Wendy Nathan.
17	Working on it and should be ready by mid 2007.

1.2. Is this policy:

	1		2		3		4		5		6		7		8	
	Yes	No														
Signed/endorsed by the Board	√		√		√		√		√			√	√		√	
Signed/endorsed by the MD/CEO	√		√		√		√		√			√	√		√	
Have goals and objectives		√	√		√		√			√		√	√		√	
Have milestones and targets		√	√		√			√		√		√	√		√	
Have budgets and resources allocated for implementation		√	√			√		√		√		√	√		√	
Have managers assigned responsibility and accountability for its implementation		√	√		√			√	√			√	√		√	

	9		10		11		12		13		14		15		16	
	Yes	No														
Signed/endorsed by the Board /Council	√		√		√		√				√		√		√	
Signed/endorsed by the MD/CEO	√		√			√	√		√		√		√		√	
Have goals and objectives	√		√			√	√		√		√			√		√
Have milestones and targets		√	√			√	√		√		√		√		√	
Have budgets and resources allocated for implementation		√		√		√	√			√		√		√		√
Have managers assigned responsibility and accountability for its implementation	√			√	√		√		√		√		√		√	

	17	
	Yes	No
Signed/endorsed by the Board /Council		√
Signed/endorsed by the MD/CEO		√
Have goals and objectives		√
Have milestones and targets		√
Have budgets and resources allocated for implementation		√
Have managers assigned responsibility and accountability for its implementation		√

1.3 In which division/department in the enterprise is this programme run?

1	Procurement
2	Managing Director's office
3	Within the panel beating division of Auto & General which is the major part of their business.
4	Administration
5	The BEE Department, a special department set-up in the late 1990's.

6	There are 4 different departments within Safmarine who are responsible for procurement. These are port operations, terminal operations, marine suppliers and general.
7	The BEE committee oversees this function – multidivisional committee SA is joint chair with the head of HR. Senior buyers and managers comprise the rest of the committee.
8	Group Finance
9	Procurement Manager and Deputy Director of Procurement
10	BEE procurement is not centralised in any particular division. Media 24 is a decentralised organisation and procurement is specific to each different department and division e.g. magazines, publishing, educore and newspapers. The structure of Media 24 is complicated as it could involve incorporated or un-incorporated structures, divisions and JV's.
11	Finance
12	By each Division.
13	Procurement/Finance
14	Finance Department
15	Championed by the HR Department and run within the divisions doing the procuring.
16	Within the procurement department reporting directly the MD.
17	n/a

2. What year did your company start with affirmative procurement?

1	2000
2	2005
3	2005
4	2006
5	1998
6	2004
7	Since inception about 40 years ago
8	2001, when it became formalised, but was practiced informally before
9	2004
10	±2000
11	2006
12	1989
13	2001
14	±2000
15	2003
16	Long time
17	n/a

3. How many BEE companies is your company procuring from?

1	95 out of 4000	± 2,3%
2	200 out of 2000: The company is busy clustering BEE suppliers into small, medium and large companies	10%
3	10 out of 200 suppliers	± 5%
4	20 out of 1800	± 11%
5	Not known	n/n
6	200 out 1700	± 12%
7	Not available	n/a
8	A couple of thousand – couldn't give an exact number	n/n
9	2400 out of 12 000 suppliers	±20%
10	Approximately 25% of all electronic procurement is thought to be with BEE suppliers, but this may not necessarily be the case as many of the suppliers are unable or not willing to supply	± 25%

	(because of cost) a BEE scorecard.	
11	Less than 100. Very difficult to quantify because of verification of BEE status, but they are in the process of collecting data and compiling a database.	n/n
12	Unknown	n/n
13	Could not give an exact number as they are currently busy grading their suppliers.	n/n
14	There are 9000 vendors on the database – most have a HDI (historically disadvantaged individuals) component. City of Cape Town look at HDI status, which includes white women.	n/n
15	35	
16	Not sure	
17	± 100. The major raw material suppliers are Newsprint (Mondi), Inks (Coates Bros) and printing plates (First graphic).	

4. In which Province and Town are these companies located?

1	Western Province	√	Gauteng	√
	Eastern Province	√	Mpumalanga	X
	Northern Cape	X	North West	X
	KZN	√	Limpopo	X
	Free State	X		

2	Western Province	√	Gauteng	√
	Eastern Province	√	Mpumalanga	√
	Northern Cape	√	North West	√
	KZN	√	Limpopo	√
	Free State	X		

3	Western Province	√	Gauteng	X
	Eastern Province	X	Mpumalanga	X
	Northern Cape	X	North West	X
	KZN	X	Limpopo	X
	Free State	X		

4	Western Province	√ Main source	Gauteng	√
	Eastern Province	X	Mpumalanga	X
	Northern Cape	X	North West	X
	KZN	√	Limpopo	X
	Free State	X		

5	Western Province	√	Gauteng	√
	Eastern Province	√	Mpumalanga	√
	Northern Cape	√	North West	√
	KZN	√	Limpopo	√
	Free State	√	(nationwide campaign)	

6	Western Province	√	Gauteng	√
	Eastern Province	√	Mpumalanga	X
	Northern Cape	X	North West	X
	KZN	√	Limpopo	X
	Free State	X		

7	Western Province	√	Gauteng	√
	Eastern Province	√	Mpumalanga	√
	Northern Cape	√	North West	√

	KZN	√	Limpopo	√
	Free State	√	(Nationwide campaign)	
8	Western Province	√	Gauteng	√
	Eastern Province	√	Mpumalanga	√
	Northern Cape	√	North West	√
	KZN	√	Limpopo	√
	Free State	√	(Nationwide campaign, then they centralize stats)	
9	Western Province	√	Gauteng	√IT
	Eastern Province	X	Mpumalanga	X
	Northern Cape	X	North West	X
	KZN	X	Limpopo	X
	Free State	X		
10	Western Province	√	Gauteng	√
	Eastern Province	√	Mpumalanga	√
	Northern Cape	√	North West	√
	KZN	√	Limpopo	√
	Free State	√		
11	Western Province	√	Gauteng	X
	Eastern Province	X	Mpumalanga	X
	Northern Cape	X	North West	X
	KZN	X	Limpopo	X
	Free State	X		
11	There are a few exceptions such as fire equipment which can only be purchased from specialist firms in Gauteng.			
12	Western Province	√	Gauteng	√
	Eastern Province	X	Mpumalanga	√
	Northern Cape	√	North West	√
	KZN	X	Limpopo	√
	Free State	√		
13	Western Province	√	Gauteng	√
	Eastern Province	X	Mpumalanga	√
	Northern Cape	X	North West	√
	KZN	X	Limpopo	√
	Free State	X	(Particularly in the W/C)	
14	Western Province	√	Gauteng	√
	Eastern Province	X	Mpumalanga	√
	Northern Cape	X	North West	√
	KZN	X	Limpopo	√
	Free State	X		
15	Western Province	√	Gauteng	X
	Eastern Province	X	Mpumalanga	X
	Northern Cape	X	North West	X
	KZN	X	Limpopo	X
	Free State	X		

16	Western Province	X	Gauteng	X
	Eastern Province	X	Mpumalanga	X
	Northern Cape	X	North West	X
	KZN	X	Limpopo	X
	Free State	X	Nationwide campaign	√

17	Western Province	√	Gauteng	X
	Eastern Province	X	Mpumalanga	X
	Northern Cape	X	North West	X
	KZN	X	Limpopo	X
	Free State	X		

5. What products and/or services do you procure from these companies?

1	<ul style="list-style-type: none"> • Engineering • General Transport • Private transportation • Machine cleaning • Packaging (Nampak) • UTI (couriers) • Catering for employees • Personal loans for employees
2	<ul style="list-style-type: none"> • Logistics and transportation • Stationery suppliers • Personnel services (recruitment) • Emerging black farmers in the fruit industry • Accounting and auditing services • Cleaning services • ICT Services
3	<ul style="list-style-type: none"> • Panel beating which represents 70% of all procurement. • Non-motor replacements resulting from burglaries. • The service industry such as plumbers, building, electricians used for insurance claims etc. • Human resources i.e. recruitment agencies.
4	<ul style="list-style-type: none"> • Overalls and safety equipment • Stationery • Stainless steel • Mild steel plates • Pipes, valves and fittings

5	<ul style="list-style-type: none"> • Advertising • Building & Construction • Chemicals • Electrical Services • Engineering Services • Packaging & Printing • Office suppliers • Health, Safety & Environment • Labour Services • Professional Services (consulting, architects, legal and inspections) • Training • Transport • Travel and accommodation
6	<ul style="list-style-type: none"> • Service (consulting)

	<ul style="list-style-type: none"> • Advertising • Facilities Management • Equipment (ICT, ship stores) • Telkom • Stationery • Maintenance (plumbers, electricians, builders) • Trucking
7	Procurement from BEE companies spans the entire value chain. All products and services from farming to warehousing to security and shipping to the supply of stationary.
8	Procurement from BEE companies spans the entire value chain – cleaning, catering, stationery, hygiene, staffing, facilities, construction, etc
9	<ul style="list-style-type: none"> • Professional services • Products e.g. arts and crafts, tourism, agriculture • Catering • Stationery • Furniture suppliers • Cleaning • Transport of employees and tourists
10	<ul style="list-style-type: none"> • Paper via Mondi and inks via two suppliers (BEE status not known) • All services, but in future will require companies to produce a BEE scorecard
11	<ul style="list-style-type: none"> • Vehicles • Fire prevention • Traveling • Maintenance • Catering • Transport • Stationery • Road maintenance • Primary health care <p>Purchases of less than R30 000 generally go to the cheapest tender. Those from R30 000 to R500 000 use the 80/20 point system and over R500 000 use the 90/10 system.</p>
12	Raw materials which include: <ul style="list-style-type: none"> • Tomatoes • Green figs • Ripe figs • Sevelle Oranges • Butternuts • Small white beans
13	Procurement from BEE companies spans the entire value chain.
14	Across the supply chain – from refuse removal to IT, Construction, gardening, food and catering.
15	<ul style="list-style-type: none"> • IT • Finance • Maintenance • Trim Buying • Training • Insurance and travel
16	Across the board from security to fleet to operating stock, to lawyers – they have changed their legal company to ensure that opportunity is given to people who were deprived in the past.
17	<ul style="list-style-type: none"> • Maintenance for presses • Stationery • Unskilled labour e.g. inserting department • Distribution of papers

6. For what reason is your company engaged in procurement from BEE suppliers?

1	SANS Fibres is a socially orientated company and a subsidiary of AE&CI. AE&CI is committed to increasing its procurement base from BEE suppliers.
2	The company is under no pressure to comply with a BEE scorecard procurement policy. However, the BEE policy is a pro-active investment in the future to ensure political and economic stability in the country and to help the development of previously disadvantaged entrepreneurs. It is considered to be a future investment.
3	Auto & General falls under the Financial Sector Charter in which there are specific guidelines and scorecard targets for companies regarding BEE suppliers. The company generally tries to help BEE entrepreneurs as it is part of the philosophy of the Board of Directors.
4	Partly because of new BEE owners and mainly because the company wishes to obtain government work that has been lost particularly from the Navy, Municipalities and Provincial Government.
5	The total landscape within South Africa has changed and Engen is now 30% controlled by BEE shareholders.
6	Head Office Management in Copenhagen believe that an affirmative procurement policy in South Africa is the right thing to do. Safmarine will never have BEE shareholders as it is totally foreign owned and therefore they have to score in other areas.
7	It is the right thing to do. It will also have a major impact on the economy.
8	For strategic reasons – the customer base for OM is largely black. Also as a company, OM is passionately interested in contributing to the socio-economic environment. Want to redress imbalances. It is a business imperative.
9	<ul style="list-style-type: none"> • To create access to economic opportunities • To create income opportunities • To enable SMMEs to move from stage 1 to stage 2 development • To establish equitable procurement • Mandation and legislation
10	<ul style="list-style-type: none"> • Overall scorecard requirements • Committed to BEE procurement and transformation • Committed to enterprise development in PDI companies • Business imperative and long term sustainability because the bulk of all future readers will be black.
11	<ul style="list-style-type: none"> • Essentially forced by legislation • As a business imperative and in line with local economic development policies
12	It is a business imperative. Many of the small farmers have good lands which are ideal for growing the crops required. The farms are readily accessible as part of the supply chain and overall it makes good business sense.
13	There was a conscious decision to go this way. Government has passed acts and they want to be at the forefront regarding compliance.
14	The reason for the procurement department is to support effective service delivery to the Western Cape and the within this process, they would like to empower people.
15	House of Monatic belongs to Brimstone which is an empowerment company. If they expect to get support, they need to give support. This has led them to become more active and conscious about the BEE status of their suppliers. They also wish to support SMME development.
16	It is the right thing to do. For a better South Africa today and into the future. They want to be proactive in this area, rather than have people dictating to them.
17	Only starting, but a Board decision. Also a business imperative.

7. Do you wish to increase the amount of procurement from BEE suppliers?

1	Yes	√	By how much?	No limit	And by when?	Year on year
	No					
2	Yes	√	By how much?	50%	And by when?	2007
	No					
3	Yes	√	By how much?	50%	And by when?	2008
	No					
4	Yes	√	By how much?	50% - 60%	And by when?	ASAP

	No					
5	Yes	√	By how much?	100%	And by when?	Indefinite
	No					
6	Yes	√	By how much?	?	And by when?	?
	No					
7	Yes	√	By how much?	50% of supplier base	And by when?	2012
	No					
8	Yes	√	By how much?		And by when?	?
	No		Would not disclose the figure – said that it was confidential and also currently being discussed and finalized. The date would be dependent on the target.			
9	Yes	√	By how much?	20%-51%	And by when?	2009
	No					
10	Yes	√	By how much?	35%-45%	And by when?	Within 3 years
	No					
11	Yes	√	By how much?	Unknown	And by when?	Unknown
	No					
12	Yes	√	By how much?	Double	And by when?	Each year
	No					
13	Yes	√	By how much?	70%-80%	And by when?	2007
	No					
13	Their formal target is 50% by 2009. They have already surpassed this target and are aiming higher.					
14	Yes	√	By how much?	Could not give figures	And by when?	?
	No					
14	There is a need to increase in order to boost economic development.					
15	Yes	√	By how much?	2-3%	And by when?	2007
	No					
15	It is very difficult for HOM who procure their fabrics from overseas, for predominantly overseas clients.					
16	Yes	√	By how much?		And by when?	
	No					
16	Protea Hotel's strategy is to acquire more hotels. A parallel process to this is a growth in procurement needs which will then increase the amount spent with BEE suppliers.					
17	Yes	√	By how much?	As much as possible	And by when?	?
	No					

8. What procurement policies does your company have in place and when were they developed?

1	Currently developing a formal written policy, but there is information about BEE procurement on the SANS Fibres website.
2	The company's procurement policies are based in part on the broader 7 pillars BEE policy laid down by the DTI. The company's procurement policies were developed in 2004.
3	The company does not have any written procurement policies, but they started to introduce BEE procurement in the Western Cape mid 2005.

4	At present the policy is verbal, but the company is in the process of formalising it.
5	The company's procurement policies are part of the overall BEE strategy and were developed in 1998.
6	-
7	The BEE policy of PnP governs the procurement of affirmative suppliers. Implemented 2 years ago.
8	The Procurement policy and BEE policy are interpreted together. Procurement is not seen separately, but part of the BEE process. They are also currently looking at creating a policy that will be implemented as a Group – ie including Nedbank and Mutual and Federal. This integration is in process and will be signed off in January 2007.
9	Written procurement policy started in 2004 and was amended in 2005. It is updated yearly.
10	-
11	The overall procurement policy was put in place in January 2006. It is still in the process of being developed.
12	The company has targets with respect to the quantity of raw material they wish to buy and have targets set up to 2014. However, the agricultural BEE charter has not yet been clarified as this may well stipulate that 30% of all agricultural land must be in the hands of Blacks by 2014.
13	Currently, UCT has all sorts of Procurement policies and these are currently under review. In the case of big tenders they have the policy of requesting that tenderers enclose an accreditation certificate with their documentation.
14	There are Supply Chain Management policies as well as the procurement policy initiative. When a tender goes out, the 80-20 (under R500k) or 90-10 (above R500k) rule is affected, depending on the value of the contract. Here, points are allocated to HDI companies.
15	The "policy" as such is not written. It was a general decision which came about around 2003 that BEE procurement is an area that needs to be considered.
16	Rather than having specific formal policy, the initiative is part of the corporate culture of Protea Hotels. The policy hasn't started yesterday. Protea believes that people in this country should have a chance to economically active and that they have a role to play in this process.
17	It is in the process of being drafted and will be completed by mid 2007

9. What target has your company set regarding procurement from BEE enterprises?

1	No target, but the aim is to help the BEE supplier
2	50% BEE procurement by 2007
3	50% BEE procurement by 2008
4	Nil
5	No target has been set with regards to procurement, although a watchful eye is carried out by the BEE Department.
6	The idea is that targets will be set, but this can only be done once they know who are the BEE suppliers. It is extremely difficult to determine the BEE status of a company on an ongoing basis. Shareholdings constantly change and hence the BEE status may also change. This is seen as a possible logistical nightmare.
7	Annually, there is a % increase of the total supplier base allocated to BEE suppliers
8	Would not disclose an actual figure, but said that it exceeds target of the Financial Services Charter. There is also a target in terms of encouraging non-compliant suppliers to improve their BEE status.
9	-
10	None in particular except that BEE procurement is endorsed by the Board of Directors
11	The targets are a little vague although the overall quantity is important from a supply chain point of view. However, ultimately the final product has to be priced competitively when it reaches the supermarket shelf.
12	-
13	Their formal target is 50% of supplier base by 2009. They have already surpassed this target and are aiming higher. (70 – 80% by 2009).
14	Previously, a target of 40% was set, but this has been achieved and maintained.
15	No formal targets have been set yet. The HR Director who is championing the initiative has set herself goals.
16	Protea hotels would like 100% of their procurement spend to be with BEE suppliers. However, they will never compromise quality and in some instances have been unable to source according to their specs from a BEE supplier.

17	Targets will be set at Head Office and not Regional level.
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10. Does your company's procurement policy set specific targets for procurement from women and youth owned businesses?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes		women			women			women							See comment		
No	√	youth	√	√	youth	√	√	youth	√	√	√	√	√	√		√	√

10	However, buying from youth and women does increase the BEE scorecard rating e.g. 3 bonus points are obtained from purchasing from youth and 6 for purchasing from women.
15	Women owned businesses, but not youth owned are prioritised
16	Protea might miss the boat if they were too focused on the internal structures of the companies they are dealing with. They ensure that the companies are not fly by nights as they are in it for a long term relationship. They do serious reference checking.

10.1 Is your company's BEE procurement geared towards locally based suppliers?

	1	2	3	4	5	6	7	9	10	11	12	13	14	15	16	17
Yes	√		√	√			See comments	√	√		√	√	√	√		√
No		√			√	√			√						√	

7	Each region is tasked with BEE recruitment from local suppliers.
8	Buyers/Procurement officers have a order of preference for suppliers – they need to procure first from local, then regional, then national.
12	All factories within the Tiger Brands group have strategically been located by the sources of supply for raw materials.
13	In their ads, it says "Preference is given to companies in the Western Cape." It is also built into their procurement documents.
14	Most are locally based suppliers – provision in the contract documents are made to target local businesses.
16	Protea tends to favour nationally based suppliers, as it makes more sense to place all their orders with the one supplier, to get the most favourable deal.

11. Does the target escalate each year? If so, how much?

1	No target has been set
2	The target does not escalate each year as the company is in the beginning stages of how to set targets and what targets to set.
3	Target escalation is based upon the Financial Sector Charter.
4	No target escalation is given
5	The target escalates each year and this is done by agreed negotiations with the Department of Mineral and Energy.
6	-
7	Yes – This is calculated according to realistic proportions. Difficulty is that 70% of purchasing comes from 7 giant suppliers like Tiger Brands. Each of these companies are involved in affirmative procurement.
8	Yes – Old Mutual is the industry leader in BEE procurement. Every year they review where they are and strive to stay ahead of the pack. Once again, actual figures are confidential.
9	Yes, either not known or not wanting to divulge.
10	-
11	Within three years they would like to achieve 40% BEE procurement, but this policy is vague.
12	-
13	A long-term target was set as opposed to new targets each year.

14	It is difficult for the city – dependent on the political regime which is subject to changes. It depends on the current ruling party's support for procurement targets.
15	This practice is constrained by the fact that most of the fabric is procured from overseas.
16	Year on year, it has increased around 10%. The process has been fraught with challenges, specifically around dealing with franchisees.
17	n/a

12. What is your pre-qualification criteria to become a BEE supplier?

1	According to SEESA up to rating 4
2	The pre-qualification criteria for a BEE supplier is based upon the scorecard. If the supplier does not fit the criteria of the scorecard then management has a one to one meeting with them to encourage them to get up to the appropriate level.
3	The pre-qualification criteria is based strictly on quality.
4	There are no pre-qualification criteria although it is anticipated that these will be established.
5	No
6	There are no pre-qualification criteria to become a BEE supplier except based upon the BEE scorecard. It is not possible to go on shareholding due to the constant change that can occur.
7	BEE status is gauged according to BEE scorecard – PnP is not satisfied with ownership alone, they take a holistic view and see what the company is doing according to training and development etc.
8	OM looks at the potential supplier's BEE credentials. They consider the location of the supplier. They look at the supplier's sustainability.
9	<ul style="list-style-type: none"> • Location • Composition of ownership i.e race • Gender (depending upon the product) • Registered i.e. tax registration and not necessarily VAT, because some companies have a turnover below the VAT registration threshold. • Quality and delivery
10	Scorecard only, but definitely need to improve the method of identifying BEE suppliers.
11	BEE ownership which means HDI, disabled, women of any race, but must be a South African citizen before 1983.
12	<ul style="list-style-type: none"> • Basic infrastructure for sustainability • Must qualify as a BEE supplier on the BEE scorecard • Must have knowledge of the industry or willingness to learn the industry and then enter into a contract with Tiger Brands.
13	Companies are requested to submit accreditation certificates – formal certificates or the equivalent.
14	They require certification from a Verification company. They rely heavily on submission of paperwork.
15	Before, only ownership was considered, but now they are looking more at a balanced scorecard approach. Initially percentage ownership is considered and then a meeting is held with the potential supplier.
16	Suppliers are sourced through the Hospitality Warehouse. There is an online form with specific criteria. The Hospitality Warehouse is Protea's supplier. It is a separate company, but located on Protea's premises.
17	There is no overall pre-qualification criteria, but the company does look at <ul style="list-style-type: none"> • Ownership credentials • Contactable references and how long the business has been in existence

12.1 What is your ongoing qualification criteria to remain a BEE supplier?

1	Once signed on SANS Fibres does not follow-up. SANS will accept a membership (company registration) form and ID. Very broad based application which is on-going. SANS is in the process of obtaining compliance from small companies, but this is a long and difficult process because of a lack of skills on the part of the BEE suppliers.
2	If the supplier is BEE accredited then the objective is to enable the supplier to become competent with regard to quality, delivery etc. over a period of time.
3	There are no formal on-going qualifications other than the fact that the BEE supplier must comply with the scorecard requirements. However, by the very nature of Auto & General's business, quality and service must be

	of the highest level.
4	The company requires test certificates and safety standard certificates from all suppliers.
5	Engen looks at the suppliers equity and active participation by BEE and a decision made based upon this. Primary decisions are made based upon commercial, quality and delivery criteria.
6	Both quality and delivery are imperative. Safmarine will not tolerate suppliers of inferior quality no matter what their BEE status.
7	There are annual reviews of BEE suppliers
8	Each year there is a review. Sometimes the BEE status of suppliers change. Thus there is a continuous evaluation and review. Currently, they are conducting research on their Top 300 suppliers.
9	<ul style="list-style-type: none"> • Delivery and quality • On-going consultation if the contract is a relatively large one • Business support
10	Scorecard and verification by KPMG. However, this is a once off verification process.
11	None other than initial compliance.
12	Quality, delivery and price (which is predetermined by Tiger Brands)
13	They rely on secondary information. They request that, should a supplier's BEE status change, that they resubmit their accreditation documentation.
14	This is not really checked. Tradeworld verifies when they load info onto database.
15	HOM is ISO accredited which means that suppliers need to be assessed annually. A list then gets compiled.
16	This area needs to be re-evaluated.
17	None

13. Does your company follow the practice of insisting on performance guarantees upfront?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes		√	√	√	√	√			√	√		√	√	√		√	
No	√				√		√				√				√		√

1	Starting to, although small suppliers don't like it.
3	This is based on the quality of work done in return for an agreed Rand amount of work.
5	Depends upon the type of supplier
6	Safmarine only demands performance guarantees on large contracts, but on smaller ones no performance guarantees are required.
8	Performance measures are insisted upon as part of the contract management process. Should the company fall short, they have an enterprise development programme that lends assistance. They do not have % penalties
9	It is primarily quality. However, if the contract is for less than R30 000 only one quotation is obtained. If it is between R30 000 and R200 000 three quotations are asked for and if more than R200 000 it goes out to tender.
10	This applies particularly for paper and inks as both quality and delivery are of paramount importance.
11	Other than a reference.
12	For certain products Tiger Brands ascertains whether the supplier has sufficient land available. They then write a contract for the supply of a specific tonnage of product to be delivered at a specific time. Tiger Brands will then supply seeds to a nursery who then supply seedlings to the supplier at a pre-determined time. This is all done to ensure that Tiger Brand's factories have a continuous and steady supply of raw material.
13	Service Level Agreements are worked out in consultation with the supplier. Penalties are imposed if these SLA's are not met.
14	In construction, it would be 5 -10% guarantees
15	In some instances, Service Level Agreements are in place. They are moving towards the practice of performance guarantees.

13.1 If yes, what percentage of the contract value?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
--	---	---	---	---	---	---	---	---	---	----	----	----	----	----	----	----	----

%	n/a	5-10%	5-10%	n/a	Varies	n/a												
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13	There is a sliding scale, depending on the offence.
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14. What contracting methods, advertising or tendering procedures do you have in place for BEE suppliers?

1	None specific for BEE suppliers
2	Cape Span has limited tendering procedures. Potential BEE suppliers turn up at the company. Large contracts such as transportation of fruit would go out to tender.
3	n/a
4	No
5	Closed tender method
6	Procurement from Facilities Management would go out to tender as well as the purchase of large items, but for the purchase of lesser commodities, there is no formal tendering procedure.
7	Buyers and technologists are tasked with sourcing BEE suppliers. BEE suppliers also proactively contact PnP and make presentations to buyers. The BEE foundation also assists with this process. The BEE foundation of the PnP foundation also works directly with BEE companies to ensure that they are sustainable.
8	Contracting methods are fair, equitable and cost effective. They also need to be transparent. A combination of methods are used. Sometimes tendering, sometimes company actively sources BEE suppliers and sometimes the BEE suppliers approach OM. If certain suppliers have been identified as having potential, but do not match the qualifying criteria for the tender, they will work with that supplier to ensure that they qualify in the future.
9	Advertising in local newspapers, via Trade World website and National newspapers with specific submission dates requested.
10	<ul style="list-style-type: none"> Tender procedures are used for larger long term contracts via the electronic purchasing system. However, with paper and inks there is little choice as they are only two paper suppliers (Mondi and SAPPI) and two ink suppliers (Coats and Continental Inks). By invitation
11	<ul style="list-style-type: none"> Tenders essentially for any purchase over R200 000 Utilise the “call for proposals” in newspapers, webpage and notice boards. However the use of notice boards is very difficult as many offices do not display the notices.
12	Factories are located in specific areas so generally suppliers come to the factory. However, Tiger Brands speaks at a number of forums seeking additional sources of supply. Banks also supply the names of potential farmers.
13	Business offered mostly through adverts and tendering process. There is also an allowance for a more informal process for vendor application – they approach the Purchasing department and if the department feel that they have the right service quality and price, they will send them to make a presentation to the internal client they will directly be servicing. Note that vendor applications are also subject to a reference and credit check.
14	Big tenders are advertised in the Cape Times and Argus. They are also put onto the website. They are also put on public noticeboards. City could also look for vendors on Tradeworld for business valued between 0-R200k.
15	Mostly, they do not conduct formal tenders, although sometimes, expression of interest type exercises are conducted. What generally happens is that potential suppliers know of the connection with Brimstone and approach the HR Director directly. They are then considered further and put onto a database.
16	They do not follow a formal tendering process. The potential suppliers register with the hub. They pay a fee to do so and are required to go through a checking process. If a product is needed, companies will be invited to do presentations. BEE requirements will be adhered to.
17	<ul style="list-style-type: none"> No advert Call around – informal word of mouth Person comes in to quote

15. How does your company source BEE suppliers?

1	Suppliers come to SANS Fibres rather than the company trying to source such suppliers.
2	Generally this is not necessary, but if they are looking for a specific supplier and do not have such a supplier on their database then contact would be made with Wesgro, The Cape Chamber of Commerce, Industry bodies and existing BEE suppliers.
3	Most BEE suppliers come to the company rather than the company actively sourcing such suppliers.
4	BEE suppliers normally come to the company, either physically or make contact by fax, e-mail etc.
5	There are dedicated people within the company who actively responsible for sourcing BEE suppliers.
6	Safmarine primarily sources suppliers by actively seeking them in particular areas. They also get suppliers who call in to the office. Both word of mouth and informal networks are a powerful means of contact.
7	Same as 14
8	Same as 14
9	<ul style="list-style-type: none"> • Internal database • Trade World database • Advertising
10	Apart from the large suppliers, people within divisions etc. are requested to specifically look to source suitable BEE suppliers.
11	There is no set method of sourcing BEE suppliers other than using the existing creditor database. However, they are in the process of improving the database and trying to analyse suppliers by company, region, product/service offering and HDI status. This database is very limited at this moment.
12	As per above
13	Same as 14 – Through tenders, advertisements and also a more informal process.
14	As above. Although, from time to time, they are approached by suppliers who are then referred to specific line departments.
15	Same as 14
16	Same as 14
17	Has no mechanism

16. Does your company screen BEE suppliers?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes		√	√		√	√	√	√	√	√		√	√	√	√	√	√
No	√			√							√						

11	The exception is if the quote is done through Trade World and then the municipality assume that they have screened the BEE supplier.
17	To a limited extent

16.1 If YES, how is this done?

1	-
2	Cape Span looks at the assets of the company, the annual report, audited figures to determine whether the company is of substance. With smaller companies, management visits the company to make an assessment, but the danger with this practice it that a BEE company then expects to get business.
3	By visiting the premises, meeting the staff, the overall appearance of the business and the general technical qualifications of the supplier concerned. It is important that general appearance is of a high standard as Auto & General would be reluctant to send clients to shoddy looking companies.
4	-
5	It is first based upon BEE scorecard criteria. Specifications of requirement and terms of conditions are then stipulated and quotes requested. Contract decision is based upon normal quality, delivery and financial risk conditions.
6	Safmarine obtain references, work history and look at examples of work quality. No financial information is requested from the supplier unless the contract is a very large one.
7	Suppliers that are primed for further development by PnP are screened by the PnP Foundation.

8	As per the qualifying criteria mentioned in 12. Every company's BEE status is verified. Sometimes, they are engaged in fronting, so OM audits their company. Fortunately, being in the financial Services Industry, they have access to information.
9	<ul style="list-style-type: none"> Investigate whether the company is registered via the DTI database Request a Tax clearance certificate and Proof of ownership
10	Via KPMG verification agency in which they look at risk factors, fronting, sustainability and credibility.
11	-
12	<ul style="list-style-type: none"> Infrastructure Experience Size of the crop Sustainability of the BEE supplier
13	Credit and reference checks are conducted. Also, they need to present a certificate confirming their BEE status.
14	Through Tradeworld.
15	The Heads of Department for whom the procurement will be conducted meets with the potential suppliers. There is a focus on price and quality, although they will not go for the cheapest quote. They will also check references. A certificate of accreditation is requested, or should the company not have one, they request a letter confirming ownership from the auditors.
16	Careful reference checking is conducted. Also, accreditation confirmations from companies such as Empowerdex are required.
17	Company registration documents, but would definitely consider outsourcing.

17. Does your company have access to a pool of qualified black enterprises?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes	√	√	√		√		√	√	√				√	√	√	√	
No				√		√				√	√	√					√

2	In certain areas there is an over abundance of BEE suppliers, e.g. transportation, but in certain areas they are lacking, e.g. ICT services, management consulting and auditing.
8	They are constantly seeking to increase the pool, particularly in strategic areas of the business.
15	They have compiled their own database.

18. What and how much core (non-discretionary) and non-core (discretionary) business have you allocated for BEE SMEs?

	Core	Amount	Non-core	Amount
1	<ul style="list-style-type: none"> CAPEX comes from overseas, but maintenance of machines done locally 	±R70 million	<ul style="list-style-type: none"> Stationery Industry cleaning Catering 	±R5 million
2	<ul style="list-style-type: none"> Supply of fruit Logistics including local transportation and shipping 	20%	<ul style="list-style-type: none"> Stationery Cleaning General services 	80%
3	<ul style="list-style-type: none"> Panel beating 	35%	<ul style="list-style-type: none"> Stationery Recruitment & HR 	80%
4	<ul style="list-style-type: none"> Specialised plates, valves and engine parts 	Nil	<ul style="list-style-type: none"> Overalls, stationery, mild steel plates 	R40 000 – R50 000 p/a
5	Crude oil	n/a overseas suppliers	<ul style="list-style-type: none"> Advertising Building & Construction Chemicals 	Not willing to disclose

			<ul style="list-style-type: none"> Electrical Services Engineering Services Packaging & Printing Office suppliers Health, Safety & Environment Labour Services Professional Services (consulting, architects, legal and inspections) Training Transport Travel and accommodation 	
6	<ul style="list-style-type: none"> Transportation Depots i.e. storage of containers and cold storage 	Not available	<ul style="list-style-type: none"> Service (consulting) Advertising Facilities Management Equipment (ICT, ship stores) Telkom Stationery Maintenance (plumbers, electricians, builders) Trucking 	Not available
7	Could not answer this question as they do not allocate according to core and non core activities – procurement is across the board and spans the entire value chain.			
8	See comment below	40%		60%
	They are currently looking at their core business in terms of specs and demands to identify more areas for SME involvement.			
9			<ul style="list-style-type: none"> Product development Marketing Local economic development 	R10 million
10	<ul style="list-style-type: none"> Reluctant to disclose 		<ul style="list-style-type: none"> Reluctant to disclose 	
11	R15,8 million of total procurement of R125 million currently goes to BEE suppliers. However, this figure is not particularly accurate because the database lacks the ability to positively identify a BEE complied supplier.			
12	Purchases are essentially core items and approximately 10% of R17 million per annum is purchased from BEE suppliers.			
13	Promised to supply later – could not give me offhand. Follow-up email sent. Reminder will be given.			
14	Could not really split – There is a Capex Budget and an Operational Budget and goods and services are procured from BEE suppliers across both.			
15	HOM is constrained by the need to purchase fabrics from overseas suppliers. There is no specific percentage set aside.			
17	Mondi for paper	38%		Not known

19. Is procurement from BEE suppliers considered to be a priority in your company?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes			√	√	√		√	√	√	√	√	√	√	√	See below	√	√
No	√	√				√											

13	Yes, however, technical skills are taken into consideration. (Some specialist technical skills are not available through BEE suppliers)
15	Yes and No – Brimstone regard it as a priority, but the people who do the actual sourcing are not yet there. Tricking down is happening at a slower pace. Sometimes the person sourcing needs to be persuaded to meet with a BEE supplier.

20. What is the size (as a percentage) of the BEE supplier base relative to the total supplier base?

	1	2	3	4	5	6	7	8
BEE supplier base	25%	15-20%	35%	0.08%	Not willing to disclose	20%	20%	50%
Rest of supplier base	75%	80-85%	65%	99.92%		80%	80%	50%

1	Only of local South African suppliers
8	They are wanting to increase in terms of % spend and for this reason, they are looking at the Top 300 suppliers.

	9	10	11	12	13	14	15	16	17
BEE supplier base	60%	40%	8%	10%	50%	41%	10%	54%	8.0%
Rest of supplier base	40%	60%	92%	90%	50%	39%	90%		37.7%

13	What must be taken into account is that some of the suppliers are City of Cape Town, other Universities and NGOs. So even though BEE suppliers form 50% of the supplier base, the aforementioned should be taken into account.
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20.1 What is the annual procurement spend on BEE suppliers vs other suppliers?

1	Total procurement is R1,2 billion. R950 million from overseas and approximately R250 – R300 million locally of which R70 million is BEE
2	Approximately R150 million out of a total of R600 million
3	BEE procurement is approximately R42 million out of a total of R120 million per annum.
4	Approximately R35 – R40 000 per year out of a supply base of R50 million
5	In a conversation in the lift annual purchases excluding Crude oil are approximately R2 billion per annum of which 50% comes from BEE suppliers.
6	Total procurement excluding Transnet and SAA (both of which are not considered BEE organisations) is R250 million per annum of which a large portion of this is for truckers.
7	20% of R450 m annually =R90 m
8	52% of total spend – could not give me figure
9	R10 million out of a total of R13,5 million
10	-
11	R15,8 million of total procurement of R125 million
12	R2 million out of R17 million
13	Refer to question 20
14	R3.5 billion from a total spend of R8.5 billion
15	R14 million – BEE suppliers; R140 million – other
16	54%
17	If Mondi is included, then 45,7%

21. Are targets for procurement from BEE suppliers set?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes		√					√	√	√	√		√	√		See below		
No	√		√	√	√	√					√			√		√	√

15	The process is largely informal, so although the HR Director has set goals, there are no formally set targets that have been documented and discussed.
----	--

21.1 If YES, are the targets monitored?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Yes		√					√	√	√	√		√	√		√	√
No																

16	Progress is monitored
----	-----------------------

21.2 If YES, how are they monitored?

1	-
2	Each department within Cape Span is required to set up their own scorecard and budget and report on it to the Board. This target and budget is built into the employees contract and they are rewarded accordingly.
3	-
4	-
5	Constantly look at spent and monitor from there
6	-
7	By the BEE committee and also evaluated by an external organization BISA.
8	Phila Jordan is responsible for monitoring. They are checked against the targets on a monthly basis. Each Business Unit feeds statistics to Phila on a monthly basis. This is reviewed by the BEE committee, which is chaired by the MD and attended by the Transformation Manager.
9	The buyers must spend a minimum of 50% with BEE suppliers.
10	Transformation and procurement policies and targets are set at group level and cascade down.
11	-
12	Monitoring is based upon monetary value purchased.
13	Reports are presented on a quarterly basis to the Executive Director of Finance.
15	The HR Director gets a bi-annual report from the accounts department from which the BEE supplier spend is then tracked.
16	On a monthly and quarterly basis they examine where consumables are purchased and enquire further if the supplier is not on the hub. There are still instances of kickbacks and nepotism amongst franchisees, but Protea is working to address this.
17	n/a

21.3 How are targets set?

1	-
2	The targets are set up-front in the employment contract and based upon the prior year's experience
3	-
4	-
5	-
6	-
7	Year on year, in comparison with other industries and according to the codes of good practice guideline
8	Targets are set according to Codes of Practise and compared with industry standards.
9	Targets are integrated in the annual budget and hence become part of the annual goals and objectives.
10	Through the annual budgeting and business planning process. Each Executive then signs off against targets of which BEE procurement could be one of them.
11	-
12	They have a base figure from which they wish to grow.
13	The head of Procurement, Trevor Adams, made a presentation to Council which was then accepted.
15	These are done within the constraints mentioned. Where products need to be sourced, this is done,

	bearing in mind the BEE priority.
16	The desired target is 100% and it is culture-driven.
17	n/a

21.4 At what level of management are targets set?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Board level		√							√	√	√ Council	√	√		√	√	
Executive Management		√					√	√	√	√		√	√				
Other																	

10	Targets are set from top downwards, but performance is monitored from bottom up.
----	--

21.5 Are the targets set at group, company or unit level?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Group							√	√		√		√	√				
Company		√					√	√	√	√		√	√		√	√	
Unit		√					√	√	√			√	√				

5	It is set throughout the company
8	It is first set at the highest level, then trickles down. The business units will translate the Company target into Business Unit targets.

21.6 Who is responsible and accountable for the targets set at each level?

1	-
2	The divisional executive is responsible and accountable for the targets together with Angelo Petersen who is the executive responsible for BEE development within the organisation
3	-
4	-
5	-
6	-
7	The HODs for each buying section and the BEE committee
8	The HOD for each Unit accountable to the MD in the BEE Committee meetings
9	The overall Procurement Director and then per department the Executive Director and Director responsible.
10	The heads of department.
11	n/a
12	n/a
13	The head of procurement and the managers.
14	-
15	The responsibility and accountability falls ultimately on the HR Director. When questions regarding the BEE procurement are raised, they come to the HR Director for answers.
16	Procurement. A staff member from this department, Ricky Bianci is assigned the task of policing the process.
17	-

21.7 Are those responsible for procurement from BEE suppliers...

	1	2	3	4	5	6	7	8
--	---	---	---	---	---	---	---	---

	Yes	No	Yes	No	Yes	No											
Given incentives	√			√	√				√		√		√		√	√	
Getting high level support			√							√			√		√		
	9		10		11		12		13		14		15		16		
	Yes	No	Yes	No	Yes	No											
Given incentives	√		√			√		√		√		√	Previously yes		√		√
Getting high level support	√		√			√			√					√		√	

12	The incentives form part of the overall KPI's of an Executive
16	Although there is debate at board level about doing this

	17	
	Yes	No
Given incentives		
Getting high level support		

21.8 If YES, please describe.

1	-
2	A monetary incentive within the annual bonus which is linked to performance for a number of criteria of which BEE procurement is one of the ratings. However, this rating has a significant impact on the total bonus, but would vary from executive to executive.
3	-
4	-
5	-
6	-
7	The efforts of this initiative are endorsed by Raymond Ackerman, but there is no other incentive.
8	In the areas of incentives – Each Business Unit Manager is measured on performance and performance measures are incentivised. BEE procurement is criteria assessed as part of performance management. In the case of high level support, the initiative is driven by the MD who is actively involved as well as passionate about this.
9	Performance bonuses in which BEE procurement forms part of the overall performance bonus as one of the criteria.
10	The targets are quantitative and varies from executive to executive
11	-
12	-
13	Incentives are offered very indirectly – through the performance management process.
14	-
15	The HR Director can call on the support the MD, should it be necessary that action with regard to BEE suppliers needs to be enforced.
16	High Level consider BEE procurement their business imperative.
17	-

22. What challenges regarding procurement from BEE suppliers do you face?

1	<ul style="list-style-type: none"> Unsophisticated suppliers who lack basic business and financial skills
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	<ul style="list-style-type: none"> • BEE suppliers who believe that it is their right to get business from SANS • The quality of service supplied • SANS needs to decrease the number of suppliers and this may be difficult to explain to those that are discontinued.
2	<ul style="list-style-type: none"> • A culture of entitlement from BEE suppliers. • The ability to access finance to develop themselves and to render a good commercial service. • Commitment from large corporations to help develop the BEE supplier base. • Lack of skills, particularly finance and managerial skills together with a professional approach that is expected of BEE suppliers by large corporations.
3	<ul style="list-style-type: none"> • A culture of entitlement from BEE suppliers. • The ability to access finance to develop themselves and to render a good commercial service. • Commitment from large corporations to help develop the BEE supplier base. • Lack of skills, particularly finance and managerial skills together with a professional approach that is expected of BEE suppliers by large corporations.
4	<ul style="list-style-type: none"> • Lack of technical expertise on the part of BEE suppliers primarily because of the nature of the products purchase. • Financial challenges because many of the BEE suppliers do not have sufficient working capital.
5	<ul style="list-style-type: none"> • Sourcing appropriate BEE suppliers who fit in with the strict quality, delivery and financial criteria.
6	<ul style="list-style-type: none"> • The main challenge is knowing who are the BEE suppliers. The problem is that BEE suppliers do not believe that they have to register into a central database. The other problem is dishonesty between the supplier and the procurement officer.
7	<ul style="list-style-type: none"> • Sustainability and distribution issues
8	<ul style="list-style-type: none"> • Level of commercial understanding – business culture of small businesses are different to corporates. • Sustainability – many small businesses fall into a single client trap. They form dependence on big clients instead of actively innovating and marketing themselves proactively. Many suppliers are not willing to take ownership of their development. They approach Old Mutual, saying "I want business," but need to develop further in terms of capacity and delivery.
9	<ul style="list-style-type: none"> • Difficulty in determining whether the company has been fronted or not. • Lack of finance as sometimes a contract is awarded and the business has no funding working capital. In many cases the BEE company does not have access to finance and this compromises both the quality and delivery of the product.
10	<ul style="list-style-type: none"> • The main challenge is that of un-rated BEE suppliers and the problem of securing their co-operation to get them to submit their BEE scorecards.
11	<ul style="list-style-type: none"> • The difficulty in obtaining suitable BEE suppliers primarily because small suppliers are afraid of Government red tape and may not be registered for UIF, VAT, Income Tax etc. • Many BEE suppliers do not have access to the Internet and therefore will not know about contracts. In addition, they do not visit notice boards so again would not be aware of contracts.
12	<ul style="list-style-type: none"> • Insufficient quantity of raw material suppliers that are able to farm commercially and produce surplus. • The volumes required are such that the farms must be of a certain size to produce more than 300 tons of produce. • Quality • Transport from the producers to the factory • Financing suppliers • Understanding contracts • Understanding basic production principles and forward planning
13	<ul style="list-style-type: none"> • There are questions from people within UCT that even companies who supposedly are BEE compliant are represented in meetings by white faces. Fronting?
14	<ul style="list-style-type: none"> • Lack of understanding of specifications • Lack of knowledge of tendering process and documentation • Finance • Poor Quality • Delayed service delivery • Late service delivery • Non service delivery

15	The company is 100 years old and many people doing the actual procuring have been in their positions for around 20 – 30 years. Thus, they have built and entrenched long term relationships with existing suppliers and are not willing to change from people who have given them years of good service. Thus, the process will be a gradual one.
16	Protea Hotels have operations outside the borders of South Africa in Namibia and Nigeria for example, where the initiative is not recognized an supported. The biggest challenge is changing the mindset of the people – the procurers at unit level. There are also products where they cannot find BEE suppliers who can meet their requirements.
17	<ul style="list-style-type: none"> • Continuity of business • Risk and sustainability • Timeous delivery

22.1 How are you addressing these challenges?

1	<ul style="list-style-type: none"> • SANS assists in financially funding selected BEE suppliers • Counseling is given in trying to convince BEE suppliers that they should not be totally reliant upon SANS for all their business. However, the time required for this is enormous and SANS does not have the appropriate personnel.
2	<ul style="list-style-type: none"> • Cape Span’s approach is one of linking up with existing suppliers and giving them constant feedback on performance. • The BEE farmers receive technical assistance from Cape Span in the form of crop management, good agricultural practices and meeting market access requirements. This is often addressed by requesting existing white farmers who have sold their farms to stay with the BEE new owners as a mentor.
3	<ul style="list-style-type: none"> • Auto & General believe that they are not in the training industry and at present are doing very little to address these challenges. If a supplier does not comply with quality requirements then they are ultimately discontinued.
4	<ul style="list-style-type: none"> • No action has been taken, but it is anticipated that the new owners will start to address these problems.
5	<ul style="list-style-type: none"> • Discussions are held with SASDA (South African Supply and Development Agency)
6	<ul style="list-style-type: none"> • By approaching every supplier to determine their BEE status. • By following up on existing suppliers to determine whether those not eligible can apply for BEE status.
7	<ul style="list-style-type: none"> • Funding and development takes place to ensure sustainability. PnP invests time, mentorship and expertise and actively gets involved to assist BEE suppliers. There is thorough and deep involvement from Suzanne herself.
8	<ul style="list-style-type: none"> • OM has many initiatives targeted at small business development. They have conferences and forums. There is also an attempt to sensitise and educate suppliers. They are constantly looking for new ways and means of capacitating suppliers.
9	<ul style="list-style-type: none"> • In some cases monetary advances are given against the contract. • The question of fronting is investigated by looking up ownership via DTI, but this is not always easy to validate.
10	<ul style="list-style-type: none"> • By constantly discussing these challenges with potential BEE suppliers.
11	<ul style="list-style-type: none"> • Nothing concrete, but are considering putting up notice boards in the townships. The questions is where and how to effectively implement this.
12	<ul style="list-style-type: none"> • Tiger Brands is linking up with other programmes • Agricultural advisors and managers work with the farmers in particular areas • Tiger Brands has put up Depots, helped organise transport and sometimes pay for transport.
13	<ul style="list-style-type: none"> • Before a service provider is appointed, they meet with them. They also are bringing more people of colour onto panels.
14	<ul style="list-style-type: none"> • The department of economic development is subsidizing business plans. Call in suppliers – attempt to conscientise, explain the necessity of complying with standards. Letters of warning and if no improvement, they will cancel the contract
15	Sessions are held with these Heads of Department where they are educated and encouraged to start allocating portions of business to BEE suppliers. They need to give these suppliers a change. Change is a difficult process.
17	The only way of addressing the challenge with regards to risk and sustainability is by contract with two or three different suppliers for the same product or service.

23. Do you need assistance in addressing these challenges?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes	√	√		Don't know						√	√	√	√	√		√	√
No			√		√	√	√	√	√							√	

8	Internally sufficient
13	Internally sufficient

23.1 If YES, what assistance do you need?

1	Primarily business training in cash flow management and financial accounting. SANS needs to explain to many of their BEE suppliers that they may discontinue the practice of paying such suppliers twice per month. This is not feasible as an ongoing proposition.
2	Primarily assistance is needed on development programmes for BEE suppliers such as <ul style="list-style-type: none"> - Financial training - Systems training - Understanding the dynamics of a growing economy and what it requires - Basic business and financial skills
3	n/a
4	n/a
5	n/a
6	n/a
7	n/a
8	n/a
9	n/a
10	The main assistance could come in the form of verification of BEE status on our electronic purchasing system.
11	<ul style="list-style-type: none"> • Assistance in compiling an affective and usable database. • Verification of BEE status • The establishment of a central webpage to facilitate tender applications • The establishment of a cell phone quotation network via sms • Assistance with working with Internet Café's to assist potential suppliers to look up municipal webpages.
12	<ul style="list-style-type: none"> • Any help that will assist the supply chain.
13	Carol feels that they are on par with what is happening, but would look for further opportunities to educate herself. Would like further discussions and engagements.
14	Lack of capacity in this area – need expertise and rely on external service providers.
15	-
16	They are willing to learn new things that could help propel them towards the 100% target they seek.
17	Evaluating and assessing BEE criteria.

24. What types of support and interventions do you see as necessary to grow your company's BEE SME supplier bases?

1	Basic business and financial training, e.g. some companies are not VAT compliant yet they have an annual turnover far in excess of R300 000.
2	The support and interventions needed is really to pro-actively identify those BEE suppliers who have potential and then to create a development path for them. Also to assist them with finance.
3	The company is quite happy with what they are doing and really don't believe that they need help. They believe that there is still a very poor understanding of broad based BEE and government should do more to help in this area.
4	The interventions required would be financial and most certainly expertise in technical matters.
5	The co-ordination of BEE suppliers would be of great benefit to Engen although assistance is being obtained

	from SASDA
6	A centralised BEE database would be enormously useful.
7	Funding, development, mentorship, particularly financial assistance with overheads
8	Continuous review. Sensitising people inside the company to ensure that their hearts and minds are behind the BEE initiative. Educating those internal to the company and communicating the values of OM in this regard, so that when they approach procurement, they have a common purpose. Also, educating non-compliant suppliers and showing them that they are serious about transformation imperatives
9	<ul style="list-style-type: none"> • Access to finance, skills training and commitment to succeed.
10	<ul style="list-style-type: none"> • The compilation of an effective and meaningful database. • Strengthening the management of small BEE suppliers and providing enterprise development support.
11	All of the above.
12	-
13	Although there are many SMME suppliers, more are always knocking – seeking opportunities.
14	They need a special dispensation. Need to have payments speeded up so that their cash flow can improve. There should be dedicated project managers. Skills training.
15	HOM needs to get themselves officially rated. The certification process will help to focus on what is required. Some suppliers might need counseling that this exercise is not designed to end doing business with them. Lastly, the supplier list which is largely informal needs to be captured and measured.
16	Hospitality Warehouse should have their own initiatives.
17	BEE lists and database from a credible and reliable source.

24.1 How could the performance of the BEE suppliers you already have be improved?

1	-
2	Ongoing feedback is critical particularly pro-active feedback on the input of these suppliers to the Cape Span business.
3	n/a
4	No
5	Training
6	-
7	Sustainability is the key – PnP already deeply involved in helping to improve supplier performance – one on one interventions. Increase productivity, quality and distribution.
8	There are initiatives aimed at assisting the suppliers in identified areas The OM has facilities such as the Business School to assist They are also involved in assisting with Asgisa
9	<ul style="list-style-type: none"> • Introduce a small business programme to help access to funding, access to markets and availability of mentors through Red Door, SEDA and Wesgro. • An agreement exists between Winelands and the SA Netherlands Chamber of Commerce who assist in exports.
10	There is too large a range of suppliers and hence it is extremely difficult to be extremely specific.
11	<ul style="list-style-type: none"> • The municipality is not involved in training programmes other than those which are done through local economic development. However, it will be useful to attempt to encourage companies to use labour instead of machinery so as to create employment. • Technical training
12	<ul style="list-style-type: none"> • Technical assistance to get higher yields of produce per hectare. • Farmers should be able to supply not only Tiger Brands, but a number of alternatives as this spreads their risk. • The farmers need to understand the necessity and importance of crop rotation.
13	Through skills development and entrepreneurship development.
14	Delivery and quality could be improved. If the City could ensure constant payments on delivery, their cash flow could be improved and they could better deliver on projects.

15	Coaching businesses and providing constructive feedback regarding gaps in service, rather than not doing further business with a supplier who has made a couple of mistakes. This depends on the level of commitment to the process, because it will require a lot in terms of time. However, if you are committed, you will go the extra mile.
16	This would be something that the individual General Managers deal with.
17	n/a

25. Do you provide support for your BEE suppliers?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Service	X	√	X	X	X	√	√	√	√	X	X	√	X		X	X	X
Financial	X	√	X	√	X	√	√	√	√	X	√	√	√		√	X	√
Mentoring	X	√	X	X	X	√	√	√	√	X	X	√	X		X	X	X
Other	X	√	√	X	X	Technical	√	√	X	X	X	X	X	Not now	X	X	X

25.1 If YES, please explain.

1	-
2	-
3	Help white owned panel beating shops to become BEE
4	Financial assistance would be beneficial in the form of up-front payments, the purchase of raw materials and payment of labour for BEE suppliers.
5	-
6	A full support service is provided for the truckers as well as for BEE suppliers owned by people who were once employees of Safmarine.
7	Have a “proudly BEE” initiative where PnP gives recognition to the BEE suppliers through a logo they have developed with their marketing department.
8	BEE suppliers have access to low interest loans from OM. There are also mentorship programmes. They also offer advice and support - employees offer their expertise to small businesses.
9	This is done via Economic Development.
10	-
11	Support is done through local economic development within the Municipality.
12	Mentoring is in the form of technical assistance from agricultural experts. Financial support is also given sometimes by pre-paying for the seeds and seedlings.
13	Payment terms are shorter.
14	-
15	They are open to requests regarding payment terms. They have meetings with small businesses and ask them what might impact on their ability to fulfill the contract. In cases where a deposit is requested to ensure delivery, the person dealing with the supplier will be flexible within this regard.
17	Technical assistance is offered to former employees who are responsible for the distribution of the newspapers. The company also pays for the services of a financial manager to help the distributor to manage cash resources and finance.

26. Does your company have favourable payment terms for BEE suppliers?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes	√	√			√		√	√	√		√		√	√	√ See below	√ See below	√
No			√	√		√				√		√					

26.1 If yes, please explain:

1	Payment is made in either 7 or 14 days, but only to BEE suppliers. All other creditors get paid 30 days net of statement. The philosophy of favourable payment terms to BEE suppliers will be phased out.
2	<ul style="list-style-type: none"> For emerging fruit suppliers, assistance could be in the form of advance payments, production loans and finance providing the supplier is considered to be viable. For other suppliers the terms are 30 days net of statement.
3	-
4	-
5	Engen's standard conditions of payment are 30 -45 days from date of invoice. Certain BEE suppliers get paid within 14 days.
6	-
7	This is negotiated on a case-by case basis between supplier and buyer responsible for that division.
8	All BEE suppliers are paid within 14 days
9	<ul style="list-style-type: none"> Upfront partial payments Payments in less than 30 days
10	-
11	Payment to BEE suppliers is made within 7 or 14 days whereas other suppliers get paid in 30 days.
12	-
13	Paid within 10 days.
14	There are two special pay runs for these suppliers – they are paid on the 21 st and the 15 th of each month
15	On request or negotiated by the supplier. It is not automatically granted.
16	There is a separate enterprise development programme which is run by the transformation committee. They do lend assistance to some of these businesses, though.
17	Normal payment terms are 30 days nett of statement, but would negotiate more favourable terms with BEE suppliers.

27. Does your company house BEE suppliers on-site? If so, what percentage of the BEE suppliers' turnover is derived from your company?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes	√				√	√		√ Did not know	√	√ 100%		√	√ up to 100%	√ Did not know	√	√	√
No		√	√	√			√				√						

8	For example, the catering company that services the cafeteria. They started off with just the Old Mutual contract, but have extended their business and now have contracts outside OM.
9	Cleaning company
10	The two BEE suppliers are maintenance and the tuck-shop.
12	Cleaning services
13	There are many contractors housed on site: for example, travel services, properties and services, printing – many of the smaller ones derive 100% of the business from UCT.
14	Some are housed on site such as catering and cleaning.
15	Two are on site – the caterers and the cleaners. In the case of the cleaners, they are not the sole client, but certainly a big proportion of their business comes from HOM. However, not able to give actual %.
16	It is difficult to say what proportion of their businesses are derived from Protea. In the case of the maintenance company – it is 100%, but this varies as well according to what is happening on each general manager's site.
17	Labour broking office & Catering

28. Does your company have access to public and private sector programmes aimed at supporting affirmative procurement initiatives?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes		√			√	√	√ See comment	√ See Comment	√			√	√ See Comment	√ See Comment	√ See Comment	√ See Comment	
No	√		√	√						√	√						√

7	Attended annual conference on sustainability and obtained a useful catalogue which featured prospective projects and companies.
8	OM Business School, Government and Foundation activities
9	SEDA, Red Door, CASIDRA and Wesgro
13	Tradeworld offers workshops also BEE related workshops from Commerce Edge.
14	Red Door who do good work.
15	Used to get e-mails from the DTI notifying about these programmes.

29. Would you be willing to work with an external facilitator (SAIBL) to support the development of your BEE supplier base?

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
No																	

17	But would depend upon what service they offer
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29.1 If yes, how do you see this relationship functioning?

1	Assistance in developing a standard procurement policy and in obtaining trust with BEE suppliers who fit in with the SANS Fibres philosophy. It would be helpful to have a third party trusted negotiator to change the favourable terms for BEE suppliers to those generally used in the industry.
2	Cape Span needs to identify the opportunities where they are able to work together with SAIBL in areas such as; <ul style="list-style-type: none"> - Identifying new BEE suppliers - Development requirements both internally and externally - Feedback on how the Cape Span policy influences BEE suppliers - Business Linkages
3	Depends on what they can offer.
4	Advice on how to access suitably qualified BEE suppliers
5	A sharing of databases and access to supply bases would be extremely useful
6	-
7	For networking and providing with links to suitable companies Assisting to source candidates for supplier base.
8	Open to proposal. Areas of possible intervention – Business mentoring and advice
9	This would have to be determined.
10	Depends upon what can be offered.
11	Would need to sit down with SAIBL and discuss what possibilities are available.
12	It would depend on what services are offered.
13	Desires continuous improvement – could help with this continuous improvement.
14	We want verification. Also, a tender advice centre. A dedicated external service provider as opposed to ad-hoc efforts? Cost implications?
15	Database and Enterprise Development.

16	In any area where value can be added. It would be useful to see this sort of exercise conducted within the industry. Experts explaining the codes and conducting training.
17	Depends upon what can be offered.