



USAID | SOUTHERN AFRICA

FINAL REPORT

South African International Business Linkages – Phase 2 (SAIBL-2)

Cooperative Agreement No. 674-A-00-08-00031-00

FY2008-2012

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LIST OF ACRONYMS

African Growth and Opportunity Act	AGOA
Black Business Supplier Development Program	BBSDP
Board-based Black Economic Empowerment	BBB-EE
Business Management Organizations	BMOs
Business Service Providers	BSPs
Company Diagnostic	CD
The Corporate Council on Africa	CCA
Department of Trade and Industry (South Africa)	Dti
<i>ECIAfrica</i>	ECI
Enterprise Linkages Initiative	ELI
Experts Panel	EP
U.S. Food and Drug Administration	FDA
International Organization for Standardization	ISO
KwaZulu-Natal	KZN
National Business Initiative	NBI
National Minority Suppliers Development Council	NMSDC
New York International Gift Fair	NYIGF
Picking Sound Companies	PSC
Small-and Medium-Sized Enterprises	SMEs
Southern African Development Community	SADC
South African International Business Linkages	SAIBL
South African Suppliers Diversity Council	SASDC
Southern Africa Trade Hub	SATH
United States Agency for International Development	USAID

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I. EXECUTIVE SUMMARY

South Africa is one of the most sophisticated emerging markets in the world, offering a unique combination of highly developed first world economic infrastructure with a vibrant emerging market economy. While the country has taken huge strides to ensure democratization as well as economic growth and development, there remain pertinent obstacles to accelerated and broad-based growth and development. Current unemployment levels of over 25 percent represent one of the main challenges South Africa has faced over the last 4 years, relegating millions of people, particularly the young, to a life of unemployment and poverty. It is not surprising, therefore, that the developing consensus throughout society is that all efforts must be concentrated on stimulating economic activity that creates jobs. The strengthening of black businesses and integrating them into the mainstream global economy represent the most effective weapons in the war against joblessness. While large enterprises have continued to shed jobs in their quest to increase efficiency, reduce the cost base and to cope with the global recession, the SME sector has remained a vehicle for the creation of employment opportunities.

The South African International Business Linkages (SAIBL) Program – Phase II described under Cooperative Agreement (CA) No. 674-A-00-08-00031-00 was awarded on April 1, 2008 by US Agency for International Development (USAID) to the Corporate Council on Africa (CCA) and its partners: *ECIAfrica* Consulting (Pty) Ltd, a South African economic development services company, and the National Business Initiative (NBI), a member of the World Business Council on Sustainable Development and representing 150 member companies supporting growth and democracy initiatives in South Africa.

The SAIBL-2 program supported the accomplishment of the US Government's Economic Growth Functional Objective specifically for the USAID bilateral assistance program for South Africa. The purpose of the Economic Growth Objective is to generate rapid, sustained and broad-based economic growth, which is relevant to South Africa where the need for growth with equity is essential for reducing inequalities, poverty, long term prosperity, and socio-political stability.

SAIBL-2 supported the Program Area of Private Sector Competitiveness, which aims to improve policies, laws, regulations, and administrative practices affecting the private sector's ability to compete nationally and internationally. Further, under this Program Area, SAIBL-2 supported Program Element of Private Sector Productivity. Its specific purpose is to improve the competitiveness and capacity of black businesses to integrate into domestic and international markets through increases in productivity, improvements in corporate governance, and the development and application of modern technology and marketing practices. SAIBL-2 also supported the Program Area of Agriculture and the Program Element of Agriculture Sector Productivity, and particularly the Sub-Element of "Markets and Trade Capacity".

The SAIBL-2 Program Areas align closely to the objectives and activities of the South African Government's National Small Business Development strategy, which sought to create an enabling environment to encourage small business growth and development, and specifically two key elements of the Broad Based Black Economic Empowerment Codes of Good Practice, namely Affirmative Procurement and Enterprise Development.

Originally a 3-year program, the CCA consortium was granted a one year no-cost extension that extended the project to a total of 4 years with a budget of more than \$16.5 million. SAIBL-2 generated over \$645 million in business transactions, \$57 million in exports and lost 190 jobs. 353 black firms were registered with the program and received assistance to improve their competitiveness. 100 business service providers were trained and registered, and 22 corporations joined the program's legacy organization, the South African Supplier Diversity Council.

Over the course of four years SAIBL-2 sought to promote the creation and development of a corporate-led movement that fosters supplier development as a national competitive advantage and priority. It also sought to encourage systemic change in the way corporations, black businesses and business service providers (BSPs) do business with one another, while following sound business practices and market forces.

SAIBL-2 created supplier diversity programs for South African corporations to increase procurement from black suppliers, facilitated networking and matchmaking opportunities for black suppliers exporting to African and overseas markets, and promoted greater participation of women entrepreneurs in the mainstream economy. The program also designed and implemented tools to identify sound companies capable of doing business with large corporations and improve gaps in strategic management, leadership, marketing, operational, support and competitiveness.

The program's highest achievement has been forging vital partnerships with large South African and US corporations in the country through the creation of the South African Supplier Diversity Council (SASDC), modeled on the US National Minority Supplier Development Council (NMSDC), with key South African Government Departments, and being recognized for its support of South Africa government's economic program.

In terms of meeting its key indicators, the program did yield mixed results. The SAIBL-2 program failed short of meeting the following targets: the number of corporations joining SASDC, black firms receiving assistance to improve competitiveness, number of SASDC certified black enterprises, total sales reported, total sales transactions with large corporations, and number of new jobs created. The program met its goal on two key indicators: total export sales and business service providers trained and registered with SAIBL-2.

There are a number of reasons why the above mentioned targets were not met, and those concerning the SASDC are discussed extensively in this report (see section Lessons Learned and Recommendations). Total sales transactions with large corporations, total sales, and number of new job, however, are in large part direct reflections of firm level performance during the world economic recession and the resulting poor business climate in South Africa that coincided with program's implementation. They are also results caused by the trade team's scaling down of trade activities regionally and internationally as the overall focus and resources of SAIBL-2 was directed towards the creation of SASDC. Firms receiving the maximum amount of support intervention the program provides; the shifting of focus towards certification of suppliers already in the program's database as opposed to recruiting new ones; the rigorous qualification methods used on black firms by SAIBL, which may have not met their expectations as most would have preferred easy access to funding, were also additional internal factors that contributed to targets not being met.

Now that the SASDC has been established as the legacy of the SAIBL-2 program and is fully operational, it has to live up to expectations of infusing a new leadership energy and activism in opening up opportunities and changing the way corporations do business with black suppliers. After two years in existence, expectations are high and the chances of success will be clearer over time with concerted effort from the Council, its supporters, corporate members as well as certified suppliers.

II. OPERATIONAL FRAMEWORK AND STRUCTURE

The SAIBL-2 program was implemented under three major result areas and components.

Major Result Area 1: SMEs, Employment and Sales. Assistance provided in this result area and component included the following:

- Improving the competitiveness of sound black enterprises through focused enterprise level and group interventions to address gaps and weaknesses in the areas of leadership; management; marketing; production and technology; quality, environmental, human and financial resource management.
- Facilitating networking and matchmaking to improve linkages to corporations in local and international markets.

Toward the above ends, SAIBL-2 provided training, business support services, and funding for SMEs to meet international standards of management, quality, and competitiveness. The program's trade component also helped black suppliers find regional and international export markets.

Major Result Area 2: Corporations and Linkages. Assistance provided in this result area and component centered on the following:

- Analyzing sectors/value chains to identify areas of growth and opportunity for black enterprises.
- Setting up a corporate membership organization to promote supplier diversity by opening up opportunities for black suppliers and investing in their development.
- Working with large corporations to improve their strategies and practices in diversifying their suppliers and establishing a growing database of sound, certified black suppliers actively engaged in transactions with the corporations.

As part of the above component, SAIBL-2 supported the formation of a corporate-led member organization, the South African Supplier Diversity Council (SASDC), to champion and grow supplier diversity long after SAIBL has ended. The members of SASDC will promote supplier diversity by opening up procurement for black enterprises, and investing in their development. It also involves providing advice and training on improved supplier diversity practices. The first of its kind in South Africa, the SASDC seeks to enable its members to practice supplier diversity as a strategic business objective.

Major Result Area 3: Associations and Business Development Services. Assistance provided in this result area and component included the following:

- Strengthening the capacity and number of business service providers offering affordable, quality services to black enterprises.
- Marketing the service providers to SAIBL-2 partners and clients.

- Working with business management organizations (BMOs) to identify and support their black members in benefitting from corporate supplier diversity opportunities and development programs.

III. STRATEGY AND ACTIVITIES

Out of a population of 51 million, about 14.8 million South Africans (mostly black people) are out of work. Young people are worst affected, with over half of 18- to 30-year-olds unemployed. At nearly 40 percent, the unemployment rate has hardly budged since apartheid ended in 1994. Among 18 to 25-year-olds, the rate is 51 percent, more than twice the national unemployment rate of 25.2 percent. Unemployment is highest among African women aged 18 to 25 years, at about 63 percent. Youth unemployment is lowest among Indian men, at 15 percent. The youth unemployment rate varies considerably between the races - it is 57 percent among Africans, 47 percent among colored youths, 23 percent among Indians, and 21 percent among whites.

This has continued to create 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, and another dominated by historically disadvantaged groups (defined as Africans, Indians and Coloreds) operating mainly in the informal sectors. South Africans are increasingly relying on government grants, with the number of beneficiaries reaching 15 million increasing by more than 300 percent in the past nine years.

It is widely acknowledged that supporting the development of small and medium enterprises (SMEs) is a key factor to alleviating poverty and creation of formal jobs. The SAIBL-2 program was designed to help in addressing some of these challenges by focusing on job creation, competitiveness, sales transactions and integrating black suppliers into the supply chains of large corporations. The program provided demand-driven and integrated support to its clients through the creation of business opportunities, linkages, and new markets.

SAIBL-2 concentrated on the formation of the South African Supplier Diversity Council and the building of a database of sound black suppliers that are producing marketable goods and services. Its interventions were geared towards established suppliers. The strategy was having a sound base from which to build a database of certified black suppliers to link to corporations as soon as the SASDC was formed.

In order to achieve this, we employed a three-pronged approach. The first approach screened and selected sound and established suppliers. To accomplish this, we strengthened our processes by designing and introducing the Picking Sound Companies (PSC) Tool. The tool provides a relatively quick and effective way to select sound firms by assessing the following aspects:

- Bona fide black ownership and management control
- Capabilities of the owners and managers
- Financial condition of the company
- Operational capacity and suitability as a prospective goods or services supplier

The second identified gaps or needed areas of intervention based on the Company Diagnostic Tool. The use of the tool helped us to get a better understanding of the conditions in these companies and the areas where it can have the greatest impact in improving their competitiveness.

Interventions were implemented by a domestic, SAIBL trained business service provider on a cost sharing basis.

The last approach trained Business Service Providers (BSPs) in order to improve their capacity, capabilities and a number of them to offer affordable, quality services to not only SAIBL clients but black enterprises in general. Our trained BSPs have also been providing services to other programs such as the Government's Black Business Supplier Development Program (BBSDP).

IV. YEARLY HIGHLIGHTS

FY 2008

SAIBL Program Summary

Though the economy was fairing quite stable, there were some signs by September 2008 that it was starting to be affected by the global economic crises and the forecast was that it will decline after several years of good growth. The combined elements of high interest rates, rising costs, high fuel costs, declining demand and a credit squeeze was beginning to have adverse effects, especially on SMEs.

The enhanced SAIBL-2 was not just a business linkages facilitation program. It was, at its core, a change management program aimed at altering the way large corporations have viewed and done business with black enterprises, and attempting to change the culture of black business from one of entitlement to competitiveness. In an environment where big business and black business have existed apart for decades, this was a long walk to success. There needed to be a sensible and flexible approach to what was important: measuring value (change in business practices) and quantitative results (the numbers game), and in striking a balance between the two dimensions.

During this first 6 month implementation period the program largely achieved the intended objectives and results in each of the four components: SME Competitiveness, Corporations & Linkages, Associations & Service Providers, and Knowledge Management. The following key tasks and activities were completed successfully.

- Filling of all key positions and of all professional and support staff positions, and opening of all offices
- Sector selection and basic value chain analysis in the selected sectors
- Strategic planning and development of detailed work plans
- Setting up of management information systems, and project management processes

SME Competitiveness Component Summary: The SME Competitiveness component focused on re-screening and registration of over 177 qualifying competitive black suppliers. This was necessary to set up a clean database with suppliers that had the potential for linkages. Having selected the new sectors, clusters and value chains, key participants, supporters and influencers, the program was mostly involved in business development and promotion activities, as well as relationship building during this period. The key achievement was the successful establishment of strategic relationship with the Dti's Black Business Supplier Development Program. As a result, the SAIBL program saw a significant increase in the number of companies accessing the program and its services.

Trade Component Summary: The Trade team continued to strengthen matchmaking support. During the first 6 months we arranged and led trade facilitation missions to Ghana, Zimbabwe, Namibia, and Zambia. Over 20 companies took part in various export networking events in these countries. Several companies secured orders and some entered into agency agreements. The team took part in a workshop in Cape Town with support from the U.S. Department of Agriculture and the United States Food Drug Administration (FDA) titled "The Importing and Labeling Requirements for Processed Foods and Natural Products" to prepare companies for the stringent standards of conducting business in the United States and the FDA's food safety requirements. A similar two-day workshop was held in Johannesburg during the same period in conjunction with the Southern Africa Trade Hub (SATH). The Johannesburg workshop ensured that all specialty food and wine companies under USAID funding were exposed to the FDA's food safety requirements. Total exports were R73.9 million (\$9.4 million at \$1=R7.791 six month fiscal average).

AGOA Component Summary: The SAIBL program Washington team coordinated a series of events with the Food Emporium, an upscale grocery chain based in New York around its Africa Week promotional campaign. Partially sponsored by the Dti, the Food Emporium's "Taste of Africa" event began a two-week celebration of African specialty food products in all 18 store locations. The event was held at its Bridge Market store where a 200 foot stand was dedicated to African products and tasting stations were positioned throughout the store. The ribbon cutting ceremony was followed by a wine tasting event featuring Stellar Winery, and much of the African-inspired décor was purchased from Zandla Xpressions, both SAIBL registered suppliers. The approximately 120 guests were made up of store managers, invited dignitaries, some distributors and buyers. We worked with Stellar Wines U.S. representative on some cross promotional activities with the Food Emporium and Braai Restaurant to launch Stellar's new wine labels.

Business Service Provider (BSP) Component Summary: Guidelines for eligibility and facilitating support to business service providers were developed and approved. Thereafter priority was given to identifying, screening and selecting business service providers to match the needs of SAIBL and its clients based on past demand trends. By the end of the first six months we had screened, selected and trained 17 Business Service Providers (BSPs) in Cape Town. We also completed the screening and selection of BSPs in KwaZulu Natal. From an initial list of 27 who showed interest, 12 made the final list.

Corporation and Linkages Component Summary: The Experts Panel (EP) chaired by Dr. Miriam Altman, Executive Director of Human Services Research Council, was formed and held its first meeting. The function of the EP was to provide guidance on work areas of the ELI program, support and recommendations to the ELI Champions Panel and management. The remainder of the period was focused on promoting ELI and meeting with selected corporations to formalize partnerships. By the end of September 2008 we had met with 29 corporations and 6 had registered as members of ELI.

Highlights: April – September 2008

- We provided technical assistance and advice in re-designing the Dti's Black Business Supplier Development Program (BBSDP) incentive scheme. A partnership agreement was signed with the Enterprise Organization Unit (TEO) which covered training and coaching of the BBSDP Network Facilitators and advised on the organizational structures to support the program.
- We worked with Xtrata Mines in supporting 8 of their suppliers to meet the company's requirements.
- We entered into an agreement with the South African Oil and Gas Alliance (SAOGA) to facilitate enterprise development and procurement opportunities between SAOGA corporate members and their black enterprise members.
- In agriculture, SAIBL assisted 21 farmers from Greater Tubatse and Blouberg areas in Polokwane to secure forward contracts with APOL Ltd. for the supply of tomatoes. We also assisted 13 farmers from Blouberg to secure supply contracts with Tiger Brands. Tiger Brands agreed to supply the farmers with inputs, technical support and fruit collection.
- Artists of Africa visited the Atlanta Home Furnishing Mart for the second time from June 11-16, 2008. The company also exhibited at the California Gift Show from June 18-21, 2008. This was the company's third time at the show, at which it recorded good sales and generated new interest.
- Three SAIBL clients exhibited at the New York International Gift Fair (NYIGF) in a shared booth from August 16-20, 2008. This was the debut U.S. exhibition for Imiso Ceramics and the third time for Kunye and Zandla Xpressions. The companies' products were well received as the two returning companies increased their orders, while Imiso made several sales and received significant interest for a first show.
- We formed the Expert Panel to provide support to the work of the Corporations and Linkages Component. Barloworld, DeBeers, McCarthy, Murray & Roberts, Pretoria Portland Cement and Sasol ChemCity registered as members of ELI.
- We completed the design of the materials for the Foundation and Advanced training for BSPs. The Foundation training covers the following modules: Positioning for Success, Ethics in Consulting, Assignment Management and Business Writing. The Advanced training covers Finance, Strategy and Company Diagnostics, Theory and Practical.
- 17 Business Service Providers (BSPs) in Cape Town completed the foundation and advanced training. By end of September 2008, these BSPs were in the process of completing practical company diagnostics.

FY 2009

SAIBL Program Summary

Most economic indicators showed that the country was in the grip of a recession. Most sectors reported stagnant demand and sales, as South Africa's first recession in 17 years hit its manufacturing and mining sectors. Black enterprises registered with SAIBL were adversely affected by the recession, reporting declining sales and job losses for the first time in the history of the program. Demand dipped across most business sectors, leading to shrinking order books. As a strategy, many suppliers concentrated on retaining existing business, and also on measures to manage costs in order to stay afloat until the economy turned the corner. Inevitably this meant shedding jobs.

The corporate sector also started introducing stringent cost cutting measures to cope with the recession, including a reduction in procurement spend and funding for enterprise development. Nevertheless, SAIBL's strategies to refocus efforts on mobilizing progressive corporations to support and take leadership of supplier diversity development were starting to yield results. By FY 2009, eight corporations had joined ELI and continued to be active in providing support to SAIBL.

SME Competitiveness Component Summary: The SME Competitiveness component established Cooperation Agreements and deepened its relationship with De Beers, Woolworths, Mercedes Benz South Africa, Foskor and Xtrata to build a growing pool of competitive black suppliers capable of winning more business contracts locally and internationally as part of the corporation value chain. The component also revamped the Company Diagnostic tool to better pinpoint its interventions with South African corporations and black suppliers.

Trade Component Summary: The Trade component strengthened its trade facilitation work by focusing on selected sectors with the greatest export opportunities for black enterprises. The support activities were around trade shows, exhibition support, trade missions, market information, matchmaking and training on the requirements of exporting. During the year, the team assisted SAIBL clients to participate in trade shows, exhibitions and trade missions in Botswana, Ghana, Namibia, Uganda, Tanzania, Zambia and Zimbabwe. More than 30 clients took part in these various export networking events and several of them secured orders and some have entered into agency agreements. Total exports for the year were over R139 million (\$15.3 million at \$1=R9.063 fiscal year average).

AGOA Component Summary: The AGOA team took a decision to concentrate on supporting clients that supply specialty products that have a niche market in the US in which they are competitive on volume and price. In the wine sector, the team coordinated a series of events with the Food Emporium, an upscale grocery chain in New York around its Africa Week promotional campaign in mid September. The team also worked with Wesgro to jointly host a local workshop prior to the New York Fancy Food Show covering US market intelligence, labeling for fresh/natural, organic, and processed foods, and Dti's Export Marketing and Investment Assistance application process. Most SME's do not adhere to basic U.S. regulations, causing goods to be delayed or rejected by U.S. Customs. The workshop helped black suppliers to understand the distribution channels in the U.S.

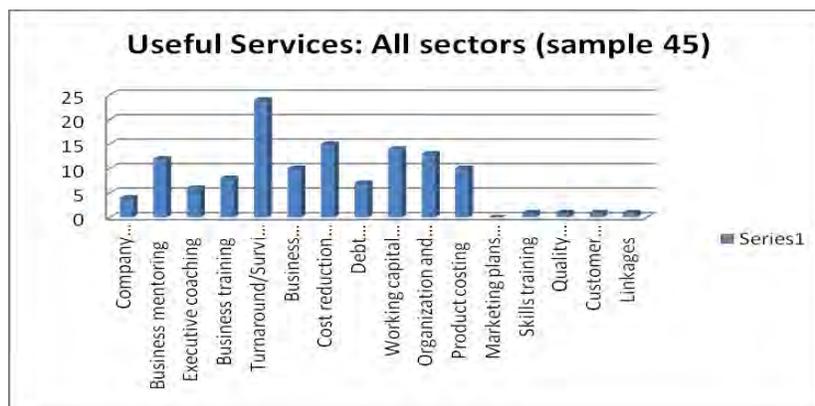
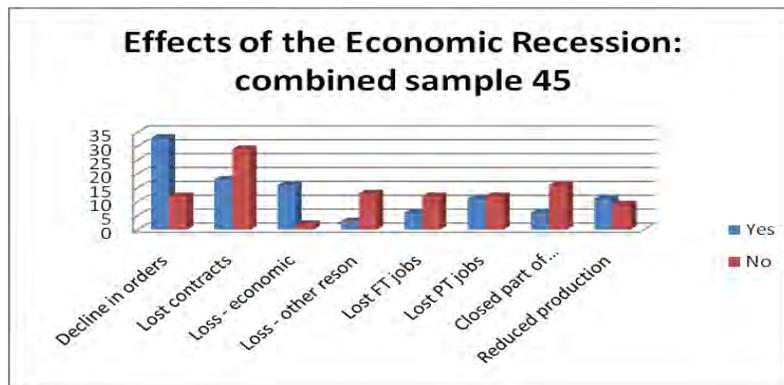
Corporation and Linkages Component Summary: The Director of Corporations & Linkages and Chief of Party visited the National Minority Supplier Development Council (NMSDC) in New York. The purpose of the July 2009 trip was to get a clearer understanding of the NMSDC model. After the visit, the team concluded that there are strong similarities, historically and strategically, between the NMSDC and the ELI concept. The ELI concept and movement could benefit significantly from an associate relationship with the NMSDC by adopting the model and learning from its successes and failures. Based on this fact finding mission it was decided to enter into a partnership with the NMSDC in order to benefit from a tried and tested approach. Since ELI had not yet been established, we took the opportunity to propose a name and identity that best captures the mandate and functions of the intended organization. Accordingly, it was agreed to call the organization the South Africa Supplier Diversity Council (SASDC).

Highlights: October 2008 – September 2009

- We reviewed and significantly enhanced our Technical Assistance Management Information System (TAMIS), to meet the data capture, storage and reporting requirements of all the SAIBL components.
- Sekutlong Projects, a woman-owned commercial broiler production company and SAIBL client, won the “Female Farmer of the Year” Award, which was sponsored by the Gauteng Province Department of Agriculture. SAIBL assisted this farmer with advice in efficient feeding and production techniques, training to reduce the cost of feed, and get more feed conversion ratio to the broilers.
- Six SAIBL grain producers in Gauteng province received production funding of R13 million (\$1.4 million) from ABSA commercial bank for the production of maize and sunflower for the 2008/2009 production season. SAIBL assisted these farmers to develop cash flows as well as production and implementation plans to mitigate the production risk of these commodities.
- We organized our first activity in the tourism sector, a one-hour business-to-business linkages event for our tourism clients at the International Destination Expo (IDE). Hosted by the American Society of Travel Agents (ASTA) from March 8-11, the IDE is the largest international conference that brings together U.S. travel agents, tour operators, and industry members for business linkages, educational workshops, and networking events. The event, which was held in Sun City, South Africa, was the first time the conference took place in Africa. In partnership with the Tourism Enterprise Program (TEP), we organized a focused business event to allow six of our tourism companies to pitch their tourism packages to a select group of 150 IDE attendees in a private event.
- SAIBL client SUBMARO won a R1 million (\$110,343) contract to conduct Subsea Inspection and Remote Operating Vehicle training in Nigeria. In addition, SUBMARO also identified other opportunities for training and engineering inspection services.
- We facilitated a three-day supplier diversity training conducted by Ralph G. Moore & Associates (RGMA). The training event for supply chain and transformation managers was attended by sixteen representatives from ten different corporations, along with three expert observers from the Chartered Institute for Purchasing and Supply (CIPS).

- 107 consultant firms completed the Foundation training. Of these, 95 had completed practical diagnostics and were listed in the SAIBL database. Only 25 firms were retained as competent to do company diagnostics on SAIBL clients.
- We completed the pilot supplier diversity benchmarking study. Eight corporations participated: De Beers CM, Barloworld Equipment, Barloworld Logistics, McCarthy Holdings, Mercedes-Benz SA, Murray & Roberts Construction, Pretoria Portland Cement and Sasol. The pilot study served to test and refine the methodology and our questionnaire, and the usefulness and relevance of the tool. The tool highlighted the gaps and weaknesses in their supply chain transformation processes.
- Xchem Chemicals (Pty) Ltd, a black woman-owned manufacturer of adhesives, sealants and specialty chemicals exhibited in HardeX at the MTN Expo Centre in Johannesburg. This led to a contract of R50,000 (\$5,517) per month for the automotive industry.

Even though a follow up survey was not taken, according to one carried out between April 2008-March 2009 by SAIBL on enterprises in its database showed that most of them were affected by the global economic recession. Firms reported decline in orders and loss of contracts and have had to take measures to deal with the shrinkage in business, including cutting production and jobs, and disposing of underused assets. Many indicated that they needed support with turnaround strategies, cost reduction, working capital management, organization development, mentoring and marketing.



FY 2010

SAIBL Program Summary

In FY 2010 the emphasis of the program was on two elements. The first was the formation of South Africa Supplier Diversity Council (SASDC) with 11 founding corporations. The second was picking and supporting sound firms to become more competent and competitive. This was the only way in which we would improve the perceptions of black firms among corporate buyers, and to win their confidence and participation in the supplier diversity development program. We developed another tool, Picking Sound Companies, to assist us in the screening and selection of sound companies. The methods we brought into the market became recognized as the standard for sustainable supplier development. The aim was to prove its demonstrated effect and enable other partner organizations to adopt and replicate the model.

SME Competitiveness Component Summary: It became clear from the company diagnostic reports that many firms were not sound or suitable to supply to corporations. The diagnostics were revealing between five to eight points of weakness in critical areas of business operation. Many firms could not provide reliable accounts or were unable to implement the improvements recommended, raising questions about their financial condition and viability. We then decided to strengthen our processes by designing and introducing the Picking Sound Firms (PSC) Tool. The effect was that the number of new registrations reduced significantly while the quality of the firms admitted improved significantly. SAIBL assisted clients to qualify for international certification, (e.g. ISO 9000 and ISO 18001) and obtain technical assistance (e.g. strategy development, marketing plans, sales improvements and management information systems).

Our efforts in primary production had little impact in growing the companies or linking them to formal markets. We accordingly took a strategic decision to be selective in working with enterprises and farmers in primary production. Our focus and efforts were directed at supporting firms operating upstream in the value chain such as agri-processing, packaging, input supplies, and specialty foods.

Trade Component Summary: The trade team continued its trade facilitation efforts by assisting clients to participate in trade shows and exhibitions in Ghana, Namibia, Zambia and Zimbabwe. Despite the world economic recession, total exports from SAIBL clients this year was a better than expected R111.7 million (\$14.8 million at \$1=R7.503 fiscal year average).

AGOA Component Summary: The SAIBL Washington based staff successfully collaborated with the Southern Africa Trade Hub in assisting clients in the specialty food sector to participate in the New York Fancy Food and Cape Town Foods forum. The team also worked with clients in the giftware and crafts and oil and gas in participating in various shows and trade missions.

Business Service Providers Component Summary: The component's focus during the period was providing entrenchment training on the new Company Diagnostic and the Picking Sound Companies Tools to 15 SAIBL listed BSPs in KZN, Gauteng and Western Cape. The aim of the training was to acquaint the BSPs with the latest upgrade on the tools as well as to entrench the new standards and processes. These trained BSPs were also earmarked for broader participation in the SASDC activities because they had proved themselves to be able to perform at a higher

professional level. The team also trained the Network Facilitators for the Dti's Black Business Supplier Development Program in terms of our agreement with the department.

Corporation and Linkages Component Summary: The most significant highlight and breakthrough of the year was the signing up of 11 corporations as the founding members of the South African Supplier Diversity Council (SASDC). The founding members are ABSA, Barloworld, Cummins, De Beers, First Rand, Foskor, Johnson Controls, Rand Water, Sappi, Sasol, and Unilever. Another significant milestone was the signing of a partnership agreement between NBI and the NMSDC. Following the signing of the partnership agreement, a delegation comprising the Chief of Party, Director of Corporations and Linkages, and the Manager of Membership Advocacy, as well as representatives from CCA attended the NMSDC Annual Conference and Meetings in New Orleans, Louisiana, from October 25-28, 2009. Presentation on the vision of SASDC was made at the International Programs Advisory Committee meeting alongside NMSDC affiliates from Australia, Canada, China and the United Kingdom. The delegation was also introduced to senior officials and Chief Procurement Officers of corporations such as BP, Chevron Texaco, IBM, Coca Cola, Cummins, among others.

Highlights: October 2009 – September 2010

- SAIBL designed and piloted “beef-model” mentorship program in the Eastern Cape involving eight farmers. The farmers, each with minimum herd of 50 cattle, were trained in veld management, bookkeeping, animal breeding, health management, marketing, pasture, environmental and soil management.
- After taking part in a trade mission to Namibia in October 2009, Global Bags delivered goods valued at R60,000 (\$8,636) to Adforce Namibia; and Shine-On Polish cc signed an agreement with PSS Wholesaler as an exclusive agent and distributor of its products in Namibia.
- We linked Zhauns Business Opportunities and Engineering with Sidcon Ventures of Ghana. The company secured an order for a machine that produces baby diapers valued at R80,000 (\$10,662).
- SAIBL took Mpilende Foods, Shenka Industries, South African Beverage Industries, BMZ Agencies, Xchem Chemicals and Divine Inspiration Trading to the Zimbabwe International Trade Fair in April 2010. BMZ realized sales of over R360,000 (\$47,982), while South African Beverage Industries managed over R273,410 (\$36,442) in export transactions. Xchem Chemicals exported products worth over R327,233 (\$43,615) and entered into an agreement with UBM, one of the biggest hardware firms in Zimbabwe.
- Founding Steering Committee for the SASDC was formed with 12 members. The Steering Committee was made up of representatives from ABSA, Barloworld, Cummins, De Beers, Foskor, Ford Motor Corporation, Mondi, Rand Water, Sappi, Sasol Chemcity, Unilever and the University of KwaZulu-Natal.
- The revised Supplier Diversity Levels Assessment Tool was successfully tested on Barloworld Logistics and Cummins.

FY 2011

SAIBL Program Summary

Independent consulting company Development & Training Services, Inc (DTS) was commissioned by USAID to conduct an evaluation and impact assessment of the SAIBL program. The firm commended SAIBL on the creation of the South Africa Supplier Diversity Council and recommended that given the time left for implementation of SAIBL-2, modification of program components or the design would be inappropriate. However, the activities planned during the extension period should be geared towards “consolidation and transition” and that priority should be given to assisting suppliers on the SAIBL database to become SASDC-certified and “transaction” ready.

In line with the recommendation, our primary focus for the year was to put in place a sustainable organization to continue the work that SAIBL has been facilitating and doing over the past years. As an “exit strategy and mechanism” the aim was to leave behind an active and sustainable SASDC, a growing, sustainable database of sound black firms, and a competent, affordable pool of business service providers engaging each other in increasing business relations and transactions. This would answer the question: *What did SAIBL seek to leave behind as a result of the support provided by the American people?*

SME Competitiveness Component Summary: With consolidation and transition of SAIBL components into the SASDC, the SME component strategy shifted from identifying and helping new clients to certifying suppliers already on the database. We decided to second seven staff members from the SAIBL Competitiveness Component under ECIAfrica to SASDC to fast track certification. The remaining Business Linkages Specialists focused on a concerted campaign to get all the suppliers registered under SAIBL to apply for certification before the end of March 2012. Even though it was unlikely that we would be able to clear all of them by March, we also started working closely with member corporations to refer their black suppliers for certification and registration. We also took a decision to support only those suppliers who had applied for certification with SASDC. The 62 suppliers registered during the year had all applied for certification.

Trade Component Summary: The team organized and led trade missions to Botswana and Namibia. Total exports for the year were R112.9 million (\$16.2 million at \$1=R6.947 fiscal year average), registered mostly in quarter 11 and 12. Exports in the last quarter of the year were the lowest. With the setting up of the SASDC, we started to reduce trade assistance over time. However, with departure of the entire trade team by end of the year, our support and approach to companies looking for trade opportunities has been on a case by case basis. There was now also a small pool of suppliers that SAIBL has been supporting for years. Most of these have received the maximum number of support interventions we provide, they have learnt the ropes and it was now time to graduate them. Moreover, we started referring some of our client to the Southern Africa Trade Hub for assistance as it was running programs that complemented SAIBL.

AGOA Component Summary: Similar to the Trade Component, with the move to consolidate and transition SAIBL activities to the SASDC, our Washington team’s focus in the year was geared towards promoting the SASDC to corporate members of the NMSDC and CCA who have interests

and/or subsidiaries in South Africa. Since the start of this new focus, the team convened a promotion workshop in Washington, D.C. for CCA members to introduce the SASDC, which was attended by 25 corporations. SAIBL also attended an NMSDC procurement workshop to meet with Global Procurement Managers of US companies and helped design a US corporate recruitment strategy. The Washington team also provided significant input on the evolving 'target list' of companies for SASDC membership.

Business Service Provider Component Summary: The component successfully managed to meet its target of training 100 BSPs. The team's efforts were directed towards the process of cleaning up and strengthening the BSP database. The purpose was to retain BSPs who are willing and ready to partner with SAIBL and the SASDC by maintaining a close relationship, providing competent people and services and who add value by referring goods suppliers to the program. We needed to weed out those BSPs who have done nothing and only see the program as yet another source of transactions and income. Through a combination of surveys and direct interviews we determined that only 46 of the BSPs on the database would be retained going forward. The others were informed that they have been deregistered. We also advised them of the conditions under which they could apply to be re-admitted.

Corporations and Linkages Component Summary: The component's focus was on the registration of the Council and indeed the first significant milestone during the year was the registration in January 2011 of the South African Supplier Diversity Council (SASDC) as a not-for-profit Section 21 company. This paved the way for the first formal meeting of the SASDC Board of Directors. The Steering Committee that had been driving the program to set up the SASDC was wound up and handed over to the incoming Board of Directors. At its first meeting the Board of Directors elected Mr. Matthew Govender as its interim Chairperson for an initial period of 6 months, which was extended by another 6 months until the Council's first annual general meeting in January 2012.

With the formation of the SASDC and expiration of the partnership agreement between NMSDC and the NBI, it was agreed to transition this relationship to the SASDC. Accordingly, in quarter 11, SASDC took advantage of the invitation by the NMSDC to attend the annual certification training workshop in New York to arrange induction meetings for some of the SASDC Board members. Matthew Govender, Brendan Raju and Indrasen Naidoo, accompanied by SAIBL Chief of Party John James, Gary Joseph, Abdul Ismail, and Kerry Hesalau attended a 2 day induction sessions with the NMSDC Executive Management Team and went on to attend the NMSDC annual 2 day certification training program.

Highlights: October 2010 – September 2011

- SASDC board approved its 5-year strategic plan and budget, organization chart, and Supplier Certification Policy and Procedures Manual.
- SASDC set up the Certification Committee, the Membership Advocacy and Events Committee and adopted the NMSDC model as its operating framework.
- SASDC approved a 3 tier membership structure (Charter: R150,000, Classic: R100,000 and Regular: R75,000).

- Constance Jones, experienced certification specialist from the Houston Minority Supplier Development Council (HMSDC), was brought over for knowledge and skills transfer sessions with SASDC staffers. Among other things, the visit had the following outcomes:
 - Assisted in refining the value proposition of SASDC and the way in which it should be communicated to stakeholders (staff, the members, suppliers, key supporters and influencers such as USAID and Government)
 - Provided inputs on the best way to accelerate member recruitment, certification and providing demand driven support services to the members
 - Reviewed the policies, procedures, modus operandi, and proposed organizational plans of the SASDC
- 24 suppliers were certified by SASDC as bona-fide black suppliers.
- Mmago Ngwama Joint Venture (MMJV) completed an integrated ISO system and became the first SAIBL client to be certified by SASDC. The company won a number of contracts including a R3.8 million (\$547,000) contract to erect ablution blocks and refurbish the mine hostels for Modikwa Platinum Mines. Other contracts include two contracts worth R9.6 million (\$1.4 million) to build offices for the Department of Health and Social Development, and a R4.2 million (\$604,584) contract with Xtrata to refurbish the mine managers' offices.
- Amelia Women Projects used the results of the company diagnostic to secure a grant of R42,000 (\$6,045) from SEDA for South Africa Bureau of Standards (SABS) marking approval for 10 new products.
- Shuma Steelworks won two contracts with Xstrata and Potchefstroom University worth R950,000 (\$136,751) and R92,000 (\$13,243) respectively.
- Sign Edition (Pty) Ltd was awarded a contract worth R8 million (\$1.1 million) by Vodacom to brand all their stores in Gauteng. In addition, First National Bank awarded the company contract for R3.5 million (\$503,820) to re-brand selected branches across the country.
- BMZ Agencies gained orders from customers in Bulawayo valued at more than \$240,000.
- Century Electrical received an order of more than \$7,000 from Goldfields, and Xchem Chemicals signed an agency agreement with Kumasi Glue, both in Ghana.
- Shine-On-Polish delivered an order valued at more than \$30,000 (about 2,150 cases of floor and shoe polish) to its new business partner, Mopani Wholesalers and Distributors in Zambia.
- SAIBL brokered a distribution deal for Stellar Organics Winery in Washington DC, in which the company secured an order valued at \$9,000 from Republic National Distribution Company's (RNDC).
- Led by manufacturing and services sectors, 582 jobs were lost this fiscal year, the highest ever recorded by the program. In the service sector, Direct Channel Holdings lost 281 as one of its call centers closed, while Reakgona Hygiene shed 141 jobs due to failure of contract renewal.

FY 2012

SAIBL Program Summary

The last six months of the program focused on the final phase of transition and consolidation of SAIBL components under SASDC. Effort was directed at ensuring that the agreed milestones towards final consolidation were fulfilled. One of these major milestones was the signing of Global Link Affiliation Agreement on the occasion of the visit by the NMSDC business mission from October 10-14, 2011, at which the US Ambassador to South Africa, Donald Gips, was the guest speaker and a witness to the signing. The agreement set out the standards of affiliation and provides access to technical assistance and support from the NMSDC and affiliates.

On the supply side, we registered 36 new black firms bringing the total number of firms on the SAIBL database to 521. All the new registered firms are those suppliers seeking certification with the SASDC. Since certification started in September 2011, 122 suppliers were certified by SASDC, 68 of which are SAIBL registered suppliers.

190 net jobs were lost and an overall result of creating 1,000 jobs was not met. The negative job creation in the SAIBL program was consistent with the national statistical figures as result of the global economic recession during the life of the program. The manufacturing sector reported the greatest loss of jobs followed by the construction and service sectors.

SME Competitiveness Component Summary: The team focused on three major activities during the first 3 months of the half year period: informing all SAIBL registered suppliers of the close of the program; promoting certification; and lastly, monitoring the completion of all approved technical assistance activities. The contracts for those business linkage specialists who remained carrying out competitiveness activities were terminated in January 2012 effectively ending all SME competitiveness Component activities.

Corporations and Linkages Component Summary: The component's efforts were directed towards intensifying the recruitment of new corporate members and certification of suppliers. The database of certified suppliers is a key element in attracting and retaining members. In addition, the team focused on setting up offices and office infrastructure including a database and management information systems.

During the period, SASDC also amended its founding documents to comply with the Companies Act, and accommodated the appointment of independent directors. This was necessary to enable the Board to bring in specific skills and select a chairperson with high level networks and influence in corporate circles, and who can devote more time to the affairs of the SASDC.

Highlights: October 2011 – March 2012

- Shuma Steelworks, a SAIBL client secured a contract worth R1.2 million (\$151,757) with Xstrata. The exchange rate for the six month fiscal average was \$1=R7.907
- In partnership with Foskor, SAIBL assisted Empowerment Industrial Maintenance in the implementation, installation and training of management information system. The company's financial record is now computerized and able to generate management information reports and manage its cash flow.

- QTec Moulding, a SAIBL client based in Cape Town was linked to Mercedes Benz SA as a tier 2 supplier to one of their tier 1 suppliers in the production of their new C Class models.
- 22 suppliers were certified by the SASDC and issued with the SASDC certificate. SAIBL registered clients account for 50 percent of these certified suppliers.
- 21 certified suppliers met with 6 SASDC corporate members in a matchmaking event.
- SASDC was featured on Talk Radio's Money show program. The Vice Chairman of the council highlighted the importance for Corporate South Africa to champion supplier diversity.
- SASDC held a Business Leaders Luncheon with the theme "Transformation through Supplier Diversity," attended by more than 100 business leaders and supplier diversity experts.
- SASDC hosted the National Minority Supplier Development Council delegation's business mission to South Africa. The delegation comprised of NMSDC staff and more than 14 US certified minority business enterprises who met with more 40 black certified suppliers during a matchmaking events in Johannesburg and Cape Town.

FY 2012 – No Cost Extension

SAIBL Program Summary

The motivation for the extension was based on the need to safeguard the investment made through the SAIBL program in setting up the SASDC. It was agreed that the SASDC needed further support to consolidate its operations beyond SAIBL's March 31, 2012 Cooperative Agreement end date. As a result, the following areas of support were agreed upon between ECIAfrica and SASDC under the 6 months extension period:

- The secondment of seven ECIAfrica appointed Certification staff in Johannesburg, Cape Town, Durban and Port Elizabeth to support the certification of suppliers. The goal was to certify as many suppliers as possible on the SAIBL database and this was a key element in attracting and retaining members.
- The secondment of five ECIAfrica appointed support staff in Johannesburg, Cape Town and Durban to support the work of the certification officers and database management.
- Carry out sector analysis of suppliers and member demand/needs forecasting to improve the SASDC's ability to assist members in opening up opportunities and in identifying, certifying and supporting suppliers that have a good chance of taking advantage of the opportunities.
- Engage NMSDC in exchanges and providing technical assistance to the SASDC itself and to the members so as to build SASDC as a leader and authority on supplier diversity.
- Updating the SASDC Member Induction Pack comprising the SASDC profile, the Supplier Diversity Business Case, and Supplier Diversity Development Toolkit.
- Assisting SASDC in reviewing its organizational structure, job profiles and performance management system.

Highlights: April 2012 – September 2012

A detailed report on the no-cost extension is enclosed as Appendix Report I. The main highlights and activities during the period were:

- The signing of the Cooperative Agreement between SAIBL and SASDC seconding 12 SAIBL-ECIAfrica staff to support the operational capacity of the SASDC.
- Certified 64 black suppliers, bringing the total of SASDC certified suppliers to 175.
- Capacity Building: 62 staffers from 5 SASDC corporate members were trained on supplier diversity best practices by Sharon Castillo, who has twenty years of experience assisting US corporations with supplier diversity strategy development and employee capacity building.
- 15 supplier representatives trained on how to pitch value proposition to SASDC corporate members.

- Member demand/needs analysis conducted and completed on 3 SASDC member corporations. Procurement opportunities and development interventions were identified for all three companies and implementation plan was agreed.
- Completed and finalized the SASDC organogram, job profiles and performance management system in order to enable delivery on its strategy.
- Completed “MAKING THE BUSINESS CASE FOR SUPPLIER DIVERSITY: An Overview, South African Context, and Practical Guidelines”. This will help both SASDC and new members in championing supplier diversity within their organization.
- The SASDC hosted its first Annual Conference and Business Opportunity at the Birchwood Hotel in Boksburg on the 27th and 28th June 2012. The success of this event was enhanced by the additional capacity provided by SAIBL, especially securing participation by suppliers from the Eastern Cape, KwaZulu Natal and the Western Cape.
- Successful hosting of the SAIBL close out celebration workshops in Cape Town, Durban and Johannesburg. This culminated in the development of the SAIBL case study; lessons and experiences.



Joset Wright, President of NMSDC, speaking at SASDC first Annual Conference in June 2012



Exhibitors at SASDC’s Annual Conference



SASDC staff and Certified Supplier Induction session participants



SASDC certified supplier Zamanguni Automation exhibiting at the Annual Conference

V. SUCCESS STORIES HIGHLIGHTS

AGRIBUSINESS SECTOR

APOL and Tiger Brands

SAIBL agribusiness team assisted 21 farmers from Greater Tubatse and Blouberg areas in Polokwane to secure forward contracts with AgroProcessors of Limpopo Limited (APOL) for the supply of tomatoes on 21 hectares. APOL is owned by SME Farmers of tomato & fruit growers in the province of Limpopo and is in the business of growing, processing and marketing fresh tomatoes, tomatoes & tomato products, vegetables, fruits & fruit juices.

We also assisted 13 farmers from Blouberg to secure supply contracts with Tiger Brands. As a follow-up to this contract, 144,000 tomato seedlings were delivered to Polokwane farmers by P&A nursery in October 2008. Also part of the agreement with Tiger Brands, who agreed to supply the farmers with inputs and technical support, the Blouberg farmers received an additional 396,000 seedlings from the company.



Blouberg farmers negotiating contracts with Tiger Brands representative



Sekutlong Projects

Sekutlong projects, is a woman-owned boiler producer in Gauteng. The company won the “Female Farmers of the Year Award” in Gauteng Province under the category of commercial broiler production. SAIBL’s continual assistance has added significant advantage to this farmer towards winning the award. SAIBL assisted the farmer with efficient feeding production techniques training and advice to reduce the cost of the feed and get more feed conversion ratio to the broilers. SAIBL also assisted the farmer with HACCP training, which is a hygienic food standard required by the industry.

East Cape Beef Model

In the Eastern Cape, SAIBL successfully worked with a group of 11 livestock farmers with proprietary land holdings and herds ranging from 50 head upwards. This is a pilot project SAIBL designed to develop them into more viable and sustainable commercial livestock units. Our initial assessment identified the following needs for the group:

- Registration as formal business entities in order to become eligible for loans and other available incentives.

- Improvement in husbandry methods and business management (record keeping, cash flows, financial statements and marketing) in order to realize better returns on their ventures.

As part of the implementation of the pilot, we partnered with the Small Enterprise Development Agency (SEDA) and the South African Revenue Service (SARS) to run a workshop for the farmers on advantages of formalizing their farming operations and the tax implications. Six farmers, Misimelelo Jali, Monwabisis Mathologwe, Mphindeli Myeki, Mtutuzeli Butshingi, Zoleka Ntsaluba, and Zwliyazua Ntanjana agreed to register as business entities and SEDA helped them with registration. We then structured an assistance program involving group training and individual farm level interventions covering farm record keeping and bookkeeping, animal breeding and selection, herd health management, marketing, veld management, environmental and soil management. Despite the severe draught in the province, the farmers are now running their farming operations as formalized business entities.

MANUFACTURING SECTOR

Reba Chemicals

When Freddy Motau, the owner of Reba Chemicals met with SAIBL, the company was experiencing challenges to raise capital to buy out the white owner. SAIBL assisted Mr. Motau develop a bankable business plan which helped him raise the much needed capital. Reba Chemicals is now a 100 percent owned by Mr. Motau. Subsequent to that, SAIBL assisted Reba Chemicals with the implementation and accreditation of a SABS approved Quality Management System (SABS on ISO 9001-2008) as well as a Pastel Accounting system. The above interventions assisted the company in acquiring new corporate clients such as Henkel, Chemtall and Rosler. In 2011, Reba Chemicals applied and obtained certification with the South African Supplier Diversity Council SASDC and acquired a three year contract with Rand Water, a corporate member of the SASDC, valued at R23 million (\$3.3 million). Reba Chemicals now reports a quarterly turnover of more than R9 million (\$1.3 million), doubling the R4,5 million (\$647,769) the company reported when it initially registered with SAIBL. Reba is now in the process of relocating to bigger premises due to growth.

Amelia Women Project

Amelia Women Project (AWP) of Johannesburg, Gauteng, is the brainchild of Ms. Amelia Ramphadi. A Close Corporation (CC) registered in 2003, it manufactures cleaning products and provides commercial cleaning services to schools, municipalities and private companies. On registration with SAIBL in 2008, the AWP reported a staff complement of 65, of which 55 are women, and a quarterly turnover of R170,000 (\$21,819). A company diagnostic evaluation conducted by SAIBL identified the need for the company to develop a market and sales strategy to improve its sales and growth plans. The company subsequently developed a marketing plan and established a website (www.ameliawproject.co.za). Pastel accounting system as well as a payroll system was installed. The company approached SAIBL for assistance with product improvements in order to diversify by supplying retailers and the corporate sector with cleaning detergents. The product improvement process was completed and approved by the SABS and AWP became compliant with the Chemical Handling Regulations.

The company has implemented a quality management system (ISO 9008:2001) and has diversified by developing a cosmetic range such as body lotion, hand cream, shower gel and bath foam. In August 2010, it registered for the Department of Trade and Industry's Annual Technology Awards competition. The competition was entered by more than fifty small and medium enterprises in the Innovation and Progress Sectors. AWP ended up scooping second place. To date, AWP has reported a staff compliment of 72 and a reported quarterly turnover of more than R600,000 (\$79,971). Now that the company is certified by the SASDC, they expect further growth and procurement opportunities from the Council's corporate members.

Concept Africa

Concept Africa landed a contract valued R20 million (\$2.5 million at \$1=R7.791 six months average) to supply a Nigeria based hotel with furnishings. Concept Africa is the marketing company for Petite Designs, an award winning producer of high-end furniture and a longstanding client of SAIBL. The furniture for the hotel was manufactured by Petite Designs. "We have worked on several projects in Nigeria and that has gone exceptionally well, and now we are reaping the results of our delivery and quality performance on those previous projects," said Petite Design's Managing Director, Issy Penniken. Penniken informed SAIBL of this achievement as a result of good ongoing business relations he has built with SAIBL. Petite Designs is one good example that shows the competitiveness of SAIBL clients. Registered in 2008 with 5 employees, the company now has a staff compliment of 10.



Congressional delegation led by Rep. Howard Berman from California (third from right) with Mr. Issy Penniken (second from right) visiting Petite Designs factory in 2008

Xchem

Angela Pitsi has a background in psychology, has worked for Nissan, and has been successfully running a recruitment agency for the last 7years. One morning she decided to use her skills learned in the manufacturing industry to open her own adhesive manufacturing company, which she self-financed. Because she had little knowledge of adhesives and the machinery required, she brought in experts to guide her. Angela eventually teamed up with one of the consultants, hoping to have a partner that was very skilled in the industry. However, this fell apart when he disappeared, leaving Angela and her business in trouble. Besides the financial issues, Xchem, a 100 percent black women-owned company, faced challenges in penetrating the retail sector which was traditionally closed off to black suppliers. Angela met John,



Some of Xchem products already available locally and internationally

her neighbor and ex-Chemist, who agreed to help her develop the business and also increase her business knowledge. It was around this time that Angela heard about SAIBL at a trade mission through Shenka Industries, a long standing SAIBL client.

SAIBL has assisted Xchem to exhibit at trade missions in Zambia, Zimbabwe and Ghana. (ZITF (Ndola) - 2008, HardEx 2009). They have been advertising in industry-related publications and started receiving orders whilst establishing the company as a reliable supplier. They also attained ISO 9001 certification, which is a pre-requisite before supplying customers such as mines.

Through the support of SAIBL, Xchem has successfully exported to the US, Zambia, Zimbabwe, Ghana. The company has learned how to participate in international trade exhibitions, and has recently participated in a trade mission to Botswana on its own. "The difference between SAIBL and other programs is that SAIBL comes to you," says Angela Pitsi.

BMZ Agencies

BMZ Agencies is 100 percent female owned medical supplies distributor based in East Rand in Johannesburg. Initially, BMZ Agencies targeted the local medical market specializing in turnkey projects for medical professionals such as cardiologists, oncologists and specialist physicians based at Milpark Hospital, Linmed Hospital and Rand Clinic wishing to set up their private practices. The company then decided to embark on an expansion program by trying to access opportunities in various countries in the SADC region and approached SAIBL for assistance. Bernadette Zeiler, the owner, was invited by SAIBL to exhibit at the Zimbabwe International Trade Fair (ZITF) and to Zambia during 2010 and 2011. Bernadette says "Through this program I gained valuable knowledge of the complete export process including all export documentation, inco-terms and payment methods. As a result of BMZ Agencies exhibiting in Zimbabwe, our largest market is now in Zimbabwe, having being awarded major tenders on an on-going basis". She adds, "SAIBL has provided us with the opportunity to enter the export market as well as equipping our company with the necessary skills and knowledge, enabling us to compete with major international leaders". Commencing the business with one employee, BMZ Agencies now has a staff complement of five employees, as well as distributors in various SADC countries.

SERVICE AND CONSTRUCTION SECTOR

Ariya Project Managers

In 2009, SAIBL client Ariya Project Managers was awarded a project management contract for the second phase of Cape Town's Integrated Rapid Transport (IRT) System. The company attributes this award to ISO certification and accreditation, which was supported by SAIBL, as one of the key factors in securing the contract. The IRT System is a bold initiative to transform the public transport sector by dramatically improving the customer experience and integrate all modal options into a coherent package for the customer. Among the modes to be integrated are: Metrorail services, road-based services on trunk routes, conventional bus services, minibus taxi integration, feeder bus services, improved pedestrian and bicycle access, metered taxi integration, and park-and-ride facilities. Ariya Project has since applied and certified by the SASDC.

Mudzhadzi Mmagongwana Joint Venture

Mudzhadzi Mmagongwana Joint Venture (MMJV), a 100 percent black owned and managed construction company, was awarded contracts by Anglo Platinum Modikwa Platinum. These are joint ventures with RPM Ltd and ARM Mining consortium. The contracts valued at R674,292 (\$97,063) and R3,444,520 (\$495,834) respectively were for the excavation of penstock trench, the construction of a pipeline, the intermediate intake structures and back filling of a pipeline trench. SAIBL assisted the company with implementing integrated ISO systems which, according to the company, has added more value to its tendering processes. MMJV now reports a quarterly turnover in excess of R7 million (\$1 million).

Lucob Cleaning Services

Lucob Cleaning Services, a SAIBL registered client, is 100 percent women owned business based in East London. The company won the “2009 Business Legend Award” during the Daily Dispatch Business Awards gala dinner held in East London. The award was for its outstanding work in growing the cleaning company from humble beginnings into a well-run, competitive business employing over 107 people, and a turnover of more than R2.5 million (\$275,000) despite severe challenges and competition. When the company registered with SAIBL in 2008, it was reporting a turnover of about R1.4 million (\$179,000).

SAIBL conducted a company diagnostic of Lucob and identified marketing strategies as one of the priority areas for the company to address. The company attributes the subsequent growth of its business to the development and implementation of this improved marketing strategy.

Smart Exchange and NiTSAK

SAIBL and Smart Exchange, an incubation program in Kwa-Zulu Natal, collaborated in providing support to ICT companies coming out of incubation. Initially, 20 black ICT companies were identified. After SAIBL’s assessment for suitability and linkage potential, 10 companies were selected and registered. Full company diagnostics were completed on 8 companies, which resulted in the following findings as common areas for improvement.

- **Marketing: Strategic Market Definition and Sales/Client Management:** The ability of these companies to define their market niche, to run a targeted, consistent promotion effort, and to build a sound pipeline of possible work, probable work and work in progress on a sustained basis, was identified as a common area of improvement for all eight companies.
- **Strategic Management: Strategy Definition and Programming:** Five companies exhibited this as an area for improvement. The problem areas seem to be that these companies have not clearly mapped out where they want to be at a given point in time and the road map to get there.
- **Quality Management: Procedures and Quality Control:** Four companies exhibited this as an area for improvement. The issue has to do with having proper documented processes and control systems to ensure standards, discipline and continuous monitoring, tracking and improvements.

- **Finance: Costs and Financial Administration:** Four companies exhibited this as an area for improvement. The challenge is to get into the discipline of diligent costing and keeping up to date management accounts as a basis for decision making and keeping track of performance against budgets.

The first stage of the program involved mounting a workshop on how to develop an implementable strategic business plan. The aim was to equip them with the theoretical aspects of crafting a business plan. Immediately after the workshop, we assigned a mentor who will assist 4 companies in developing a strategic plan and monitor its implementation.

One of the companies that participated in the program is NiTSAK, owned by Mr. Nitesh Ramsaroop. NiTSAK was officially launched in 2008 and over the last 4 years the company has firmly established itself in the IT industry. The company's specialized product & service offerings include custom software, web design & development, digital marketing and graphic design. It has a team of seven highly skilled professionals that has produced innovative work for a large portfolio of clientele, which include the University of KwaZulu Natal, eLan Property Group, SmartXchange, Freight24, and Durban FilmMart, to name a few. Having successfully implemented 90 percent of the objectives defined in the business strategy, this was what Mr. Ramsaroop had to say: "The SAIBL program has assisted us in our growth. The business strategy developed with the assistance of SAIBL allowed NiTSAK to expand its business operations and also market/sell more effectively. NiTSAK continually strives for excellence as we believe that consistency and high standards are key pillars and challenges of the IT industry. We wish to help everyone in taking their business to the next level, however; through past experiences we have learnt to select our clients and who we build relationships with very carefully."

LIFESTYLE SECTOR

African Allsorts

African Allsorts has consistently attended top U.S. giftware trade shows. 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). SAIBL continued to work with and assist African Allsorts at the New York International Gift Fair (NYIGF). Held bi-annually, the NYIGF and attracts more than 36,000 attendees and 3,000 exhibitors from 33 countries. African Allsorts continued to grow their contacts in this market. The company is now receiving regular orders from Bray-Farmers, one of the biggest importers of crafts in the US. Bray-Farmer specializes in luxury products and represents companies like Faberge, Haviland, and Nason & Moretti. Through this agent, Africa Allsorts has been able to get a good flow of orders from SMI, a company that does product sourcing for the Oprah Winfrey shop.

In January 2009, while attending the fair, African Allsorts met with Ms. Florizelle Liser, Assistant U.S. Trade Representative for Africa in the Office of the United States Trade Representative (USTR). The company shared its experiences in selling to the US. The SAIBL staff who accompanied African Allsorts to the fair also briefed Ms. Liser on the importance of properly vetting clients' capacity to supply the U.S. market, and challenges of competing (and cheaper) imitations from other parts of the world.

Nationally, African Allsorts supplies up-market game lodges, boutique stores, hotels and gift shops, whilst its international client-base includes prestigious museums, renowned art galleries and luxury retailers. Due to a steady increase in orders, the company has set up a studio including a show room. “This has created an environment where unsurpassed quality and exceptional craftsmanship can be maintained”, said co-owner Leila Rajah. Future plans for African Allsorts include collaborating with different independent small designers in the country and expanding its studio to a bigger production facility, thereby helping to achieve its primary goal of job creation.

Giftware Mission from the U.S

SAIBL took two U.S. craft buyers - Nicole Hagerman-Miller, Project Manager for the Montana World Trade Centre, and Angela Ramirez, Director at Worldstock, a division of Overstock.com. The aim of the visit was to consult with local crafters and provide advice on market trends and opportunities in the U.S., product development and design, the establishment of distribution channels, price negotiating (leveraging financing and terms to benefit buyer/seller), as well as marketing and promotion. The program included visits to SAIBL clients’ premises and meetings with small groups of crafters who displayed their own products. The mission culminated in a workshop in Cape Town attended by fifteen crafters and organized in conjunction with the Cape Craft and Design Institute (CCDI), a member organization responsible for the development and promotion of the craft sector in the Western Cape. Thanks to this visit, SAIBL client Zenzulu is now a supplier to Overstock.com



Training participants at the Cape Craft and Design Institute.



Consultant Nicole Miller (left) listening to feedback from a trainee.

Kunye

In February 2009, Kunye delivered their first order of products to a New York based company, Fairways Trading. Made from recycled materials, the products were displayed at the Museum of Modern Art for the opening function, and were on show in the Sheraton for the duration of the Clinton Global Foundation meeting. This order kick-started a 6 month supply contract worth R400, 000 (\$44,137). SAIBL assisted the company to attend three fairs in the US and it has generated good orders and contacts during these visits.

TOURISM SECTOR

When SAIBL met with small-to medium- sized, black-owned South African tourism companies regarding exhibiting in a major international tourism conference, the most reoccurring sentiment was their inability to ‘stand-out’ among the ‘big guys’. Companies told SAIBL staff of prior experiences trying to attract US and other foreign businesses, and the difficulties they experienced sitting next to a large, established company with offices in the US and satellite offices throughout South Africa. While the companies were keen to participate in conferences, they were hesitant to be an afterthought in the mind of buyers.

As a result, a one-hour business-to-business linkages event for its small- to medium- sized tourism clients was organized by the SAIBL trade team at the International Destination Expo (IDE), held in Sun City from March 8-11, 2009. Hosted by the American Society of Travel Agents (ASTA), the IDE is the largest, international conference that brings together U.S. travel agents, tour operators, and industry members for business linkages, educational workshops, and networking events. The SAIBL event became an invitation-only luncheon for 150 US travel agents and tour operators during which time no competing activity was scheduled at the conference. Invitations were sent to every registered attendee, SAIBL clients' profiles and marketing materials were distributed to over 30,000 industry members. In preparation for the event, SAIBL organized a full day training workshop for its clients to prepare them for an overview of the U.S. tourism market, an understanding of the buyer value chain, and helped them perfect their 5-minute pitch.

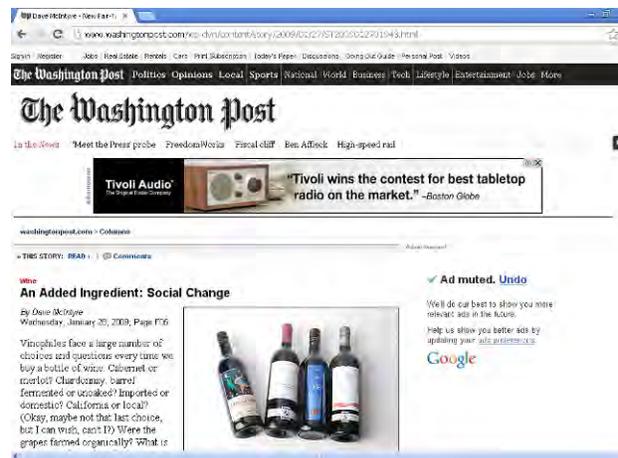
The event itself was a huge success, even garnering support and an endorsement by South African Airways. Two companies made sales to US travel agents they met at this event. All of the companies expressed interest in attending US trade shows and coming for follow-up meeting with travel agents they forged relationships with at the conference. Some of the companies have since exhibited at the annual tradeshow of the conference organizer in the US.

“This innovative event was a terrific opportunity for U.S. agents and South African tourism entities to make mutually beneficial business connections and introduce small firms on both sides of the Atlantic to one another,” said Chris Russo, President of the American Society of Travel Agents.

WINE SECTOR

Stellar Organic Winery

Stellar Organic Winery’s Pinotage received high praise in the Washington Post’s January 28, 2009 edition, and their Live-a-Little Really Ravishing Red selection was dubbed a “fun red that would shine at parties or casual dinners.” Wine columnist Dave McIntyre discussed a new consideration for US consumers in their local wine store; cabernet or merlot, imported or domestic, and California or local. Add one more factor to consider; fair-trade certification. Stellar Winery’s Stellar Organics or Live-a-Little labels are certified organic and produced without added sulphites. This article helped finalize a contract between Triton Export, Stellar Winery’s US importer, and Washington Wholesale Distribution Company, a subsidiary of the Charmer Sunbelt Group. Stellar Winery’s no-sulphur-added range makes up over 90 percent of their US sales, and is now available in Washington, DC.



The April 2009 issue of Specialty Food Magazine profiled Stellar Winery as an award winning wine brand. Denise Shoukas, a contributing editor to Specialty Food Magazine, noted that Fair Trade wineries like Stellar will grow the Fair Trade category well past this year’s mark of \$1 billion in sales

for the US market. Grocers, liquor stores, and premium and mass-market retailers like Whole Foods, Target, and Sam's Club, are stocking award-winning, Fair Trade-certified varieties from growing markets like South Africa. The big lure for consumers is the assurance that farmers received fair prices, decent wages and the product was produced in an environmentally responsible manner. Stellar is now expanding its own distribution channels in the US.

Formation of the South Africa Supplier Diversity Council

One of SAIBL's major achievements was the formation of the South African Supplier Diversity Council (SASDC). As the SAIBL program legacy, the SASDC became a separate legal entity in January 2011 and would continue to carry on with SAIBL's work. The Council will continue to support the US Government's Economic Growth Functional Objective for the USAID bilateral assistance program in South Africa to generate sustained and broad-based economic growth. The primary goal of the SASDC is to promote supplier diversity by encouraging, supporting and assisting its member corporations to open up business opportunities and progressively increase the transactions with certified black-owned businesses.



L-R: U.S Ambassador to South Africa Donald Gips; NMSDC President Joset Wright; SASDC Chairman Mathew Govender.

The Council is an independent not-for-profit entity controlled by its corporate members under the direction of a corporate member nominated Board of Directors and Board and Management Committees, consistent with US-based National Minority Supplier Development Council's (NMSDC) standards of affiliation, practices, and local legislation. The key distinguishing feature is that the SASDC is the only organization that is corporate led with its members dedicated to opening up opportunities targeted at bona fide black suppliers. Furthermore, the SASDC conducts its own supplier certification and brings together corporations and certified suppliers in matchmaking initiatives to increase the flow of transactions between the two parties. To date, the SASDC has certified 175 black bona fide suppliers and has a corporate membership base of 20.



Amb. Gips, SASDC Board members and NMSDC leadership at the formal signing of the global link affiliation agreement between the organizations in October 2011.

VI. LESSONS LEARNED AND RECOMMENDATIONS

The South African economy was adversely affected by the global economic crises that saw a major decline after several years of good growth. The combined elements of relatively high interest rates, rising costs, declining demand, credit squeeze, job losses had adverse effects, especially on SMEs. Despite this, SAIBL 2 achieved fairly remarkable results given the difficult economic conditions of the past 4 years the program was implemented under. The greatest achievement was leaving behind an entity, the South African Supplier Diversity Council (SASDC), as its exit strategy. Also, the program registered 509 black suppliers and assisted the qualifying 353 firms with capacity building, registering \$645.6 million in total sales and \$56.9 million in exports. The assisted and reporting suppliers had a combined job losses of 190. This section mainly covers major lessons learned over the course of implementing the program and setting up the SASDC.

1. Impact of Poor Economic Conditions

Although it would be easy to attribute the program's mixed results to the world economic recession that began in late 2008, to ignore its negative impact on a number of key indicators such as total sales transactions with large corporations, total sales, and number of new job created would not be reasonable. Particularly with regards to jobs, fiscal year 2009 (October 2008-September 2009) saw four quarters of job losses for a total of 489, as the service sector lost 270 jobs and manufacturing shed 96. Fiscal 2011 (October 2010-September 2011) was also another tough year for jobs, as 414 and 135 jobs were lost by the service and manufacturing sectors respectively, contributing to a record loss of 582. Sometimes the whole program feels the impact when one firm struggles, as evidenced by the loss of 281 jobs in fiscal year 2011 when a single company in the call center industry closed its facility. This trend of jobless growth, particularly in fiscal year 2011, has been observed in the economy as a whole. It is not clear what factors may be driving this trend. One school of thought points to South Africa's labor laws as a major factor, while others suggest that low level skills and low productivity as the main causes driving greater mechanization and use of modern technology.

What's also important, however, is that the SAIBL-2 program remained resilient during these difficult economic conditions as evidenced by robust export figures. Even though fiscal year 2009 lost 489 jobs, it recorded the second highest export income with \$15.3 million. Similarly, fiscal year 2011 lost a record 582 jobs and registered the highest exports value with \$16.2 million. The SAIBL-2 program's total sales of \$645.6 million were 81 percent of its target of \$800 million, while total exports of \$56.9 million exceeded the \$43 million target. This perhaps shows that our decision to tighten our selection criteria of black firms was well founded, as it enabled the program to concentrate its scarce resources on sound firms that should be able to quickly recover and create jobs as economic conditions improve. In addition, it is evidence that even though SMEs pay a heavy price in times of economic difficulties, they have the ability to stay afloat and perform well with the support of targeted intervention and screening. This is proof of the success of the Trade Promotions and Linkages sub-component, the smallest portion of the project, which provided services SMEs were able to use in order to expand their exports regionally and internationally. These services consisted of trade shows and trade missions, exhibition support, providing market information, matchmaking and training on the requirements for exporting.

2. Slow Start

Since the signing of the partnership agreement in October 2009 between the NMSDC and NBI, recruiting 11 corporations as founding members, establishing the SASDC, and finally getting it to where it is now certainly took longer than the implementing partners had expected. This was so in terms of the effort it took to create the Council and enable it to meet its targets.

The process of registering a legal entity involving up to 11 corporations was time consuming, as each corporation had to seek legal clearance from their own legal advisors. The documents had to go through internal approval processes requiring direct approvals from top level executives, who were not always available or fully briefed on the SASDC. The direct and indirect consultation required to obtain overall consensus for the legal founding statements of the SASDC was extensive, and had to be done to ensure buy-in and ownership of the SASDC from its corporate members. Another time consuming process was securing at least five nominations from the founding members to form the Board before necessary documents for the Council's incorporation could be submitted.

The Founding Steering Committee reviewed and cleared the legal documents for registering the SASDC as a legal entity during quarter 9 (April-June 2010) and was only submitted to the Companies and Intellectual Property Registration Office (CIPRO) at the end of the following quarter. Upon submission, CIPRO experienced major delays and problems resulting from investigation for alleged malpractice, setting back the registration process by four months. SASDC was finally issued a certificate of incorporation as a not-for-profit Section 21 company in mid January 2011, paving the way for the first formal meeting of the SASDC Board of Directors. Resolutions on the Council's five year strategy, operating framework, organizational structure, and recruitment of a CEO were agreed upon in June 2011.

3. Operational Difficulties

Managing and integrating components of the SAIBL-2 program, run under three separate organizations and agreements, proved to be difficult and subject to organizational and micro politics involving members of different teams. While the implementing partners had a common objective of creating a corporate-led vehicle to promote transformation through opening up opportunities to black suppliers, it became clear that there were differences in how it should be set up and allowed to develop. It resembled pulling a cart by harnessing a horse and an ox. They move forward but not quite at the same pace and cohesion and comfort, and needed a crack of the whip from time to time. Based on hindsight, the project could have used less patience and more forthright approach to signs and evidence of the parties diverging or working at cross purposes. The reality is that starting a new institution in a matrix of partnerships and management arrangements is time-consuming and fraught with operational, administrative, financial and people risks and learning curves.

The complexity of setting up SASDC, making it operational, and the short timeframe in which to do it, have all played a role in the Council's inability to perform and deliver on its targets. Even though recruitment efforts were taking place, no new members joined the Council from January-June 2011. In hindsight, aiming in quarter 12 (January-March 2011) to recruit 14 members in the next three quarters might have been a little too ambitious. Other factors contributing to new members

not joining include: bad timing due to financial year end, budget constraints and internal restructuring among corporations; the database of certified suppliers to draw from not being in place; the initial R150,000 membership subscription that was viewed as too high relative to what other NMSDC regional and affiliated councils charged. The latter point should have been resolved (a three-tier membership rate was adopted as a solution) sooner ever since the NMSDC advised that the fee was deterring NMSDC companies from persuading their subsidiary and affiliates operating in South Africa from joining the Council. Delayed decision on this matter effectively suspended the support that the NMSDC South Africa Committee has tried to provide in recruiting new members.

Moreover, the slow member services roll-out had a negative effect on recruiting new members and risked losing existing ones. Figuring out the types of services the Council can provide its members became a recurring problem as the SASDC experienced capacity and know-how challenges in identifying, defining and developing relevant demand based services and support to its members. Discussions took place with NMSDC in terms of assisting SASDC by providing expertise, knowledge and skills transfer to solve this problem. For example, Constance Jones, a certification specialist from the Houston Minority Supplier Development Council, was brought over in August 2011 to assist, among other things, in refining the value proposition of SASDC, and provide inputs on the best way to accelerate member recruitment, certification and demand driven support services to members.

The difficulties posed by the economic environment during the past three years cannot be ignored. It was not easy to get a new organization operational when corporations were preoccupied with managing costs and making hard decisions about which external organizations to join and support. In this context, the SASDC was facing an uphill battle; nevertheless, it recognized the opportunity of the changes in the existing Broad-based Black Economic Empowerment legislation that gave greater recognition to procurement and development of black businesses and positioned itself well to take advantage of it.

A pertinent lesson of the past four years has been that the management of systemic change is complex and time consuming, more so when there are multiple partners whose vision and agendas may not have been aligned at the beginning. It involves plenty of analyzing, planning, aligning expectations, cementing relationships and gauging risks. In hindsight, the timelines for delivery were ambitious. It was also not possible to predict the severe changes in the economic climate when the program was designed and agreed. Therefore, while the targets set may have been realistic and feasible viewed at that time, what happened in reality has been different. Overall, the progress made and the achievements so far suggest that this has been a worthwhile investment.

In setting up the SASDC, we drew plenty lessons from the advice and experiences of the NMSDC and its affiliates. The following are salient ones worth highlighting.

4. Establishing SASDC

Firstly, perhaps the most important, was to “stick to the model.” It was imperative that we made sure prospective members understood the SASDC model and that its focus is opening up procurement opportunities and supplier development and nothing else. This was very critical as there were already indications that some members were attempting to bring ideas and initiatives

that fall outside the narrow focus of SASDC. Opening up opportunities is a monumental task that demanded considerable effort. Adding in other initiatives would only make it more difficult and complex.

Secondly, it is vital for the SASDC to get buy-in from the CEOs and top management of corporation before admitting any of them as a member. When a company seeks a board seat, it should be willing to nominate someone senior who can take part in decisions of the Council without constant reference to the corporation. It would be very difficult for the Council to make progress and to operate effectively if decisions concerning the Council are subjected to individual corporate dictates.

The final point concerns the leadership and growth of SASDC. NMSDC and its affiliates have more than 3,500 corporate members that represent America's largest publicly and privately-owned companies as well as foreign-owned corporations. These corporations do business transactions of over \$100 million annually with more than 16,000 certified minority suppliers who are accessible on NMSDC's national computerized database. The performance and success of the NMSDC is largely attributed to visionary and competent leadership at both board and executive level. For instance, NMSDC has Terry Lundgren, Chairman, President and CEO of Macy's Inc., as chairman of the board, and Joset Wright, an attorney and former procurement executive, as the president. SASDC has to take lessons from this in that the pillar for success is the appointment of competent chairperson and executive management team that could provide much needed strategic and operational leadership and direction. The ideal team has to have high level networks and influence in corporate circles, and should be able to provide leadership in all the affairs of the Council.

5. Corporate and Supplier Buy-in

Having promoted the concept of supplier diversity to more than 50 corporations, it has become apparent that most corporations are not yet ready or enlightened enough to change their ways and see supplier diversity development as a long term strategic issue beyond compliance with the BEE codes. Supplier diversity is a relatively new concept and will take time and effort for corporate South Africa to embrace it. It is however encouraging that a few forward-thinking corporations have accepted and supported it as a business imperative, as demonstrated by the 20 companies that have joined SASDC. We have learned that focus should be on procurement and yet most corporations are preoccupied with enterprise development, which in most cases has nothing to do with their supply chain requirements.

Procurement opportunities are the key for supplier certification and without it suppliers will soon regard the SASDC database as "yet another BEE database" for them to register with and pay for. Corporations are most successful when they view the relationship with black suppliers as a long-term, with win-win partnership. As such, the success of any of the SASDC's activities is highly dependent upon the proactive participation of corporate members and suppliers. Up until now, corporate members have been very reactive and in some case dormant. Especially when it comes to certification promotions, it is critical that prospective suppliers hear the message from corporations in order to be motivated to speedily apply for certification. This has been realized as a weakness by the Board who has agreed to play a leading role for getting other corporate members actively involved in the recruitment drive.

6. Complex Decision Making

When we established the ELI Expert Panel, it became evident that corporate representatives had difficulty in securing a broader mandate to represent their respective organizations in order to commit their companies and resources to ELI objectives. This led to spending considerable amount of time dealing with personnel that didn't have influence in their organizations in order to get executive buy-in, resulting in ELI not gaining traction and results in the first 12 to 18 months of the program. Out of this we learned that finding the right point of entry and iteration with corporations is the key. It is important to get buy-in from the CEO and then work with Chief Procurement Officers rather than Enterprise Development heads.

7. Tracking and Setting Targets on Supplier Diversity as Critical Success Factors

The NMSDC's experience taught us that companies who set targets on supplier diversity spend and then monitor and evaluate achievements against those targets have the most successful supplier diversity programs. Ford Motors is a typical example of such companies, where the supplier diversity champion reports directly to the board and performance is measured on how well the program achieves on minority spend. In South Africa the emphasis is still on BEE spend and most corporations are good at meeting BBBEE score card.

Companies that have embraced supplier diversity are still battling with setting up tracking systems on supplier diversity and few companies have motivation for doing it as priority is still on meeting the BBBEE requirements.

8. Clear Message

We also learned that having a business case and clear message is critical for advocating supplier diversity among corporations. Initially, our message leaned towards promoting the supply side "capacity building" to corporations. This resulted in corporate members unable to internally promote the case of supplier diversity. This required a lot of support and guidance to assist them in promoting supplier diversity. There needed to be a clear and common understanding of the SASDC's services to corporate members and black-owned suppliers to avoid conflicting messages and unrealistic expectations. Focusing on "the basics" and not try to be all things to every member was essential, with priorities being: 1) certify and capacitate suppliers that meet member requirements; 2) recruit members that commit to the SASDC codes; and 3) getting the results by linking suppliers to members.

9. Diverse Procurement and Supply Chain Maturity Levels

Best practice supplier diversity is directly related to the implementation of best practice supply chain management. In our interactions with corporations, we learned that the maturity levels of many supply chain functions are still low, mostly procedure-driven and a growing focus on primary strategic sourcing strategies. This segregates and creates silos between preferential procurement processes and conventional procurement procedures, creating the absence of a supplier development focus. In such corporations, it becomes difficult for procurement professionals to realize the business case for supplier diversity and therefore the benefits of joining SASDC. In cases where membership of the SASDC was committed, these corporations have not been responsive to participation in SASDC activities, especially participating in business linkage

activities and opening up procurement opportunities to certified black suppliers. This has been a source of frustration for many of the certified black suppliers who still encounter barriers to entry.

Effective and sustainable supplier diversity practice requires a change in corporate procurement culture and a deliberate shift away from conventional procurement policy and procedure. This, however, can only happen if the corporate procurement function takes the proactive lead with support from top decision makers of corporations.

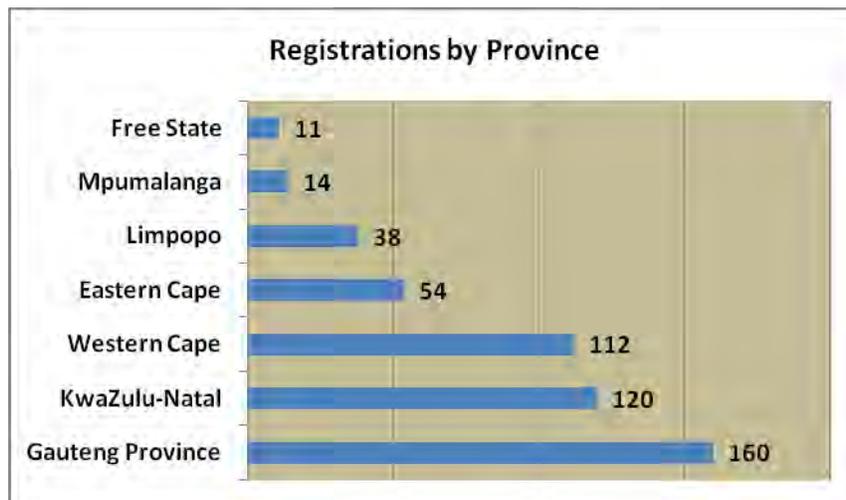
VII. MONITORING AND EVALUATION

TABLE 1. COMPANIES REGISTERED BY SECTOR & JOBS AT REGISTRATION		
Sector	# of Companies	# of Jobs
Agric/Forestry/Fisheries	72	1,443
Construction	44	1,477
Energy, Oil & Gas	12	649
Manufacturing	149	5,056
Mining & Quarrying	13	496
Services	213	10,361
Tourism & Hospitality	6	62
TOTAL	509	19,544

SAIBL-2 registered 509 new black firms. Table above shows the number of firms registered with the program since April 2008, and the total number of jobs at registration. The registrations are half of the original forecast of 1,000. While this is a significant reduction, the quality of the firms admitted improved significantly. We took a decision to pick and support sound firms that had a chance of conducting business with large corporations. Supporting these to become more competent and competitive was the only way in which we could improve the perceptions of black firms among corporate buyers, and to win their confidence and participation in the supplier diversity development program. SAIBL-2 also demonstrated that there is a growing pool of sound and increasingly competent and confident black enterprises that can do business with large corporations.

Gauteng had the highest registration with 31 percent of the total, followed by KwaZulu Natal with 24 percent and Western Cape with 22 percent. Most of our activities concentrated in these 3 provinces, where we have offices.

Figure 1. Supplier Registration



Of the 509 black suppliers registered with the project, 353 firms have been assisted with technical assistance as shown in table 2 below. We saw a marked increase in the number of firms receiving direct interventions and company diagnostics the first two years of the program as the suppliers had resources to share in the cost of interventions in line with SAIBL policy. During the last years of the program, suppliers resorted to approach other programs such as the BBSDP which was subsidizing 80 percent of the interventions compared to the 50 percent for SAIBL.

TABLE 2. CAPACITY BUILDING INTERVENTIONS	
# of black firms assisted	353
# of women owned	118
# of TTAF assistance	282
# of TTAF assistance (Company Diagnostic)	117
# of non-TTAF assistance	71

SAIBL provided training and assistance to 316 firms as shown in table 3 below. A total of 5,795 hours was invested in training of Business Service Providers, suppliers and Dti's BBSDP Network Facilitators.

TABLE 3. CAPACITY BUILDING TRAINING				
	Q1-Q10	Q11- Q14	Q15 - Q16	TOTAL
# of firms receiving training	269	47	0	316
# of workshops/seminars	23	12	0	35
# of participants	359	51	0	410
# of woman participants	160	9	0	169
Total Hours Training	5,278	517	0	5,795
Total Hours Training - Women	2,139	138	0	2,277

Sales

The firms we supported reported total sales of \$645.6 million (R5.058 billion). The overall total is 81 percent of the original target of \$800 million. Given the magnitude of the recession this performance is better than expected. It also indicates that our decision to tighten our selection criteria was well founded, as it enabled us to concentrate our scarce resources on sound firms that should be able to quickly recover and create jobs as economic conditions improve. The total sales figure was over 40 times more than the expenditure of \$15.7 million utilized to implement the SAIBL 2 program. This is a high return on investment in sales.

TABLE 4. SALES BY SECTOR						
Sector	FY 2008 Apr08-Sep08	FY2009 Oct08 –Sep09	FY 2010 Oct09 –Sep10	FY 2011 Oct10 –Sep11	FY 2012 Sep11-Oct12	TOTAL
Agriculture	\$5,067,434	\$12,289,464	\$8,398,211	\$3,831,120	-	\$29,586,229
Construction	\$2,518,613	\$3,934,568	\$2,659,705	\$5,800,940	\$2,651,535	\$17,565,361
Energy, Oil	\$1,473,192	\$1,914,998	\$1,301,669	\$2,319,205	\$1,340,502	\$8,349,566
Manufacturing	\$41,194,583	\$86,459,839	\$97,978,644	\$76,144,465	\$8,643,564	\$310,421,094
Mining	\$3,407,145	\$11,866,480	\$6,102,732	-	\$793,145	\$22,169,502
Services	\$35,326,241	\$47,865,372	\$65,942,950	\$90,645,582	\$14,690,830	\$254,470,975
Tourism	-	\$2,239,697	\$604,900	\$235,354	-	\$3,079,951
TOTAL	\$88,987,207	\$166,570,417	\$182,988,811	\$178,976,666	\$28,119,576	\$645,642,678

Exports

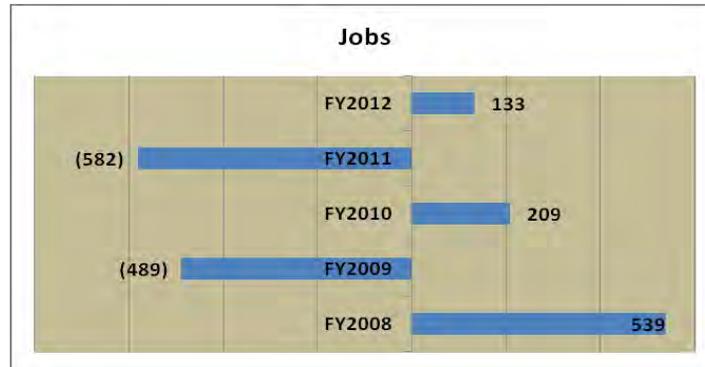
Export sales at \$56.9 million (R446.5 million) were well above the \$43 million target. The SADC countries and United States were the primary destination areas for the program, accounting for a combined 55 percent of the total sales. The remaining exports were to other African, European and Asian markets.

TABLE 5. EXPORT SALES BY COUNTRY						
Countries	FY 2008 Apr08 – Sep08	FY2009 Oct08 – Sep09	FY 2010 Oct09 – Sep10	FY 2011 Oct10 – Sep11	FY 2012 Sep11 – Oct12	TOTAL
Botswana	\$1,249,912	\$1,380,238	\$1,198,121	\$594,279	\$93,430	\$4,515,980
Mozambique	\$9,508	\$75,837	\$352,566	\$441,783	\$193,699	\$1,073,393
Namibia	\$100,605	\$459,863	\$421,443	\$416,587	\$7,011	\$1,405,508
Tanzania	\$872,377	\$3,124,601	\$930,398	\$2,881,425	-	\$7,808,801
Zambia	\$201,227	\$310,431	\$466,293	\$232,869	\$138,210	\$1,349,031
Zimbabwe	\$189,742	\$602,792	\$890,920	\$1,718,725	\$247,729	\$3,649,908
Other SADC	\$1,352,515	\$1,115,322	\$2,478,890	\$2,464,790	\$79,077	\$7,490,594
Total SADC	\$3,975,886	\$7,069,085	\$6,738,630	\$8,750,459	\$759,156	\$27,293,216
EU / Asia	\$3,987,833	\$6,877,085	\$6,319,076	\$3,015,999	\$77,506	\$20,277,499
USA	\$704,413	\$842,062	\$1,259,337	\$1,143,453	-	\$3,949,266
Other African	\$817,710	\$561,524	\$576,868	\$3,352,161	\$153,824	\$5,462,088
GRAND TOTAL	\$9,485,843	\$15,349,756	\$14,893,911	\$16,262,073	\$990,486	\$56,982,070

Job Creation

Firms that were assisted had overall net job loss of 190. This is disappointing, even though SAIBL-supported firms appear to have weathered job losses much better than the national trend. Manufacturing sector lost the highest number of jobs (100), followed by construction (92) and service sector (67). Given that 353 firms were assisted and required to report, each firm on average lost .54 jobs.

Figure 2. Number of Jobs



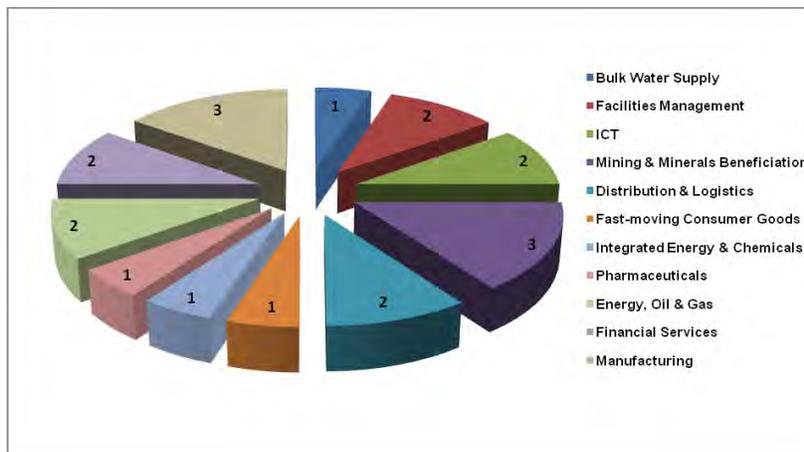
Membership

The South Africa Supplier Diversity Council (SASDC) became a legal entity in January 2011. Despite the challenges it faced in recruiting member in early years of the program, 20 corporations (6 of which are South African subsidiaries of US companies*) joined the Council. The table below shows the SASDC membership as at March 31, 2012. It should be noted that after 1 year of operations, the SASDC has a higher proportion of locally headquartered corporate members compared to the first year of other supplier diversity councils that have been established with the assistance of the NMSDC.

No.	CURRENT MEMBERS	REPRESENTATIVE
1	ABSA	Karen van Vuuren
2	Afrox	Tersia Baasden
3	Anglo American	Linda Wedderburn
4	Barloworld Limited	Matthew Govender
5	Cisco*	Leslie Mamaila
6	The Coca-Cola Company*	Anand Naidoo
7	Cummins*	Brendan Raju
8	De Beers Consolidated Mines	Brian Minnaar
9	Drake & Scull	Tessa King
10	First Rand	Indrasen Naidoo
11	Foskor	Sifiso Mncube
12	IBM SA*	Tony De Abreu

13	Johnson Controls Facilities Management*	Philip Gregory
14	Pfizer Laboratories*	Beulah van der Linde
15	Rand Water	Yollanda Teba
16	Sasol	Savvas Pouroullis
17	Shell SA Marketing	Buyiswa M-Liwani
18	South African Breweries (SAB)	Andre Fourie
19	Transnet	Mmadiboka Chokoe
20	Unilever	Danny Chetty

Figure 3. Sector Representation of Current SASDC Membership



SASDC Supplier Certification

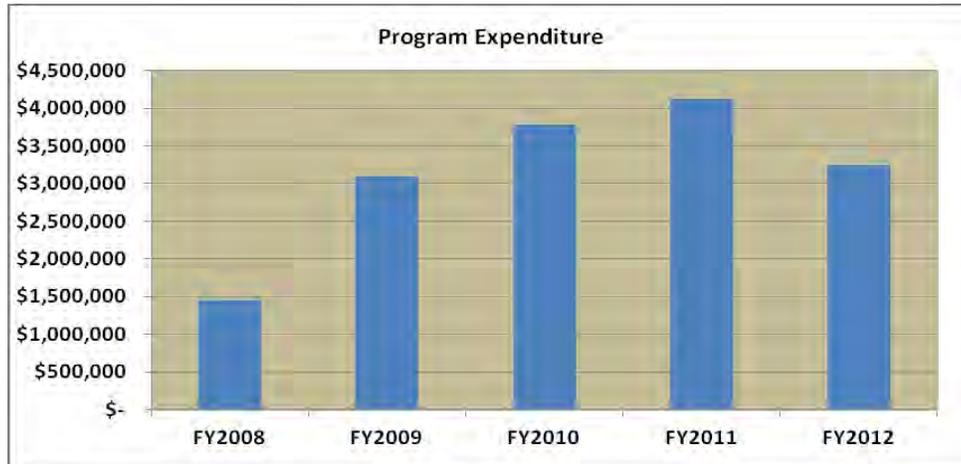
Certification started in August 2011 and more than 200 applications were received. SASDC certified and registered 175 as bona-fide black suppliers. Of these, 50 percent were SAIBL registered and assisted suppliers. The remaining suppliers were referred to SASDC by member corporations.

Figure 4. Supplier Certification



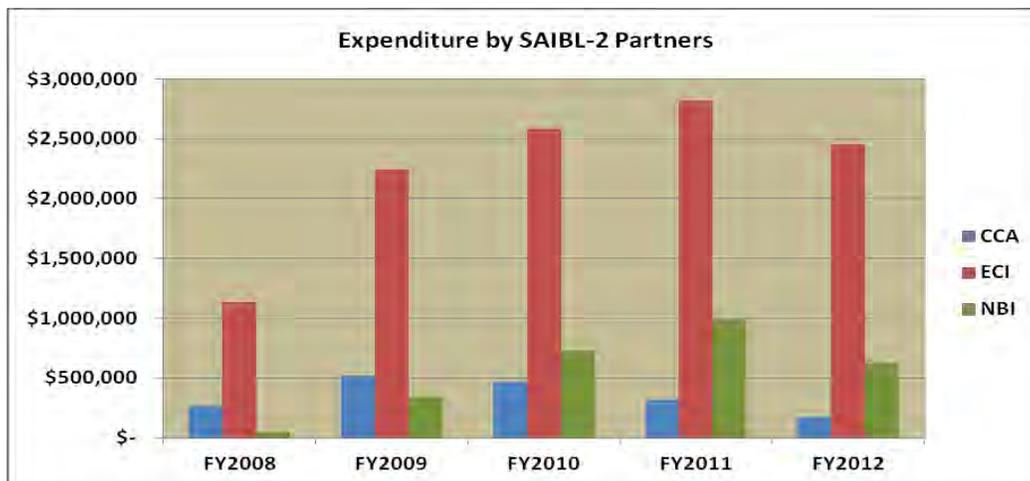
VIII. FINANCIAL REPORTING AND INVENTORY

Figure 5. Total Annual Expenditure by the SAIBL-2 Program



SAIBL-2	FY2008	FY2009	FY2010	FY2011	FY2012*	Total
Expenditure	\$1,451,066	\$3,098,653	\$3,784,602	\$4,119,678	\$3,247,153	\$15,701,151

Figure 6. Total Expenditure by Partners



* NBI figures are until March 2012, while CCA and ECI figures are until October. SAIBL-2 sales and exports related support and activities ceased as of March 2012.

TABLE 6. EXPENDITURE BY SAIBL-2 PARTNERS						
Year	CCA	ECI	NBI	Total	Obligated Amount	Balance Remaining
FY2008	\$268,557	\$1,131,938	\$50,571	\$1,451,065		
FY2009	\$517,470	\$2,242,890	\$338,295	\$3,098,655		
FY2010	\$473,042	\$2,584,480	\$727,079	\$3,784,601		
FY2011	\$315,395	\$2,818,377	\$985,905	\$4,119,677		
FY2012	\$172,513	\$2,454,582	\$620,058	\$3,247,153		
Total	\$1,746,978	\$11,232,266	\$2,721,907	\$15,701,151	\$15,706,000	\$4,849

Figure 7. Foreign Exchange Average during the SAIBL-2 Program

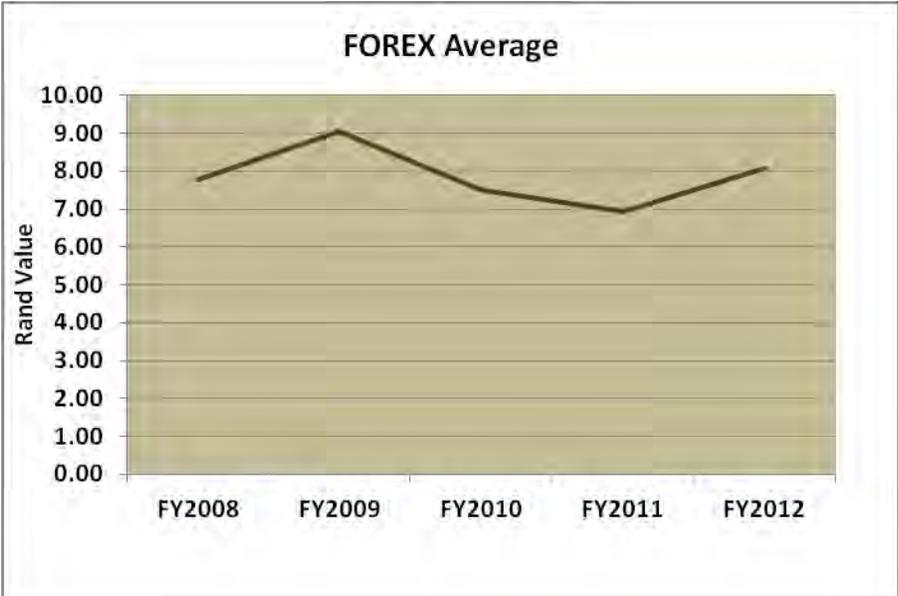


Figure 8. SAIBL-2 Expenditure, Sales and Job Creation

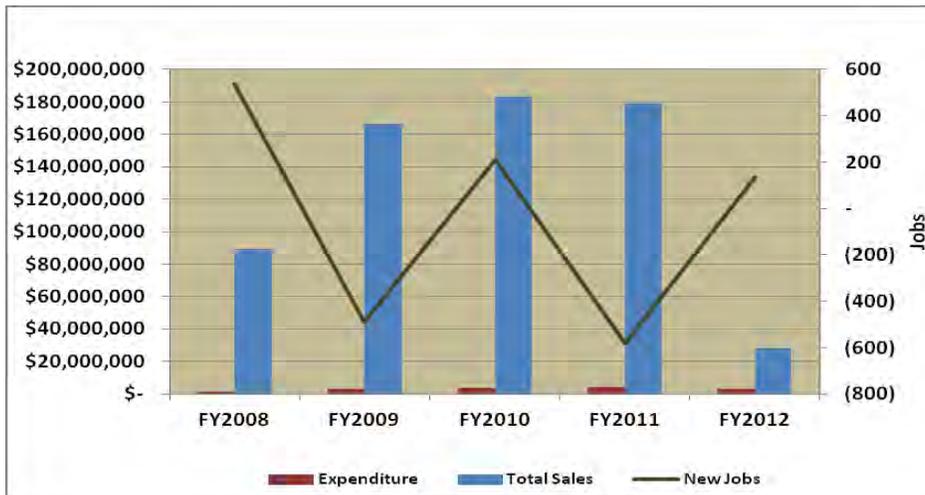


Figure 8 measures total sales generated by the SAIBL program and the new net jobs created from fiscal year 2008 to 2012 against the yearly program expenditure. The yearly expenditure is barely measurable, indicating a high return on investment in sales. However, job creation suffered in 2009 and 2011 because of losses in the manufacturing, construction and service sectors. This was in line with the national trend, as the economic condition created by the global recession, for instance, caused production to drop in the auto sector due to depressed demand.

Figure 9. Return on Investment in Sales

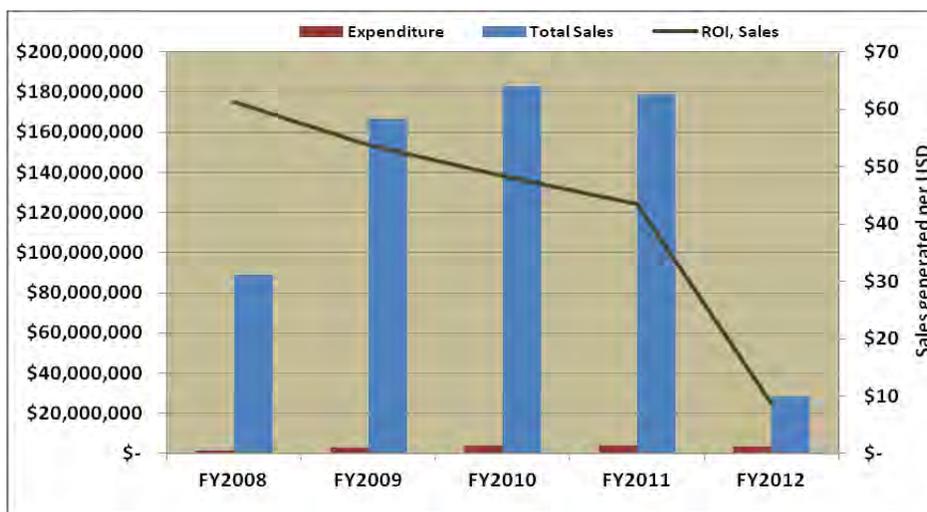
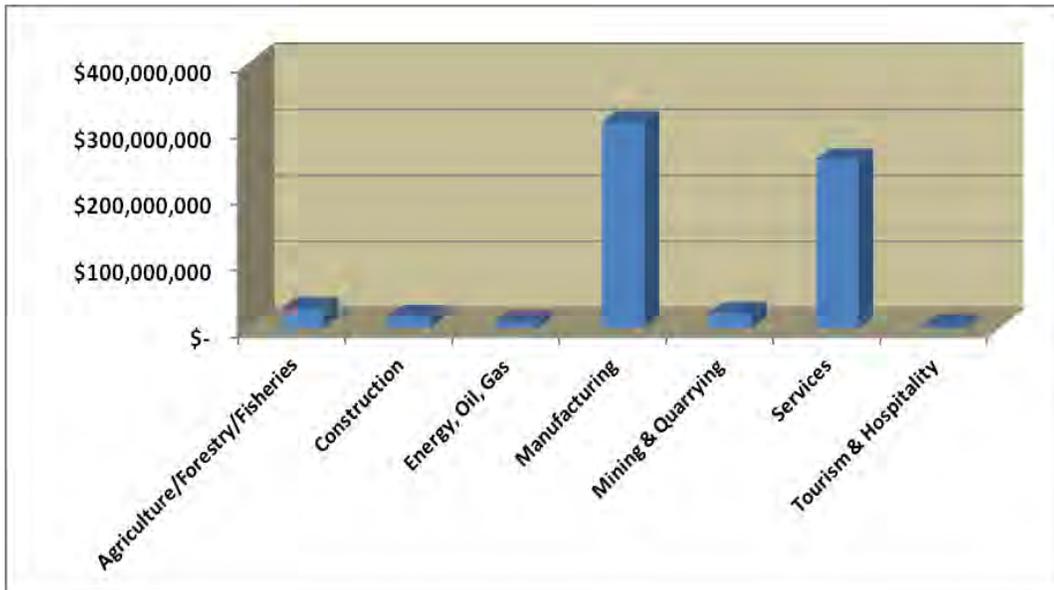


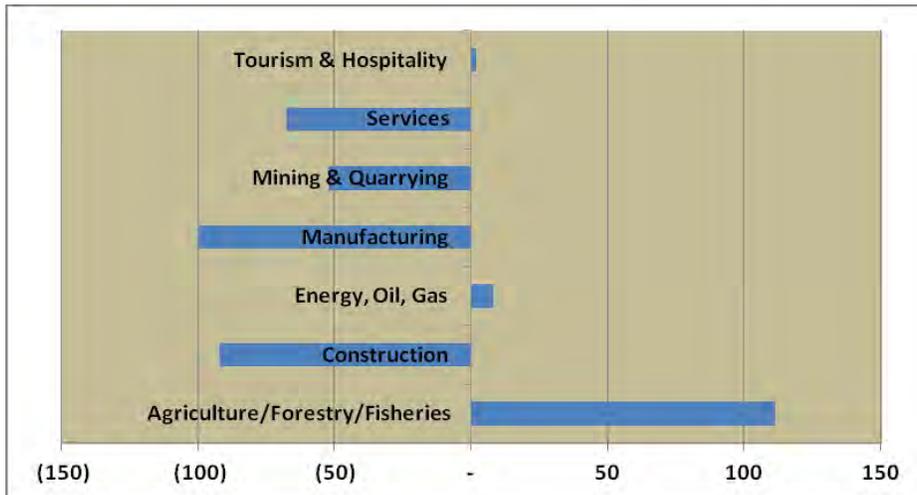
Figure 9 illustrates the declining return on investment in sales of the SAIBL-2 program. This was due to the program's focus on supplier certification, and the negative impact on sales figures caused by the trade team's gradual scaling down of trade activities.

Figure 10. Total Sales by Sectors



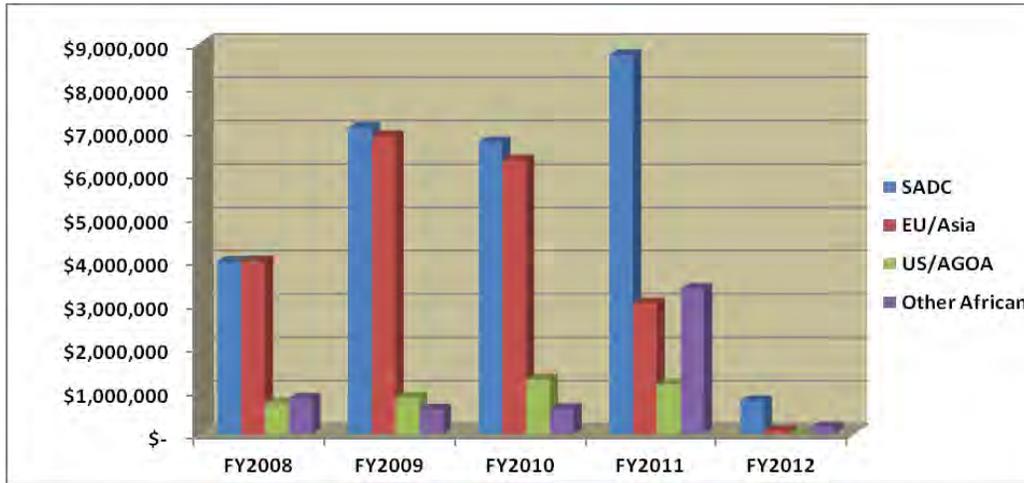
Total sales stood at \$645,642,678, with the highest sales registered in fiscal year 2010 for a total of \$183 million across the above seven sectors. Manufacturing and services accounted for a combined 87 percent of the total sales, with \$310.4 million and \$254.4 million respectively.

Figure 11. Jobs Created by Sectors



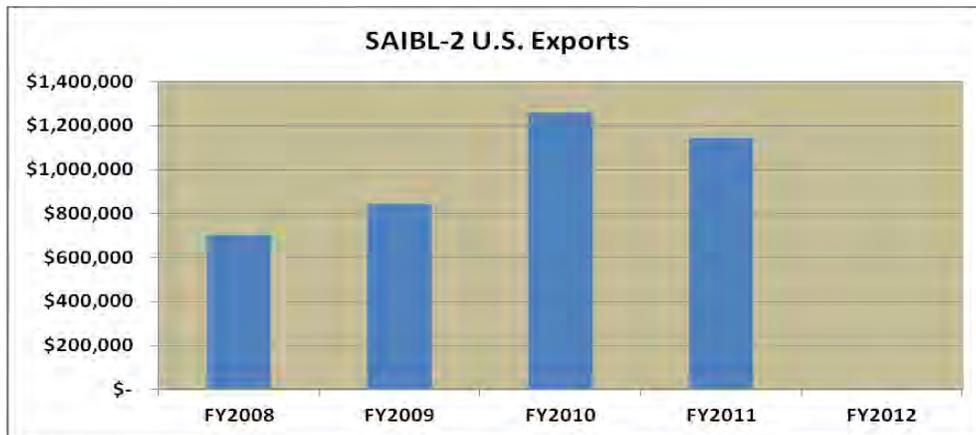
There was a net loss of 190 jobs across seven sectors at the end of SAIBL-2. With 111, agriculture sector created the most jobs during the four year implementation period, while manufacturing and construction lost 100 and 92 jobs respectively.

Figure 12. Total SAIBL-2 Exports by Region



Total export was \$ 56.9 million, with SADC as the major destination. While exports to the US and other African countries fluctuated, EU and Asia saw their share gradually decrease. The two important regions for the program, SADC and the US, accounted for a combined 55 percent of export sales.

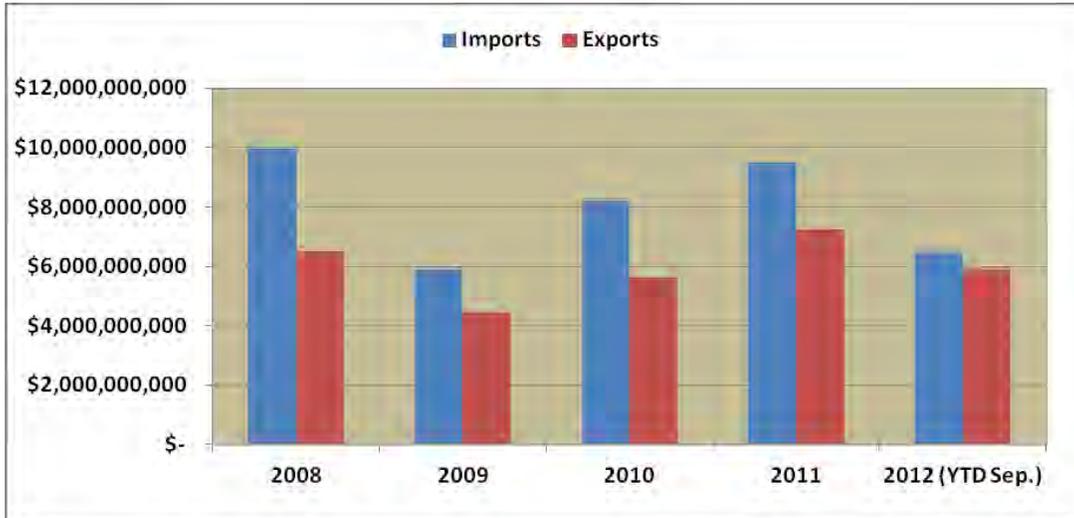
Figure 13. SAIBL-2 Exports to the United States



FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
\$704,413	\$842,062	\$1,259,337	\$1,143,453	-	\$3,949,266

Figure 14. U.S.-South Africa Trade

Source: TradeStats, International Trade Administration



	2008	2009	2010	2011	2012 (YTD Sep)	Total
Imports	\$9,948,021,279	\$5,878,856,481	\$8,220,130,026	\$9,486,669,843	\$6,454,054,437	\$39,987,732,066
Exports	\$6,490,469,811	\$4,452,643,478	\$5,631,144,335	\$7,257,209,818	\$5,878,405,907	\$29,709,873,349

Table 7. Report of U.S. Government Inventory as of October 2012

This report is a summary of the total inventory of computers and office equipment purchased by the SAIBL-2 program. It contains straight line depreciation value for all items that exceed \$500. For furniture and fittings, a 16.67 percent annual depreciation was used. For computers and related equipment a 33.33 percent value was used. 50 percent depreciation value was used for software. The majority of the items were transferred to the SASDC. The value of all property reported (as of October 31, 2012) is: \$678.21 for furniture and \$89,486.73 for other non-expendable properties.

Item Description	Serial Number	Acquired Date	Purchase Value (USD)	Net Value (USD)	Disposition Plan
HP 4320s Probook	CNF04150SD	14-Jan-11	1,925.91	802.57	SASDC
HP 4320s Probook	CNF04150SP	14-Jan-11	1,925.91	802.57	SASDC
HP 4330s Probook	CNU1233NTK	31-Aug-11	1,052.83	645.78	SOS Children's Home
HP 6550b Core 15-450M WD707-EA Notebook	SCNU03438FH	18-Feb-11	1,475.02	901.46	SASDC
HP 6550b Core 15-450M WD707-EA Notebook	SCNU03438PH	18-Feb-11	1,475.02	901.46	SASDC

HP 6550b Core 15-450M WD707-EA Notebook	SCNU03438QB	18-Feb-11	1,475.02	901.46	SASDC
ENBU Business Manager software	-	12-Jan-12	7,961.22	6,966.07	SASDC
SAGE ACCPAC ERP200 software	-	19-Mar-12	61,718.17	61,718.17	SASDC
SAGE ACCPAC CRM software	-	19-Mar-12	7,591.36	7,591.36	SASDC
Intel Modular Server S5520VIR	-	19-Mar-12	972.62	972.62	SASDC
Intel Modular Server S5520VIR	-	19-Mar-12	972.62	972.62	SASDC
Intel Xeon DP 5645 Processor - 2.4 GHz Hexa(6)	-	19-Mar-12	666.98	666.98	SASDC
Intel Xeon DP 5645 Processor - 2.4 GHz Hexa(6)	-	19-Mar-12	666.98	666.98	SASDC
Intel Xeon DP 5645 Processor - 2.4 GHz Hexa(6)	-	19-Mar-12	666.98	666.98	SASDC
Intel Xeon DP 5645 Processor - 2.4 GHz Hexa(6)	-	19-Mar-12	666.98	666.98	SASDC
Seagate 900GB 2.5" SAVVIO SAS Drive	-	19-Mar-12	764.15	764.15	SASDC
Seagate 900GB 2.5" SAVVIO SAS Drive	-	19-Mar-12	764.15	764.15	SASDC
HP ProCurve 2910al-24G-PoE+Switch24-port	-	19-Mar-12	2,114.36	2,114.36	SASDC
L Shape reception desk-Cherry	20100	12-Mar-09	1,682.00	678.21	Durban Children's Home

ANNEX

REPORT I

SASDC NO-COST EXTENSION REPORT

APRIL 1 – SEPTEMBER 30, 2012



TRANSFORMING
SOUTH AFRICA
THROUGH SUPPLIER DIVERSITY

SOUTH AFRICAN SUPPLIER DIVERSITY COUNCIL

Report

SAIBL No-Cost Extension Support to SASDC

1 APRIL 2012 - 30 September 2012



SUPPORTED BY



USAID
FROM THE AMERICAN PEOPLE

SOUTHERN AFRICA

The SASDC is supported by USAID. It seeks to be the leading corporate council in South Africa dedicated to promoting sustainable supplier diversity, through targeted procurement and black supplier development.

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Highlights

- Cooperative Agreement successfully concluded between SAIBL and SASDC.
- 12 SAIBL-ECIAfrica staff seconded to support the operational capacity of the SASDC.
- International Supplier Diversity Expert secured and 5 corporates (combined 62 corporate member staff) trained on supplier diversity best practice, as well as 15 supplier representatives trained on how to engage with corporates for accessing procurement opportunity.
- 3 member corporations’ supplier diversity programmes assessed with procurement opportunities and development interventions identified for all three companies.
- Support provided for restructuring SASDC organogram in order to enable delivery on its strategy.
- “MAKING THE BUSINESS CASE FOR SUPPLIER DIVERSITY: An Overview, South African Context, and Practical Guidelines” Research Paper developed to support the messaging and advocacy of the SASDC in support of its organizational goals.

I. Cooperation Agreement between SAIBL and SASDC

1. The implementation partnership between the SASDC and SAIBL's ECIAfrica for ensuring the flow of resources in support of the SASDC's operations was formalized on the 12th June 2012 through the signing of a Cooperation Agreement between the two parties. The main objectives of the Cooperation Agreement were:
 - a) To set out the relationship between the SASDC and ECIAfrica in carrying out agreed tasks during the period 1 April to 30 September 2012.
 - b) To set out the relationship between the SASDC management and the staff seconded to the SASDC by ECIAfrica.
 - c) To set out the time frames during which the support tasks must be accomplished and the broad milestones that must be achieved.
2. The SASDC and ECIAfrica had identified the following areas for support under this agreement:
 - 2.1. The secondment of 7 ECIAfrica appointed Certification staff, named as Joe Ruiters and Sa-at Abrahams in Cape Town, Wilhela Gie in Port Elizabeth, Mervin Naicker and Trevor Buikes in Durban, Samuel Gotora and Isaac Njenge in Johannesburg under the SASDC from 1 April to 30 September 2012.
 - 2.2. The secondment of 5 ECIAfrica appointed support staff, named as Jean McKenzie, Benedict Mohanoe and Busi Mthethwa in Johannesburg, Candice Hendricks in Cape Town and Thoko Dlamini in Durban under the SASDC from 1 April to 30 September 2012.
 - 2.3. As a result of items 2.1 and 2.2, applicable direct costs identified and the associated recovery thereof was subject to mutual agreement being reached between the parties.
 - 2.4. Establish a system to track, record, and report spend in support of members and suppliers in measuring their success.
 - 2.5. Carry out sector analysis of suppliers and member demand/needs forecasting to improve the SASDC's ability to assist members in opening up opportunities and in identifying, certifying and supporting suppliers that have a good chance of taking advantage of the opportunities.
 - 2.6. Engage NMSDC in exchanges and providing technical assistance to the SASDC itself and to the members so as to build SASDC as a leader and authority on supplier diversity.
 - 2.7. Updating the SASDC Member Induction Pack comprising the SASDC profile, the SD Business Case, and Supplier Diversity Development Toolkit.

II. Provision of additional capacity to accelerate the certification of Black Owned suppliers

3. The signing of the Cooperation Agreement between the SASDC and SAIBL effectively resulted in the SASDC having the necessary capacity to continue with a presence in the KwaZulu Natal, Western Cape and Eastern Cape regions, especially for accelerating the drive to accumulatively certify 300 suppliers by 30 September 2012.
4. Each Certification Specialist in the team was provided with certification targets that they were responsible for achieving. At the end of March 2012, a total of 123 black owned suppliers had been certified under the SASDC and the objective was to accelerate the certification of suppliers in the pipeline that had been engaged with and expressed interest in certification prior to the 31st March 2012.
5. Efforts to achieve the target included a much higher level of application support being provided to prospective black owned businesses. In hind sight, this affected the volume of prospect engagements that were handled by certification specialists. In most cases, this intervention did

not reduce the turnaround time for applications to be completed and submitted. Thus the overall internal cost of securing an application increased substantially.

6. Below is a summary of certification applications finalized during the NCE period:

Name	Staffing Status	Suppliers Certified by 31 March 2012	Finalized during No-Cost Extension						KPI (1 April - 30 Sep 2012)				Total Suppliers Certified	Total Suppliers Declined	Applications In Process as at 30 September 2012	OVERALL # APPLICATIONS HANDLED UNDER SAIBL
			Apr	May	Jun	July	Aug	Sept	Target	Actual	Shortfall	Performance to Target				
Isaac Njenge	ECI Secondee	12	0	0	0	5	1	1	21	7	-14	33.33%	19	0	0	19
Sibusiso Mtsetfwa	SASDC Staff	11	0	0	0	6	1	2	19	9	-10	47.37%	18	2	2	20
Sebaton Preston	SASDC Staff	10	2	0	0	2	3	2	21	9	-12	42.86%	16	3	5	19
Mervin Naicker	ECI Secondee	17	2	2	0	1	4	2	21	11	-10	52.38%	27	1	2	28
Joseph Ruiters	ECI Secondee	18	0	1	0	9	5	3	21	18	-3	85.71%	34	2	0	36
Sa-at Abrahams	ECI Secondee	14	0	0	0	0	1	0	12	1	-11	8.33%	14	1	1	15
Wilhela Gie	ECI Secondee	9	0	1	0	0	0	0	21	1	-20	4.76%	10	0	0	10
Samuel Gatora	ECI Secondee	11	2	0	0	0	2	2	21	6	-15	28.57%	16	1	2	17
Trevor Buikes	ECI Secondee	19	0	2	0	0	0	0	21	2	-19	9.52%	21	0	3	21
Incomplete Applications																21
Total			6	6	0	23	17	12	178	64	-114	35.96%	175	10	15	206

7. The outcome of additional capacity for certification was unfortunately not as effective as envisioned. The overall team performance was a mere 36% against target. The reality of SAIBL coming to a close and the consequential employment uncertainty may have influenced motivation levels as well as the focus of seconded staff. At the end of the period, a total of 150 strong application prospects had however been built up from the promotional activities that certification staffers had undertaken. We hope that these will translate into tangible applications before the end of this year.

III. Capacity Building – Sharon Castillo

8. With the assistance of our NMSDC partners, we secured the services of a very experienced and widely recognized supplier diversity strategy and training expert, Sharon Castillo. Sharon is the founder of SB Services and has over 20 years of practical experience assisting US corporates with supplier diversity strategy development and employee capacity building. Her services were contracted by the SAIBL Chief of Party to provide corporate specific training workshops with 5 of our SASDC corporate members. After opening the offer for training to our corporate members, we received an overwhelming response from more than 10 corporate members. We selected the recipients for the training on a first come first serve basis.

9. Sharon Castillo conducted training at the respective premises of Cummins, FirstRand, Barloworld, IBM and Sasol during the first week of July 2012. Below is a summary of the training interventions facilitated by Sharon:

DATE	DAY	CORPORATE MEMBER	NO OF ATTENDEES	TIME ALLOCATED
2 July 2012	MON	CUMMINS S A	7	09:00 - 12:00
3 July 2012	TUE	FIRSTRAND	8	09:00 - 17:00
4 July 2012	WED	IBM	11	09:00 - 17:00
5 July 2012	THU	BARLOWORLD	12	09:00 - 17:00
6 July 2012	FRI	SASOL	9	09:00 - 17:00

10. Feedback from corporate trainees were very positive and in many cases raised awareness of supplier diversity and the role of the SASDC to more employees of our membership base.

11. Due to the excellent response from corporate members to host Sharon Castillo and secure training of their staff, discussions were held with Sharon to secure her services for a second week of training towards the end of August 2012. Unfortunately, members that expressed interest during the first round of communications were not able to take up the offer of a second round of training due to other internal pressing issues. As a result, we opted not to incur an additional SAIBL expense of securing her services.

12. We were also fortunate to secure Sharon's expertise in facilitating a "Doing Business with Corporates" training intervention for our Durban-based, certified suppliers. Fifteen representatives from our certified suppliers attended the session, and all expressed gratitude and provided positive feedback for this intervention.
13. Sharon Castillo has submitted a formal report documenting her observations to the SAIBL Chief of Party and the SASDC CEO. She has also provide the same with copies of the training evaluation surveys that she conducted after each session.

IV. Corporate Members Supplier Diversity Programme Assessments and Opportunity Identification

14. Matching corporate demand with potential certified suppliers is a primary objective of the SASDC. This has however been a challenge to the SASDC because most corporates have not provided us with a pipeline of opportunities for us to source matching suppliers and facilitate match-making events that will result in the flow of transactions. With support from the SAIBL No-Cost Extension budget, we developed a scope of work to assist willing corporate members with evaluating their respective supplier diversity programmes and identifying opportunities to set aside for certified suppliers.
15. As a precursor to the aforementioned taking place, a workshop was convened involving the Heads of Procurement from more than 12 of our corporate members. The workshop was hosted by De Beers and the vibrant discussions reiterated the members' commitment to the objectives of the SASDC. An important outcome of the workshop was the identification of priority areas of support for each of the corporate members in attendance. In addition, it was agreed that the Local Procurement Accord, in which the SASDC is referenced, is an area where the members would like the SASDC to take the lead and support their efforts to address the intent of the Accord while they drive the objectives of their supplier diversity development programmes.
16. After the Heads of Procurement Workshop, a request for proposals was issued and evaluated. Two service providers, one of which is a certified supplier of the SASDC, were selected and contracted to engage on the scope of work. These consultants were Leon Lourens, an experienced and leading enterprise development and incubation specialist, and Quintin Pitt, an experienced strategic sourcing and commodity management expert.
17. We approached 16 of our corporate members to participate in this exercise with the proviso that we would assist them on a first come first serve basis. Responses were much lower than anticipated but we managed to secure Afrox, BP (SA) and Drake & Scull Facilities Management.
18. Using the SASDC Supplier Diversity Levels Assessment Tool, the consultants had to review the policies, strategies and procedures with respect to supply chain set up, the supplier application process, supplier master data management, commodity management, procurement management, demand management, materials management and supplier performance of participating members.
19. The assessments delivered a report that showed areas where the member corporation can make significant progress and gains in implementing supplier diversity and where there are organizational and operational level capacity constraints, short term planning, lack of shared learning and problem solving, sub-optimal ED project selection, execution, and governance, and limited measurement and evaluation.
20. The assignment also included the identification of specific opportunities available for certified suppliers but where there appears to be a shortage of suppliers in the market to take advantage of these opportunities. This intervention assisted us in identifying product or service areas where the SASDC may be able to facilitate and design capacity building programmes, jointly with interested members, aimed at filling the gap with capable black suppliers.

21. Discussions included what should be measured and evaluated in progressing supplier diversity, and a review of systems currently used by members to establish whether they can easily be adapted to capture required measures. The consultants used these findings to develop recommendations that SASDC and members should use to track and measure progress.

22. The following is a summary of the SD Levels Assessment for each of the respective corporations that volunteered for this exercise:

22.1. Afrox

22.1.1. Afrox would be classified as a Token Programme (level 1) where the concept of Supplier Diversity is managed by a manager with little or no approval or involvement from senior management.

22.1.2. Afrox subscribes to a broader BEE strategy but its application does not incorporate a well-defined Supplier Diversity initiative which is approved at executive level. Training in the theory, application and subsequent value of such a program should be sought on an executive and operations level. Once this has been concluded it would be possible to engage in a strategic planning session to develop an integrated programme. Alignment between strategy, structure and culture will be followed by organisational & operational support for a Supplier Diversity programme.

22.1.3. It is clear that the intrinsic and actual value of a SD program must be understood at all management levels and that a business case for a sustainable SD program should be developed which provides a measurable return on investment.

22.2. Drake & Scull Facilities Management

22.2.1. On completion of the assessment, DSFM was classified as a Level 2 program where the concept, development and implementation of Supplier Diversity is seen as an expense that should be controlled vigorously to ensure the lowest price for the client. It is not regarded as an asset. Although senior management is involved to some extent their involvement does form an integral part of the process. Supplier Diversity currently does not form part of specific job functions and primary purpose for embarking on such a process is to comply with government requirements and satisfy corporate clients. There is a strong connection to strategic sourcing as this form part of the business model but the second tier programme is loosely structured.

22.2.2. With very little effort DSFM could progress to higher levels by developing existing partnerships, increasing budgets, expanding the franchise model and integrating SD into the procurement process. Organisational support and structure for a Supplier Diversity programme would expedite the progress. The strategies and structures to accommodate black enterprises should be applied consistently to inculcate the culture within the organisation.

22.3. BP (SA)

22.3.1. On completion of the assessment, BP(SA) was classified as a Level 2 supplier diversity program where there is a good awareness and comprehension of the concept. Strategy development, alignment and application of a Supplier Diversity program need attention. Currently the main focus is on BEE compliance. Supplier diversity is not regarded as an asset and managed accordingly. Senior management is involved in the BEE compliance programs and this should be extrapolated into the SD program so that their involvement forms an integral part of the process. A position of Supplier Diversity Manager exists which should be carried forward through incorporation of key performance areas of other job description. The primary purpose for embarking on this process locally was to comply with

government requirements and satisfy corporate clients; however BP embraces supplier diversity internationally.

- 22.3.2. With very little effort BP(SA) could progress from being a Compliance Level 2 to a Price Competitive Level 3 program through a few short term support interventions, such as an exercise of building executive awareness of SD and a process of defining and clarifying a bottom line business case incorporating and then aligning this with the overall corporate strategy. Aligning and developing existing partnerships, increasing budget allocations, would expedite the progress.

23. The scope of work for the consultants did not include providing feedback to the respective members. The SASDC will finalize the process by providing feedback to the respective companies and use it as an opportunity to identify short term service and linkage interventions that the SASDC can support them with.

24. We are pleased to note that the consultants have confirmed that the structure, content and application of the Levels Assessment Tool was relevant and easy to manage. At the same time, there was a direct correlation between their observations and the scoring and level outcome that the tool generated. At the same time, the members who were exposed to the tool welcomed its application within their respective organisations and are eagerly awaiting the assessment report.

V. SASDC Human Resource and Organisational Development support

25. In order maintain the lowest cost operating budget, a major cost containment strategy adopted by the SASDC is to implement its activities within the approved staffing complement of 7 full time and 1 half-day employees. Although the approved organogram makes provision for 10 full time staff members, the management and staffing of the Council is as follows:

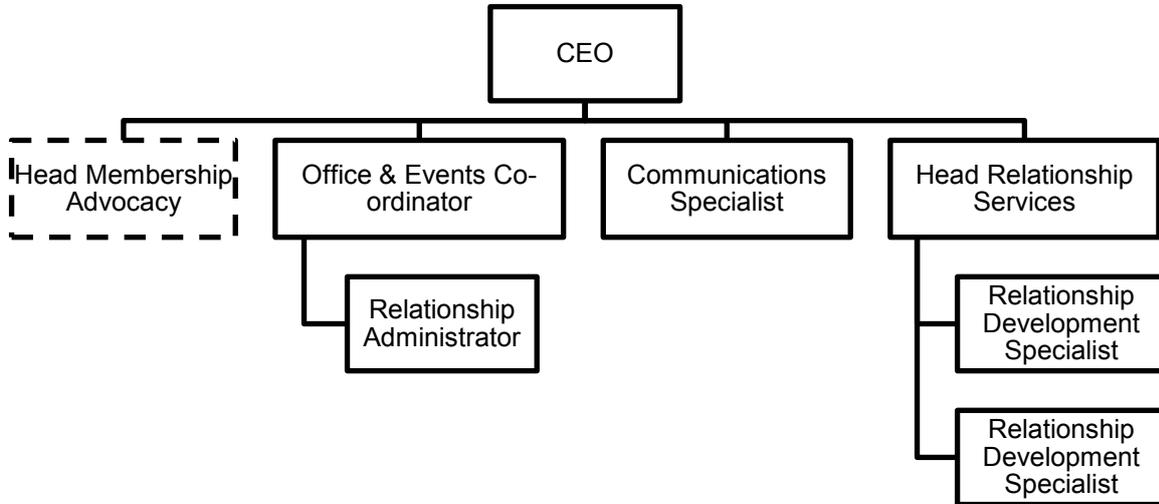
- Chief Executive Officer – Gary Joseph
- Senior Manager: Membership Advocacy – **Currently vacant**
- Senior Manager: Member Services and Certification – Abdul Ismail
- Office Coordinator – Granny Mokoatedi
- Senior Specialist: Certification (Gauteng and Northern Regions) – Sebastian Preston
- Senior Specialist: Certification (Gauteng and Southern Regions) – Sibusiso Mtsetfwa
- Certification Information & Database Administrator – Vatisa Nxele
- Specialist: Finance – **Currently vacant**

26. After confirming the funding assistance of SAIBL, the process of securing the services of an Organization Development specialist to assist with the development and implementation of an organizational structure review and job profiling exercise took place in the last quarter of the extension period. The SASDC needs to maintain a lean staffing compliment and it is critical that the organizational structure, associated positions, matching job descriptions and employee performance management interventions support the long-term strategy.

27. Johan Nortje of Carya Trading was contract by the SAIBL-ECIAfrica to conduct the scope of work. The consultant advised that the implementation of the following recommendations will support the overall strategic intent of the SASDC and assist in the ultimate sustainable and growth of the organisation:

- 27.1. Structure - The recommendation in terms of the structure is that a functional structure combined with a matrix structure is utilised to ensure optimal service delivery and sustainability of the SASDC.
- 27.2. Segregation of Duties – Segregation of duties involves the allocating of budgets, projects and functions in orchestrating staff assignments and key performance measures.
- 27.3. Managing the Decision Context - Management of the decision context is accomplished by established strategy, policy, and control systems to assure that

decisions are made to benefit the SASDC rather than the individual, functional department, corporate member, certified supplier, or project.



- 27.4. Setting Standards - High performance standards start at the top. They must be established by the board and enforced by the CEO, since his is the only position in the matrix with the perspective and power to require top quality performance.
- 27.5. Corporate and Board Support – It is imperative, for the new structure to work and for the staff to perform as well as achieve their objectives that corporate members render support by providing professional assistance that are proactive in critical administrative and organisational support functions (complex financial, information technology, HR and company secretariat services).
- 27.6. Corporate Participation in Sustainable Business Linkages – It is imperative for the SASDC board to involve themselves in the business linkages between corporate and certified suppliers or corporate to corporate in demonstrating the ability for the SASDC to be a self-sustainable organization that creates the linkages and space for supplier diversity in South Africa.
- 27.7. Corporate Support in terms of Utilizing Certified Suppliers – The success of the SASDC in terms of the number of certified suppliers is directly linked to the marketing and utilization of these suppliers by the corporate members of the SASDC. The ultimate (walk the talk) philosophy must be applied to create a success story.
- 27.8. Contracts of Staff - The contracts of the staff should only be for a two year period and thus not permanent as seen in terms of the law but a fixed term contract. This can still be related to the present start-up phase of the SASDC and when it was in project mode. This implies that staff salary must be made more lucrative to serve as a retention factor for staff.
- 27.9. Contract End Dates - Given the situation of the SASDC regarding the USAID and the period related to self-sustainability it is ideal to set the end date of the contracts to six months before the funding end date. This is to allow for suitable exit mechanisms of staff should it be deemed necessary.
- 27.10. Performance Management - To strengthen the link between remuneration and performance it is recommended that a performance management system be introduced to enable management and the board to differentiate between excellent, average and below-average performers. This also paves the way for remedial steps within the confinements of the labour law for employees who are not performing to the required standard.

28. A formal recommendation to the Board of Directors via the Nominations and Remuneration Committee is underway to obtain approval for implementation.

VI. Business Case and Supplier Diversity Tool Kit Assignment

29. SAIBL-ECIAfrica appointed John James, the previous SAIBL Chief of Party and local expert in supplier diversity, to conduct research and formulate a paper that makes the business case for supplier diversity, which included a general overview of the topic, its relevance and context to South Africa, as well as a review of the practical guidelines for implementing supplier diversity.
30. The final product delivered captured the essence of the message that the SASDC needs to convey to all of its stakeholders. The report will be formally published and made available to the SASDC's members and other stakeholders.

VII. Other

31. Since securing the Cooperative Agreement directly between the SASDC and USAID, the first 3 months from inception required the SASDC to prepare and submit several compliance related documents as special conditions of agreement. Jean McKenzie proved to be a valuable asset to the SASDC during this period of time. With her assistance, we prepared the required Performance Management Plan with supporting documents and submitted these through to USAID for comment. This would not have been manageable if this resource was not available to the SASDC since the current structure does not include a dedicated and experienced Monitoring and Evaluation Specialist.
32. The SASDC also hosted its first Annual Conference and Business Opportunity at the Birchwood Hotel in Boksburg on the 27th and 28th June 2012. The success of this event was definitely enhanced by the additional capacity provided by SAIBL, especially securing participation by suppliers from the Eastern Cape, KwaZulu Natal and the Western Cape. The administrative support in arranging this and other general activities of the Council was definitely reduced through the seconded staff.

VIII. Conclusion

33. Although the aforementioned clearly indicates the value that has been derived by the SASDC during the SAIBL no-cost-extension, it should be noted that the responsive role that the SASDC staff had to play was extremely taxing at times. With operational independence taking place on the 1st April 2012, several administrative and procedural tasks and responsibilities (previously handled under the much broader resource base of the project) had to be distributed amongst SASDC staff members. We were therefore on several occasions unable to operate effectively within the project timelines associated with the no-cost-extension.
34. In certain cases, seconded staff productivities levels were extremely low due to uncertainty surrounding their employment status post-September 2012. Unfortunately, the SASDC could not offer these secondees alternative employment due to financial constraints and we regrettably had to communicate to our stakeholders in the provinces that the offices of SAIBL would be closing down and that the SASDC would for the mean time continue servicing them from the Johannesburg offices. We hope that this would not negatively impact on the relationships that had been established over time and result in a loss of certified suppliers within the respective regions. Alternative mechanisms for maintaining a physical presence have been looked at with a few of the certification specialists based out in the provinces.

IX. Acknowledgements

35. On behalf of the SASDC Board, Members, Certified Suppliers and Staff, we would like to acknowledge and express our sincerest gratitude to:
 - 35.1. The United States Agency for International Development, Southern Africa (USAID Southern Africa) for extending the funding support to SAIBL in favour of supporting the operational activities of the SASDC for an additional six month period of time.

- 35.2. The SAIBL implementing partners, the Corporate Council on Africa and particularly ECIAfrica Consulting and the National Business Initiative for the guidance, direction and support efforts leading up to the establishment of the SASDC, as well as the additional support provided during the no-cost-extension period.
 - 35.3. The SAIBL Chief of Party, John Chitsa, for supporting this cause by providing leadership, inputs and direct resources along the way.
 - 35.4. The seconded staff of SAIBL-ECIAfrica for their passion and enthusiasm directed at growing the SASDC - Joe Ruiters, Sa-at Abrahams and Candice Hendricks in Cape Town; Wilhela Gie in Port Elizabeth; Mervin Naicker, Trevor Buikes and Thoko Dlamini in Durban; Samuel Gotor, Isaac Njenge, Jean McKenzie, Benedict Mohanoe and Busi Mthethwa in Johannesburg.
36. The SASDC is proud to be the unique, self-sustaining legacy of SAIBL and, with the foundation established through SAIBL and strengthened during the last six months, we will strive to contribute meaningfully towards sustained and inclusive economic growth, which is relevant for South Africa through the growth in Business Linkages and Procurement between Corporations and Black Enterprises.

REPORT II

SAIBL-2 EVALUATION REPORT



USAID
FROM THE AMERICAN PEOPLE

EVALUATION OF THE SOUTH AFRICAN INTERNATIONAL BUSINESS LINKAGES PROGRAM

January 11, 2013

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EVALUATION OF THE SOUTH AFRICAN INTERNATIONAL BUSINESS LINKAGES PROGRAM

January 11, 2013

DISCLAIMER

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

ACRONYMS

AGCI	African Growth and Competitiveness Initiative
AGOA	Africa Growth and Opportunities Act
BBBEE	Broad-Based Black Economic Empowerment
BBSDP	Black Business Supplier Development Program
BSP	Business Services Provider
BEE	Black Economic Empowerment
BLS	Business Linkages Specialist
BMO	Business Management Organization
CA	Cooperative Agreement
CCA	The Corporate Council on Africa
CD	Company Diagnostic
COP	Chief of Party
COTR	Contract Officer's Technical Representative
DAI	Development Alternatives, Inc.
DCOP	Deputy Chief of Party
dti	Department of Trade and Industry
DQA	Data Quality Assessment
ECI	ECIAfrica
ELI	Enterprise Linkages Initiative
FSP	Financial Sector Program
GoSA	Government of South Africa
HMS	Hartell Manufacturing Services
ISO	International Organization for Standardization
KMS	Knowledge Management System
MTE	Mid-Term Evaluation
M&E	Monitoring and Evaluation
NAACAM	National Association of Automotive Component and Allied Manufacturers
NBI	National Business Initiative
NMSDC	National Minority Supplier Development Council
OP	Operational Plan
PSC	Picking a Sound Company
PMP	Performance Management Plan
SAG	South African Government
SAIBL	South African International Business Linkages
SASDC	South African Supplier Diversity Council
SDAT	Supplier Diversity Assessment
SME	Small and Medium Enterprise
SMME	Small, Medium and Micro Enterprise
STTA	Short-Term Technical Assistance
TTAF	Training and Technical Assistance Fund
USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

Development & Training Services, Inc (dTS) has been contracted by USAID/Southern Africa to conduct a formative, mid-term evaluation (MTE) of the South African International Business Linkages Program (SAIBL2) aimed at linking black-owned small and medium enterprises (SMEs) to corporations. The objective of the MTE is to assess the success of SAIBL2 in meeting targeted objectives and to propose concrete recommendations for adjustments to program strategy and structure during the program extension period.

EVALUATION PURPOSE AND METHODOLOGY

The SAIBL2 MTE used a combination of qualitative and quantitative methods including: examination of program documents, monitoring and evaluation (M&E) data, other secondary data, key informant interviews, and focus group discussions with program staff, implementing partner, government officials, corporate members of the South African Supplier Diversity Council (SASDC), business service providers (BSPs), and small and medium enterprise (SME) owners. The organizations and persons interviewed were determined through consultation with USAID/Southern Africa and program management taking into account the limited timeframe allowed for this evaluation. SAIBL2 management and staff also helped to facilitate all interviews and technical issues and provided assistance with scheduling meetings and appointments, as well as field visits with the selected stakeholders.

It is important to note that the evaluation SOW and timeframe imposed a number of constraints on the evaluation design, which in turn affected the conclusions we were realistically able draw. The entire evaluation—including desk review, research design, field visit, and report preparation—took place during a compressed time period covering the beginning April to mid-May. There was not, consequently, sufficient time to design and implement a comprehensive and representative mixed-method (quantitative and qualitative) evaluation that would have allowed the MTE team to address questions of ‘attribution’ (e.g., were observed results ‘caused’ by the program). Instead the rapid and largely qualitative research design reflected a pragmatic concession by the MTE team that this was the best that could realistically be accomplished within the timeframe and resources allotted by the SOW.

While the MTE team attempted to visit as many key stakeholders as possible during the field visit, we were not able to interview all of them, and we were only able to interview a relatively small, non-representative sample of program beneficiaries. As might be expected, moreover, different stakeholders had different perspectives on the same issues. Sorting through all of these different perspectives was challenging. Where we could bring in hard data, such as secondary data or data from the project’s performance monitoring system, or the local knowledge and expertise of team members, we did so.

It should be recognized, however, that the rapid and largely qualitative research design used is not capable of producing a comprehensive assessment of the program’s achievements. It is rather a snap shot of program performance at the time of the evaluation based on a reasonably comprehensive, but nonetheless incomplete, survey of USAID, program staff, government officials, and implementing partners and a limited; a non-representative survey of program beneficiaries; and the informed judgments of the MTE team members.

OVERVIEW OF SAIBL2

The South African economy is characterized by high levels of unemployment (in excess of 30%), which disproportionately impact the majority black population. While large enterprises continue to shed jobs in their

quest to increase efficiency and to cope with the lingering global recession, the SME sector can help to create employment opportunities. SMEs are targeted because of their capacity to increase their workforce.

The South African International Business Linkages (SAIBL) Program – Phase II Cooperative Agreement was awarded on April 1, 2008 to the Corporate Council on Africa and its partners, ECIAfrica Consulting (Pty) Ltd, a South African economic development services company, and the National Business Initiative (NBI), a member of the World Business Council on Sustainable Development.

The SAIBL2 program supports the US Government’s Economic Growth Objective in South Africa to generate rapid, sustained and broad-based economic growth. It supports the Private Sector Competitiveness (Program Area) and Private Sector Productivity (Program Element) of the Foreign Assistance Framework. It also directly complements South Africa’s National Small Business Development strategy, which seeks to create an enabling environment to encourage small business growth and development.

SAIBL2 seeks to promote the creation and development of a corporate-led movement that fosters supplier development as a national competitive advantage and priority. It also seeks to encourage systemic change in the way corporations, black suppliers and business service providers (BSPs) do business with one another, while following sound business practices and market forces.

PROGRAM OBJECTIVE

The specific objective of the SAIBL2 program is to improve the competitiveness and capacity of black businesses to integrate them into domestic and international markets through increased productivity, improvements in corporate governance, and the development and adoption of modern technologies and marketing practices. Linkages with other businesses and market access in general, hold out the greatest promise for business growth and subsequent new employment opportunities. The South African firms benefit through these business partnerships which bring not only new clients and markets, but also new technologies, management skills, market information and ultimately increased revenues

OPERATIONAL FRAMEWORK AND STRUCTURE:

The SAIBL2 program is being implemented under three major result areas and components.

Major Result Area 1: SMEs, Employment AND Sales. Assistance provided in this result area and component includes the following:

- Improving the competitiveness of sound black enterprises through focused enterprise level and group interventions to address gaps and weaknesses in the areas of leadership; management; marketing; production and technology; and quality, environmental, human and financial resource management.
- Facilitating networking and matchmaking to improve linkages to corporations in local and international markets.

Major Result Area 2: Corporations and Linkages. Assistance provided in this result area and component includes the following:

- Analyzing sectors/value chains to identify areas of growth and opportunity for black enterprises.
- Setting up a corporate membership organization to promote supplier diversity by opening up opportunities for black suppliers and investing in their development.

- Working with large corporations to improve their strategies and practices in diversifying their suppliers and establishing a growing database of sound, certified black suppliers activity engaged in transactions with the corporations.

Major Result Area 3: Associations and Business Development Services. Assistance provided in this result area and component includes the following:

- Strengthening the capacity and number of business service providers offering affordable, quality services to black enterprises.
- Marketing the service providers to SAIBL2 partners and clients.
- Working with business management organizations (BMOs) to identify and support their black members in benefitting from corporate supplier diversity opportunities and development programs.

Toward the above ends, SAIBL2 provides training, business support services, and funding for SMEs to meet international standards of management, quality, and competitiveness.

SAIBL2's trade component also helps historically disadvantaged South African SMEs find new export markets in countries such as Botswana, Lesotho, Swaziland, Tanzania, and Zambia.

As part of Component 2, SAIBL2 is collaborating with the National Business Institute (NBI) and the National Minority Supplier Development Council (NMSDC) to create and ensure the sustainability of the South African Supplier Diversity Council (SASDC). The SASDC is a member-directed organization that seeks to be the leading corporate council in South Africa dedicated to promoting sustainable supplier diversity through targeted procurement and black supplier development. Its goal is to facilitate business linkages between its corporate members and bona fide black-owned enterprises geared towards becoming long-term, qualified entities capable of competing in the national and international economic mainstream. The first of its kind in South Africa, the SASDC seeks to enable its members to practice supplier diversity as a strategic business objective. .

The SASDC has formally registered as a non-profit organization with a functioning Board of Directors and 11 corporate members to date. Candidate members include private corporations, state-owned enterprises, and universities

MAJOR FINDINGS

- The critical project assumption that USAID could effectively intervene on both the demand and supply side in promoting supplier diversity remains valid.
- Assessing the substantive impact of SAIBL2 on historically disadvantaged SMEs, particularly with respect to sales, employment and their overall competitive status is a mixed picture.
- Institutional or structural improvement, such as creation of the South African Supplier Diversity Council (SASDC), is a more effective approach to assist SMEs than trying to deal with corporations on an individual basis.
- Development of the SASDC is a significant accomplishment, although the impact of the council will only be apparent over time. Nevertheless, the potential is there.
- SAIBL2 has been weak in collaborating and partnering with other USAID/Southern Africa economic growth program implementers, most importantly the Financial Sector Program (FSP).

- Development of a clear transition strategy and plan focused on “consolidation and transition” should be given priority during the project extension.
- NBI wisely shifted away from its attempt to create the Enterprise Linkage Initiative (ELI) and turned toward an alliance with the National Minority Supplier Development Council (NMSDC) and adopted its proven diversity council model and methodology.
- The time remaining in the life of the project is inadequate to develop the SASDC to a stage where it can function on its own. USAID would be well served to seriously consider providing direct financial support to SASDC for a limited time and for targeted purposes such as operational staff, certification of SMEs, and training events.

LESSONS LEARNED

- One can try to help individual SMEs, but to scale up the process you need structural transformation like the SASDC.
- Ensure the proportionality of the analysis to the business problems being addressed. If the corporations that are members of the SASDC are not requiring a level of analysis beyond something comparable to the Picking a Sound Company (PSC) tool, it is doubtful something more rigorous for business development purposes is necessary.
- Avoid raising expectations inappropriately for both SMEs and BSPs
- Ensure the proportionality of the analysis to the business problems being addressed. If the corporations that are members of the SASDC are not requiring a level of analysis beyond something comparable to the PSC, should something more rigorous be necessary for business development purposes?

RECOMMENDATIONS

PROGRAM MODIFICATIONS

- Given the time left for implementation of SAIBL2, modification of program components or the design would be inappropriate. However, the activities planned during the extension period should be reassessed to confirm that they are consistent with a “consolidate and transfer” strategy.
- Priority should be given to assisting SMEs who are already SAIBL2 clients to ensure that they become SASDC-certified and are, in fact, “transaction ready.” Efforts to identify and help new clients would be suspended in favor of helping existing clients to “graduate.”
- Planned “pilot” projects involving incubators, municipality-based business linkage facilitation units and support to very small enterprises in the arts and craft sector should be re-examined to determine if SAIBL2 should proceed with them in the absence of SASDC or other organization to take them to scale.
- It would be appropriate to continue a selected “pilot” approach, such as assistance to incubators, as an experimental effort to help USAID identify alternative approaches to assist black SMEs following SAIBL2.

PROGRAM STRATEGY

- During the remainder of SABIL2, the implementing partner(s) of SAIBL2 should reconsider the balance between servicing established clients (SMEs, BSPs and Corporations) and identifying new ones. This implies a narrowing of focus rather than widening it.
- An evaluation of SAIBL2 training programs should be undertaken to determine their effectiveness by measuring both knowledge and skills acquired by participants and the degree to which the training has been applied in the work place.¹
- In its “consolidation and transition” planning, SAIBL2 should include organizational development assistance to the SASDC this year to ensure its “grant worthiness” as required by USAID policy.
- Donors should exercise restraint in encouraging SASDC to take on task before the organization has established its footing. In all cases, they should respect the fact that it is a corporate-driven entity and may operate at a pace that differs from that of donors.

PROGRAM SUSTAINABILITY

- Immediate and significant steps should be taken to promote collaboration between SAIBL2 and FSP, including encouraging SAIBL2 clients to apply for credit at the new FSP facilities and developing FinFind to include BSPs serving both projects.
- Similar linkages between FSP and SASDC should be encouraged because SMEs that manage to get contracts through affiliation with SASDC are going to need new financing to scale up and grow their businesses.
- The most significant and important element of the SAIBL2 program that will remain after it closes is the SASDC. In addition to organizational development assistance that it will provide the Council, SAIBL2 must work with its current SME and BSP clients to ensure that sufficient numbers of them will be “transaction ready” or certifiable before SAIBL2 ends.
- SAIBL and the SASDC need to find a way to integrate the BSPs trained under SAIBL into the SASDC. If the program concludes before this happens, there is a good chance that SAIBL’s work with BSPs will come to naught.

PROGRAM EXTENSION

- USAID should reconsider its decision to limit extension of the SAIBL2 project to January 2012 and consider extending the project an additional year to March 2013, even if it requires Washington approval.
- The Corporate Council on Africa (CCA) is advised to change its stated strategy for any extension period from “deepening and entrenching” to “consolidation and transfer.”
- Approval of an additional extension should be predicated on the CCA presenting a detailed program of activities and results framework that focus on capacity development of existing SMEs, BSPs and SASDC.

¹ The well-known Kirkpatrick Model for training evaluation, recommended by USAID, assesses training at four levels. Level 2 measures knowledge and skills acquired and Level 3 measures application on the job. SAIBL2 has been measuring only to Level 1, reaction to the training events.

- SAIBL2 is urged during any extension to undertake activities, beyond simply training, that develop BSPs to reach an appropriate level of skill and professionalism as determined by a new USAID-endorsed consultant rating system.

PERFORMANCE MONITORING PLAN

- An updated data quality assessment is warranted to better understand the meaning of data that is being reported on the project.
- The Mission M&E Officer should work with the SAIBL2 CO/TR to assist CCA in developing a well-thought out performance management plan with a results framework and indicators,

INTEGRATION WITH FSP

- USAID should review together with the implementing partners the respective roles of SAIBL2 and the FSP project to determine how they can better integrate their efforts to address the issue of inadequate credit to black SMEs.
- USAID should review together with the FSP and other implementing partners how they can coordinate their respective efforts to produce a mutually acceptable BSP rating system.

INTRODUCTION

Although the impression created of South Africa is that it has a strong and wealthy economy, underneath its developed economy exists a 'second economy' consisting mostly of poor, historically disadvantaged communities, which are a legacy of Apartheid. The second economy is informal and marginalized, is populated by the under-skilled and under-served, and is predominantly made up of historically disadvantaged blacks.

South Africa has one of the highest rates of unemployment in the world with 26% of South Africans unemployed based on the official narrow definition of unemployment and an estimated 40% unemployed based on the broader definition of unemployment. It is estimated that more than 34% of South Africans still live on less than U.S. \$2 a day and approximately one-half of the population lives below the national poverty line. Adding to the above outcomes historically disadvantaged black firms, and in particular small and medium enterprises (SMEs), lack access to capital, technology, productive inputs, business development services, and access to markets necessary to be competitive and create employment.²

To address the above issues, USAID/Southern Africa launched the South African International Business Linkages Program (SAIBL) aimed at linking black-owned SMEs to corporations. The South African International Business Linkages Program – Phase II (SAIBL2) Cooperative Agreement was awarded on April 1, 2008 to the Corporate Council on Africa and its partners, ECIAfrica Consulting (Pty) Ltd, a South African economic development services company, and the National Business Initiative, a member of the World Business Council on Sustainable Development. SAIBL2 provides assistance to historically-disadvantaged black-owned SMEs to improve their productivity, development and adopt modern technologies and marketing practices, and improve enterprise governance so as to assist them in forging commercial relationships with domestic and international corporations. SAIBL2 is being implemented alongside its sister USAID program, the Financial Sector Program (FSP), which seeks to increase black-owned SMEs' access to financial services. Results produced by the SAIBL2 program also contribute to US foreign assistance objectives in the agriculture sector productivity element of the Agriculture Program Area.

Three years into the implementation of SAIBL2, USAID/Southern Africa has commissioned dTS to conduct a formative, mid-term evaluation (MTE) of the program. The objective of the MTE is to assess the success of SAIBL2 in meeting targeted objectives, and to propose concrete recommendations for adjustments to program strategy and structure for implementation during the program extension and option period.

The evaluation will attempt to determine as systematically and objectively as possible the effectiveness of SAIBL2 in achieving its objectives. It will provide pertinent information, statistics, and judgments that will help USAID and implementing agencies better understand program results, derive lessons learned, and develop recommendations for future USAID programming. The findings of the Mid-Term Evaluation will inform the design of the SAIBL2 Annual Work Plans during any extension period.

The MTE will investigate, among others, the following questions:

² See KNC & Associates, SAIBL – Evaluation & Impact Assessment, September 10, 2003 and Department of Trade and Industry, Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises. 2005. These same factors cited frequently during interviews with informed observers of SAIBL2 activities.

1. Has the program increased business linkages among the historically disadvantaged black-owned SMEs? Have the key program objectives/results been met to date?
2. What were the critical assumptions on which the program was based? Have these assumptions remained valid throughout the program period?
3. What are the key obstacles to increasing business linkages among SMEs as a result of program interventions? How did the program address them and with what result?

EVALUATION PURPOSE AND METHODOLOGY

The SAIBL MTE was carried out during the time period of April 3-21. The MTE used a combination of qualitative and quantitative methods including: examination of program documents, monitoring and evaluation (M&E) data, other secondary data, key informant interviews, and focus group discussions with program staff, implementing partner, government officials, corporate members of the South African Supplier Diversity Council (SASDC), business service providers (BSPs), and small and medium enterprise (SME) owners. (For a comprehensive list of persons interviewed and documents reviewed, see Appendices A and B.) The organizations and persons interviewed were determined through consultation with USAID/Southern Africa and program management taking into account the limited timeframe allowed for this evaluation. SAIBL2 management and staff also helped to facilitate all interviews and technical issues and provided assistance with scheduling meetings and appointments, as well as field visits with the selected stakeholders. The evaluation will clearly document its findings, lessons learned and recommendations.

A further description of the evaluation methodology used for the SAIBL2 mid-term evaluation is provided below.

- **Desk review** of background documentation and materials, including operational documents and reports, monitoring and evaluation reports, annual implementation work plans, quarterly and annual progress reports, evaluation and internal progress evaluation reports, etc. to familiarize evaluators with the program and to determine its implementation status.
- **Structured face-to-face interviews** with key informants, including USAID/Southern Africa, program staff, implementing partners, government officials, corporate representatives, SME owners, and other stakeholders.
- **Focus group discussions** with program staff, BSPs, and SME owners.

Through the methods described above, the evaluation team sought to determine the implementation status of the program and determine whether the expected results have been or are likely to be achieved and the chances of sustaining these results. Evaluators also sought information to identify and assess the validity and continuing relevance of key program assumptions as stated or implied by program documents and stakeholders, to assess the quality of program management and the technical effectiveness of program activities, to identify factors internal and external to the program that have affected its implementation and results, and to identify the challenges and risks to the full attainment of intended program results.

Through the methods described above, the evaluation team sought information related to program design and structure, relevance, efficiency and effectiveness, outcomes and impacts, sustainability, and lessons learned, as follows.

- **Program Design and Structure:** The MTE sought to answer the following questions:

- Is the program is meeting targeted program objectives?
- Is the intervention logic is coherent given the prevailing conditions?
- What is the level of involvement of beneficiaries in terms of both government and other key stakeholders, and in terms of gender in the various stages of the project cycle?
- Does the program need to be re-oriented, e.g., should some components/activities be discontinued or new ones included?
- Is the program is not delivering planned inputs, outputs and meeting targeted objectives, are internal factors (e.g., program component and design) and/or external factors (e.g., economic, political, social environment) preventing the achievement of these?
- **Relevance:** The MTE sought to determine the value of SAIBL2 interventions in relation to government priorities, USAID/Southern Africa strategies, stakeholders' needs, and market conditions. The MTE evaluated both the processes through which results have been achieved and the results themselves whether intended or unintended, in addition to the validity and continued relevance of underlying program assumptions.
- **Efficiency and Effectiveness:** The MTE evaluated the efficiency and effectiveness of the program's technical components. Toward this end, the MTE asked the following:
 - Are program implementers delivering planned inputs and whether planned outputs have been achieved as a result?
 - Is the program using the resources at its disposal in the most economical, efficient and effective manner to achieve its objectives?
 - Are activities being implemented achieving satisfactory results in relation to their stated objectives?
 - What are constraints and bottlenecks related to the program implementation and obstacles to the achievement of the intended results?
 - Are program activities the most efficient or effective way of achieving desired results?
 - Should program components be modified in order to improve program efficiency and effectiveness and if so how?
- **Outcomes and Impacts:** The MTE sought to determine the results of program activities by asking the following:
 - Has the program generated results, either positive or negative, in addition to targeted results?
 - What made successful activities work well and unsuccessful activities not work well?
 - What political, social, cultural and economic obstacles have had to be overcome in order to achieve the success identifies in this evaluation? How were they overcome?
- **Sustainability and Reliability:** The MTE sought to assess the long-term sustainability of program interventions by asking whether the activities and their impact are likely to continue when external support is withdrawn and/or whether they are likely to be replicated or adapted by other entities.

Lessons Learned: The MTE sought to identify lessons learned based on the implementation experience of SAIBL2 and the findings of the MTE.

It is important to note that the evaluation SOW and timeframe imposed a number of constraints on the evaluation design, which in turn affected the conclusions we were realistically able to draw. The entire evaluation—including desk review, research design, field visit, and report preparation—took place during a compressed time period covering the beginning of April to mid-May. There was not, consequently, sufficient time to design and implement a comprehensive and representative mixed-method (quantitative and qualitative) evaluation that would have allowed the MTE team to address questions of ‘attribution’ (e.g., were observed results ‘caused’ by the program). Instead the rapid and largely qualitative research design reflected a pragmatic concession by the MTE team that this was the best that could realistically be accomplished within the timeframe and resources allotted by the SOW.

While the MTE team attempted to visit as many key stakeholders as possible during the field visit, we were not able to interview all of them, and we were only able to interview a relatively small, non-representative sample of program beneficiaries. As might be expected, moreover, different stakeholders had different perspectives on the same issues. Sorting through all of these different perspectives was challenging. Where we could bring in hard data, such as secondary data or data from the project’s performance monitoring system, or the local knowledge and expertise of team members, we did so.

It should be recognized, however, that the rapid and largely qualitative research design used is not capable of producing a comprehensive assessment of the program’s achievements. It is rather a snap shot of program performance at the time of the evaluation based on a reasonably comprehensive, but nonetheless incomplete, survey of USAID, program staff, government officials, and implementing partners and a limited, non-representative survey of program beneficiaries; and the informed judgments of the MTE team members.

OVERVIEW OF SAIBL

SAIBL2 seeks to promote the creation and development of a corporate-led movement that fosters supplier development as a national competitive advantage and priority. It also seeks to encourage systemic change in the way corporations, black suppliers and business service providers (BSPs) do business with one another, while following sound business practices and market forces. The program goals, objectives, and operational framework and structure are described in greater depth below.

PROGRAM GOAL

The SAIBL2 program supports the US Government’s Economic Growth Objective in South Africa to generate rapid, sustained and broad-based economic growth.

PROGRAM OBJECTIVE

The specific objective of the SAIBL2 program is to improve the competitiveness and capacity of black businesses to integrate them into domestic and international markets through increased productivity, improvements in corporate governance, and the development and adoption of modern technologies and marketing practices. Linkages with other businesses and market access in general, hold out the greatest promise for business growth and subsequent new employment opportunities. The South African firms benefit through these business partnerships which bring not only new clients and markets, but also new technologies, management skills, market information and ultimately increased revenues. Thus, in the Foreign

Assistance Framework the program supports the Private Sector Competitiveness (Program Area) and Private Sector Productivity (Program Element).

OPERATIONAL FRAMEWORK AND STRUCTURE

The SAIBL2 program is being implemented under three major result areas and components.

MAJOR RESULT AREA 1: SMEs, EMPLOYMENT AND SALES. Assistance provided in this result area and component includes the following:

- Improving the competitiveness of sound black enterprises through focused enterprise level and group interventions to address gaps and weaknesses in the areas of leadership; management; marketing; production and technology; and quality, environmental, human and financial resource management.
- Facilitating networking and matchmaking to improve linkages to corporations in local and international markets.

MAJOR RESULT AREA 2: CORPORATIONS AND LINKAGES. Assistance provided in this result area and component includes the following:

- Analyzing sectors/value chains to identify areas of growth and opportunity for black enterprises.
- Setting up a corporate membership organization to promote supplier diversity by opening up opportunities for black suppliers and investing in their development.
- Working with large corporations to improve their strategies and practices in diversifying their suppliers and establishing a growing database of sound, certified black suppliers activity engaged in transactions with the corporations.

MAJOR RESULT AREA 3: ASSOCIATIONS AND BUSINESS DEVELOPMENT SERVICES.

Assistance provided in this result area and component includes the following:

- Strengthening the capacity and number of business service providers offering affordable, quality services to black enterprises.
- Marketing the service providers to SAIBL2 partners and clients.
- Working with BMOs to identify and support their black members in benefitting from corporate supplier diversity opportunities and development programs.

Toward the above ends, SAIBL2 provides training, business support services, and funding for SMEs to meet international standards of management, quality, and competitiveness. SAIBL2 services include:

- Training and mentorship
- Business planning
- Identifying private and public financing programs
- Business-to-business partnerships
- Exhibition and tradeshow support
- Proposal development for tenders

- Productivity improvements, quality assurance, and accreditation
- Information on trade protocols and incentives
- Marketing strategies and alleviating constraints to market access.

SAIBL2's trade component also helps historically disadvantaged South African SMEs find new export markets in countries such as Botswana, Lesotho, Swaziland, Tanzania, and Zambia.

As part of component 2, SAIBL2 is collaborating with the National Business Institute (NBI) and the National Minority Supplier Development Council (NMSDC) to create and ensure the sustainability of the South African Supplier Diversity Council (SASDC). The SASDC is a member-directed organization that seeks to be the leading corporate council in South Africa dedicated to promoting sustainable supplier diversity through targeted procurement and black supplier development. Its goal is to facilitate business linkages between its corporate members and bona fide black-owned enterprises geared towards becoming long-term, qualified entities capable of competing in the national and international economic mainstream. The first of its kind in South Africa, the SASDC seeks to enable its members to practice supplier diversity as a strategic business objective in the following ways.

- Establish and maintain a database of certified bona fide black suppliers for members to access.
- Share knowledge, experience and best practice in supplier diversity.
- Support member commitments in growing procurement and development opportunities for black-owned suppliers.

The SASDC has formally registered as a non-profit organization with a functioning Board of Directors and 11 corporate members to date. Candidate members include private corporations, state-owned enterprises, and universities.³

USAID SUPPORT OF SMES

USAID has a nearly 13 year history of support to South African small and medium enterprises. The first South African International Business Linkages (SAIBL) program that ran from FY 1998 – FY 2008, focused on creating market driven linkages for small- and medium-sized historically disadvantaged enterprises (HDEs), now more commonly referred to as Black Economic Empowerment (BEE) enterprises, which lacked resources to compete in the mainstream global economy. Originally a 5-year program, SAIBL was extended several times 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.

Implemented by The Corporate Council on Africa and ECI/Africa, the SAIBL program also assisted small- and medium-sized enterprises (SMEs) to increase productivity, improve corporate governance, gain access to technology and finance, and develop marketing practices. It also created supplier diversity programs for South African corporations to increase procurement from BEEs, facilitated networking and matchmaking opportunities for BEEs exporting to African and overseas markets, facilitated access to private equity, bank loans and credits. Like its successor, SAIBL employed company diagnostic tools to identify gaps in strategic management, leadership, marketing, competitiveness, production and technology.

³ For more on the SASDC, see its website <http://www.sasdc.org.za/>. 2. SASDC. Affiliation Agreement Between the National Minority Supplier Development Council, Inc. and South African Diversity Council (SASDC), March 2011.

Although SAIBL originally focused on linkages with US firms and others in the Southern African Development Community (SASDC) region, it was amended to include South African companies. Subsequently, the Promoting Agriculture Linkages (PAL) component was added along with a new expanded trade component.

USAID learned valuable lessons during the 10 years of the SAIBL project that were subsequently incorporated into its successor SAIBL2. Perhaps the most important lesson was that affirmative procurement policies must be implemented and promoted as a business imperative with economic benefits. Moreover, disadvantaged black SMEs must position themselves as highly qualified competitors for business and not depend upon their status as BEEs for contracts.

SME COMPETITIVENESS

Despite benefitting from years of government and donor efforts to aid them, South African SMEs remain weak. See, for example, the relatively small number of firms that qualified for assistance under the SAIBL2 standards. Black economic empowerment has moved slowly, and overall relatively few black-owned or partly black owned companies had enough success and/or showed potential for linkage with either locally based multinationals or US-based firms.

In response, SAIBL2 developed a rigorous analytical methodology, including a pre-qualification assessment, the Picking A Sound Company (PSC) tool, and a lengthy and in-depth Company Diagnostic (CD). To encourage SMEs to use the business consultancy services it provides, SAIBL2 helps to fund training and other recommended interventions with project resources set aside in an in-house Training and Technical Assistance Fund (TTAF). From the fund SAIBL2 pays for up to four interventions, including training. SAIBL2 covers 50% of the first intervention and a lower percentage of the cost of subsequent assistance. Often the SME pays the balance or obtains funding from other government or donor programs.

A review of a data sample (see Table 1) extracted from the SAIBL2 database revealed that a large number of black SMEs that were eligible for SAIBL assistance chose not to use it. In the sample obtained during the evaluation in mid-April 2011, on average less than 30% of the SMEs opted to undergo the CD and less than 30% of that group proceeded with some intervention to reform their business practices.

While it is true that some SME clients may have obtained funding elsewhere to pay for reforms, it would appear that SAIBL2's efforts to improve SME competitiveness is on average reaching fewer than 10% of their clients. These results contribute to concern that it is not known how many SAIBL2 SME clients are ready to be accepted by SASDC. Answering that question is important to the future success of SASDC.

Table 1. SAIBL Interventions by Province

Provincial Office	SMEs Registered in TAMIS	CD* Not Done	CD* Completed	Interventions Undertaken
Gauteng	212	151	61	13
Kwazulu Natal	58	32	26	13
Western Province	53	34	15	4
Totals	323	217	102	30

* CD – Company Diagnostic

PERFORMANCE RESULTS

Since its inception in April 2008, SAIBL2 has reportedly made good progress in bringing about systematic change between black SMEs and large South African corporations. More importantly is a reported change in attitudes and relationships between them as reported by SAIBL2 leadership and the few SASDC leaders that were interviewed. Table 2 shows the status of key SAIBL2 performance indicators, reported by CCA, as of November 18, 2010. It is exceedingly difficult to determine the most up-to-date results of the SAIBL2 project because the indicators, the planning periods and targets are changed frequently. More recent data (reported in Quarter 11 Report, December 2010) is available, but cannot be meaningfully analyzed because that same report does not have life of project targets, and instead is focused on targets for the October 2010 – March 2012 period.

Table 2. SAIBL2 results reported as of November 18, 2010

INDICATOR	LOP TARGET	ACTUAL
Corporate members joining SASDC	28	11
Black firms receiving assistance	700	389
Business service providers trained & accredited	100	109
Total sales reported	\$800,000,000	\$514,560,000
Total sales to large corporations	\$400,000,000	\$254,489,000
Total export sales	\$43,000,000	\$46,587,000
Net jobs	1000	-32

BUSINESS ASSOCIATIONS

Despite serious attempts to establish collaborative relationships with black business associations, SAIBL2 was unable to find an entry to assist them. Some, like the South African Automotive Repair and Salvage Association (SARSA), were preoccupied with promoting the organization, recruiting new members and developing a national base. Other associations were still sorting out their legal status, or were dominated by leaders that used the fledgling associations for their own political purposes. Although the PMP in March 2009 continued to show four indicators related to business associations, no targets had been established for any of them. By March the following year only one indicator related to associations appeared in the PMP report and it had no targets or actual results. This area of SAIBL2's program had been dropped. Although the evaluation did not devote much time to this component, interviews with observers noted the extraordinary time and effort it takes to build relationships with associations and other issues were given higher priority. There is no evidence that dropping this component hurt the rest of SAIBL2 efforts. Elsewhere in Africa, including Mozambique, there have been substantial benefits derived from work with associations

TRADE PROMOTION AND LINKAGES

Although it is a small component of the project, one of the most successful sub-components of SAIBL2 has been its trade promotion and linkages sub-component. The support activities under this sub-component have focused on trade shows and trade missions, exhibition support, providing market information, matchmaking and training on the requirements for exporting.

Supported by two Senior Trade Linkage Specialists, SAIBL2 adopted standardized procedures and methods to screen and select exporters, to prepare them for the export missions, to arrange match making meetings, to record, analyze and rate leads, and to ensure follow up on return.

Part of the success of SAIBL2's trade promotion efforts can be attributed to the presence of SAIBL2 trade representatives in Botswana, Ghana, Namibia, Tanzania, Uganda and Zambia. Trade missions organized by SAIBL2 to each of those neighboring countries led to sales for SAIBL2 clients.

SUPPORT TO DEPARTMENT OF TRADE AND INDUSTRY

In response to USAID's requirement to give priority to working with the Government of South Africa (GoSA), in mid-2008 SAIBL2 partnered with GoSA agencies, notably the Department of Trade and Industry (dti) to revitalize the Black Business Supplier Development Program (BBSDP) incentive scheme. More than \$1 million of BBSDP funds were leveraged for SAIBL2 clients. The project also collaborated closely with dti on trade promotion events and facilitation.

MAJOR FINDINGS

The major evaluation findings are presented below. Evaluation findings are organized under the following categories: program assumptions, challenges for SAIBL2 implementation, applicability of expected program results, program management, program impact, technical effectiveness, program sustainability, and proposed program extension.

PROGRAM ASSUMPTIONS

The critical assumption underlying SAIBL2 has been that USAID could effectively intervene on both the demand and supply side in promoting supplier diversity. Despite the current depressed economic context, SAIBL2 has been able to develop capacity and awareness among both corporations and historically disadvantaged suppliers.

Development of the SASDC indicates corporations' interest in diversity by procuring from under-used black suppliers, while black suppliers have accepted SAIBL2-recommended business development changes in order to qualify for linkage to corporations.

While the broad assumption appears to remain valid (e.g. there remains interest in linkages from both the corporate and supplier side), the process SAIBL2 chose to work with the under-used black suppliers may have been unnecessarily complex and time consuming. Interviews with participating SMEs as well as BSPs during the evaluation questioned the need for such a rigorous analytical tool (CD) when many of the problems were unearthed and possible solutions identified in the application of the Picking Sound Companies assessment tool. Despite the use of the CD, the evaluation was unable to determine that those firms that completed the CD were any more likely to develop a link with a corporation than those that didn't proceed with the CD.

CHALLENGES FOR SAIBL2 IMPLEMENTATION

From the outset, SAIBL2 faced an inhospitable business climate in which to inaugurate a project intended to lead SME clients through the steps necessary to make them competitive and to convince corporations to buy into the concept of supplier diversity. Its first year--April 2008 to March 31, 2009--coincided with an economic downturn that rapidly descended into a deep recession, triggered by the collapse of the US housing market and excessive credit. The resulting crisis in global financial markets contributed to a significant drop in demand across most business sectors. South Africa, especially the automotive, resource, construction and agriculture sectors, was unable to escape the pain felt elsewhere in the world. The downturn in the global economic climate has proven to be an obstacle in the implementation of SAIBL2.

The shortage of capital for SMEs at the beginning of SAIBL2 has proven to be an intractable problem. Banks continue to follow conservative lending practices that favor larger, more established enterprises and steer clear of SMEs, especially if the concern is a black-owned and still early in its development. Many enterprises that benefitted from SAIBL2 could have been even greater successes had funds for further business growth been made available.

APPLICABILITY OF EXPECTED PROGRAM RESULTS

The results (outputs and outcomes) expected in each component remain applicable, although the amount of those results, will not reach the levels originally planned for at the start of the project in April 2008.

1. Major Result Area 1: SME Competitiveness: Some 389 under-used black enterprises have been identified (and entered into the project database) and varying degrees of assistance have been provided to them to help improve their competitiveness through focused enterprise level and group interventions to address gaps and weaknesses in business operations. It is unclear how many of them are already qualified to be “certified” for the SASDC and what additional assistance they may need to close gaps in order to meet the new SASDC standards. Since the specific purpose of the project is to “improve competitiveness and capacity,” the standards of competitiveness are set out in the Company Diagnostic Tool. Basically the tool tells a company how it is managed and operating against best practice standards. The tool helps to reveal the consequences of not addressing areas for improvement, and conversely, the benefits of doing so.

2. Major Result Area 2: Corporations and Business Linkages: The project has successfully engaged with large corporations to promote supplier diversity by opening their procurement to black enterprises, although to date it is not clear the degree to which those firms have also invested in the development of their new suppliers, as the project expected. Considerable time and attention in 2008-2009 was devoted to an unsuccessful attempt to create from scratch a South African supplier diversity organization. However, the effort to create a supplier diversity council got back on track beginning in late 2009 when the proven model and methodology of the National Minority Supplier Development Council (NMSDC) was adopted by the new South African Supplier Diversity Council. This new organization is on track to be a sustainable entity to continue supplier diversity following SAIBL2.

3. Major Result Area 3: Business Development Services: In an effort to improve business advisory services, SAIBL2 is helping to develop South Africa’s SME consulting industry and has trained some 109 business service providers (BSPs) and is on track to train others and create a pool of over 200 service providers. As the project enters its fourth year, it is unclear how many of those BSPs trained under the project have acquired new skills and knowledge they can apply with SME clients.

PROGRAM MANAGEMENT

The Corporate Council for Africa (CCA) is responsible for all activities and linkages in the US while ECI/Africa is responsible for those in South Africa. Liaison between the two parties has been effective. Program implementation, monthly and quarterly reporting, and establishment of mutually supportive relationships with relevant government agency offices and programs have been good.

It is apparent from the evaluation that some of the success of SAIBL2 can be attributed to experienced, savvy and effective leadership provided by the SAIBL2 Chief of Party in South Africa. Apart from his organizational and motivational skills, the COP has made some important, just-in-time mid-course corrections in the direction of the project when components included in the original project design, i.e. association development, failed to bear fruit. His personality and respected knowledge of the South Africa

context have enabled him to develop productive and effective relationships with SMEs, major corporations and senior government officials.

COLLABORATION ACROSS PROGRAM AREAS

- The SAIBL2 design and the staff that is implementing the three components – corporations and business linkages, SME competitiveness and business development services – have worked well together and seemed to be following a coherent strategy.
- Monitoring, evaluation and reporting systems are centered on a robust, widely-used Technical Assistance Management Information System (TAMIS) database developed by Development Alternatives, Inc. (DAI). It yields details about SAIBL2 activities that enable the CCA and its sub-contractors to produce accurate and timely reports for USAID.
- Standardized forms distributed quarterly to linked SMEs capture data on changes in sales and employment, the two major outcome indicators being tracked.
- Both the PSC and the CD are completed online for speed and to avoid transcription errors.
- A Data Quality Assessment (DQA) was conducted in 2009.

STAKEHOLDER ENGAGEMENT

- The SAIBL2 project structure, and flexibility of the design, has facilitated easy collaboration between SAIBL2 and the dti. This has included training of BSPs who work with dti clients. The absence of rigid rules restricting SMEs to SAIBL2 funding has made it possible for SMEs to tap dti and other donor funding sources to cover the cost of implementing changes to their businesses recommended by SAIBL2.
- While the structure of the SAIBL2 project did not hinder engagement with the FSP project, SAIBL2 leadership passed up opportunities to collaborate with it on BDSP/BSP development (including agreeing to a common name for them) and educating SME clients about new financial products being developed by FSP. FSP client financial institutions reportedly have already made over 400 loans to SMEs as a result of FSP assistance. Had there been the coordination and integration of the two projects as expected, SAIBL2 clients might have been able to benefit as well.
- Some of the SASDC leadership is unaware of FSP and how it might serve the interests of the SASDC membership.
- Three of the four major banks that FSP works with are also members of SASDC. SAIBL2 is well positioned to promote collaboration between SASDC and the FSP financial products being tailored to serve SMEs, like the black SME clients of SAIBL2. Doing so may also encourage SASDC corporate members to look to such facilities instead of considering establishing a financing facility to serve the needs of SASDC members and prospective black suppliers.
- The opportunity to agree on a common rating scale for BSPs is important to the future success of SAIBL2. Such a scale provides a means by which the project can measure the success or outcome of its BSP capacity building efforts.
- FinFind, an online resource that is/will play matchmaker between SMEs and BDSPs could also be a resource for the SASDC and contribute to the sustainability of SAIBL2 services to SMEs.

PROGRAM EFFECIENCY

- SAIBL2 program activities, notably the PSC and the web-based version of the CD, take the conventional approach to assisting SMEs to a new level. In hindsight, employment of those tools could have been less ponderous.
- The jury is still out on whether the BSP development approach followed under SAIBL2 is a sound one. BSP development efforts have had mixed results elsewhere.
- An important opportunity was lost when USAID did not require SAIBL2 to implement credit-related activities and achieve the results identified by the performance indicators contained in the Cooperative Agreement.
- Collaboration between USAID projects, even as closely related as FSP and SAIBL2, cannot be assumed, but must be built into the project designs in the form of specific joint activities to be implemented and/or outputs and outcomes to be achieved.
- During implementation, each project will understandably focus on its own result indicators. But in developing and setting measureable output/outcomes that cut across both projects, USAID is more likely to achieve the collaboration it seeks.

COORDINATION WITH FINANCIAL SECTOR PROGRAM

SAIBL2 has been only one of several programs supporting USAID's economic growth strategy. According to the RFP for SAIBL2, it was expected that "to leverage maximum results, interventions and activities undertaken through SAIBL2 will be closely integrated and coordinated with..." the Financial Sector Program (FSP). The FSP is a \$14.5 million project that began in May 2008 and will end in May 2013. The importance attached to the credit issue in SAIBL2 is reflected in the fact that the Cooperative Agreement required SAIBL2 to report quarterly and yearly on three indicators related to credit: 1) number of SMEs receiving USG supported assistance to access bank loans or private equity, 2) number of SMEs that successfully accessed bank loans or private equity as a result of USG assistance and 3) the Rand Value of all finance accessed.

But the PMP developed by SAIBL2 and approved by USAID allowed SAIBL only to track these credit-related indicators, rather than be accountable for their results.

The FSP is working in two important areas where integration and coordination with SAIBL2 activities could have been particularly beneficial. These include improving the financial intermediaries' capacity to serve SMEs through the development of new products and improving the bankability of SMEs by improving the quality of business services provision to SMEs. While there have been periodic conversations between the projects' chiefs of party and some training of personnel, opportunities were missed to integrate their work in these two areas, especially in linking SME clients of SAIBL2 and the financial intermediary clients of FSP. In addition, while both projects worked to build the capacity of business service providers, SAIBL2 didn't participate in either the FSP efforts to design and develop a system for grading their BDSPs nor in the development of FinFind, an online tool to facilitate assistance to SME clients on improving the finance of their businesses.

PERFORMANCE MANAGEMENT

As required by its Cooperative Agreement with USAID, the CCA developed and submitted a Performance Monitoring & Evaluation Plan, covering what then was the life of project, April 2008 – March 2011, including a road map for SAIBL2's functional objectives, a graphic presentation of the SAIBL2 business

linkages model and a Performance Management Plan. The latter identified 22 indicators to be tracked including eight for the SME Competitiveness result area, seven in the area of Business Linkages and Procurement, and seven indicators for Business Member Organizations & Business Services Providers. But taking into account the disaggregation of most of those indicators, the Plan proposed tracking a total of 75 indicators. Neither baselines nor annual targets were initially identified, but proposed data collection instruments for use with the Technical Assistance Management Information System (TAMIS) database were included.

Eventually, it was agreed that SAIBL2 would be responsible for reporting results against only 9 indicators, while the others would presumably be tracked for internal SAIBL2 purposes as part of its project management. In quarterly and annual reporting to USAID, none of the tracking indicators (designated as Data Points) were used.

During three years of implementation (2008 – 2010), the PMP was never revised or updated to reflect changes that had occurred in the project. The Mission's M&E officer argued for such an update but his efforts were unsuccessful.

PROGRAM IMPACT

FULFILLMENT OF KEY OBJECTIVES

- SAIBL2 program activities have led to increased capacity within the dti. This positive result has included the training of 55 business service providers and 14 staff members. Moreover, the credibility of SAIBL2 has been such that the dti has adopted the SAIBL2 company diagnostic methodology and has begun to rethink its funding policies.
- The Business Development Services component may be adversely affected due to a diminished interest of some BSPs in continuing to conduct the Company Diagnostic because they are not making a profit on the CD.
- The SAIBL2 methodology and process of qualifying black SMEs and identifying their needs seems overly detailed and time consuming. While employment of both the PSC tool and the CD may be appropriate for some SME clients, not all necessarily require such a rigorous process in order for SAIBL2 to identify areas where interventions are required. This may be a case of the perfect getting in the way of the good.
- The fact that the certification process for black SME suppliers employed by the SASDC does not include a CD-like analytical tool would seem to support the view that the CD is not appropriate for all SMEs
- A “CD Lite,” which was developed but later abandoned, is worth a second look for application by all of the Business Linkage Specialists (BLSs). It could offer a less time-consuming but still rigorous analytical alternative.
- SAIBL2 eventually abandoned the Enterprise Linkage Initiative (ELI), an initial attempt to create a loose association of corporations to promote supplier diversity, due to lack of commitment by corporations.
- Efforts to strengthen the capacity and increase the number of BSPs to offer affordable, quality services to black SMEs are facing dissatisfaction among some BSPs, who were expecting additional work to follow their completion of Company Diagnostics. Contacts with some BSPs indicate something of a clash between reality and expectations.
- Collaboration and consultation with the dti has been a top priority for the SAIBL2 consortium.

UNEXPECTED RESULTS

- An opportunity for collaboration between SAIBL2 and FSP was missed when the FSP proceeded to develop its own system for rating BSPs. Such a rating system, which establishes standards for determining the qualifications of BSPs, could have been highly useful to SAIBL2's efforts to improve business advisory services. It would potentially go a long way in helping corporations and prospective black SMEs identify qualified business advisors in a market already glutted with individuals offering their services.
- A detailed, well-reasoned, sequenced, sound but flexible sustainability plan and exit strategy developed with key counterparts was not developed as required in the Cooperative Agreement with The Corporate Council on Africa. Such a plan would have necessarily assumed many things, including the involvement of corporations, which didn't materialize until the third year of implementation.
- Concerted efforts to develop the SASDC do, however, reflect the consortium's commitment to provide for the continuation and sustainability of SAIBL2 results.
- The CCA extension proposal (to September 30, 2012) is to focus on "deepening and entrenching the achievements" so far with the expectation that sufficient capacity will have been built through local partnerships "to continue most of the support services under SAIBL2 on a more sustainable basis."

EXTERNAL FACTORS AFFECTING RESULTS

- South Africa's corporate culture regarding traditionally disadvantaged SMEs, as reflected in their attitudes and sourcing practices is challenging to change. Gaining real commitment to diversity is difficult and time consuming.
- The world recession that began in late 2008 and the resulting poor business environment in South Africa has been an obstacle to stakeholder adoption of change and has contributed to SAIBL2 not hitting the performance targets set in the project's 2008-2011 Performance Monitoring & Evaluation Plan.
- Both internal and external factors seem to have driven SAIBL2's intense desire for credibility with prospective black suppliers as well as corporations. The adoption of a detailed assessment methodology made it possible to put the SAIBL2 imprimatur on the SMEs it has assisted.
- The easy access of SMEs to alternative financing sources, such as substantial grants from dti, and reasonably attainable funding for ISO certification, had a largely positive influence on SAIBL2's success because SMEs could "shop around" for the means to implement changes that SAIBL2 recommend, but were unable to fund in a timely manner.
- While sales and employment results have fallen short of their targets, it is not possible to determine how much of the poor results are due to the unsympathetic business environment or to only marginal improvements in the competitiveness of the SMEs.
- Evidence suggests that competitiveness has improved somewhat, but that could change if the SASDC develops as planned.
- SAIBL2 was designed as a linkage program with heavy emphasis on enterprise development. In reality enterprise development has dominated program activities.

TECHNICAL EFFECTIVENESS

GENDER AND CROSS-CUTTING ISSUES

- SAIBL2 activities have been appropriately gender balanced in selecting women-owned SMEs for business development assistance and training.
- HIV/AIDS has been appropriately addressed in a section of the Company Diagnostic, although reportedly there remains an unfulfilled need to identify and hire one or more BSPs with specialized knowledge of this issue and options available to SMEs to address it.

IMPLEMENTING PARTNERS

- The sub-contractor, National Business Initiative (NBI), stumbled initially in trying to develop ELI, but has subsequently regained its balance and is successfully guiding development of the SASDC.
- The subsequent Affiliation Agreement of March 2011 between the NMSDC and SASDC assures the continued involvement of the NMSDC in development of a supplier diversity development program in order to “facilitate procurement and business opportunities for certified black-owned enterprises through the supply chain of major South African corporations.”
- Affiliation with the NMSDC gives SAIBL2 access to their knowledge, expertise and experience plus the added cache of an internationally recognized authority on corporate-led diversity organizations.
- Given the substantial planning and implementation role of the two sub-contractors, it is challenging to identify the contribution of the Corporate Council on Africa to implementation of SAIBL2.

TRAINING AND TECHNICAL ASSISTANCE

- Training of BSPs in use of the CD almost uniformly received high marks as to quality and usefulness.
- Women-owned SMEs were substantial beneficiaries of SAIBL2 training programs, as were female BSPs, especially measured against their absolute numbers in the private sector.
- Similarly, SMEs found the CD to be a time consuming but useful learning experience that taught them how to look critically at their operations and provided them new insight into how their businesses are operating. In effect, the CD process helped to develop skills and knowledge among SAIBL2’s black enterprise clients.
- On the whole, the SME beneficiaries gave high marks to the enterprise development assistance provided, but were often disappointed that the assistance did not lead to corporate linkages. Many SMEs signed up for SAIBL2 assistance primarily for the linkages rather than for enterprise development.
- There is a distinct possibility of a negative reaction among SMEs who think that they have received some kind of quasi certification from SAIBL2 only to find out that, despite having gone through all the scrutiny and analysis by SAIBL2, they still may not be transaction ready.

PROGRAM SUSTAINABILITY

- Potential obstacles to future program success involve the possible difficulties in making the SASDC fully functioning and self-sustaining.

- Current corporate membership in the SASDC stands at 11 and recruiting others to join the Council is not certain. Difficulty or even failure to recruit a sufficient number of corporations would undermine the organization
- The number of SMEs that qualify for certification and that want to join SASDC number in the hundreds, whereas the 25 corporations expected to join by end 2011 may require a pool of “transaction ready” SMEs numbering in the thousands.
- A worsening of the macro-economic situation has the potential to undermine the future success of SASDC if it leads to a serious contraction of business.
- The failure to develop an effective process for linking suppliers and corporations could retard the growth of the Council that is required to lead to sustainability.
- Failure to locate a source to fund operational costs in a transition period following the end of SAIBL2 could also threaten the SASDC’s sustainability.
- Failure to integrate the BSPs into the process may also threaten the effectiveness of the SASDC given the significant need for capacity development among SMEs, including even transaction ready SMEs.
- Corporations currently provide some funding for enterprise development, but this is expected to be inadequate to support enterprise development activities for those SMEs that require further assistance to close the “gaps” in the performance of their businesses.
- It is unclear at this juncture what will remain of the efforts to promote development of the BSPs. If the program concludes without integrating the BSPs into the SASDC, there is a good chance the program’s work with BSPs will come to naught.

PROPOSED PROGRAM EXTENSION (2011-2013)

In November 2010 at the invitation of USAID, the CCA submitted a proposal to extend the SAIBL2 project for a further two years to enable it to “consolidate and entrench” the systemic changes and results already achieved. Activities proposed during the extension would also “lay the foundation for continuing the work through local market stakeholders and mechanisms.” CCA believes that by the end of the extension period, strengthened local partnerships will have the capacity to sustain most of SAIBL2 support services. The total estimated cost of the proposed extension was \$9 million, increasing the life-of-project cost to \$21 million.

The USAID Mission subsequently opted to extend the program for only one year at a cost of \$4.5 million, with the implied assumption that only another year would be sufficient to turn over SAIBL2 activities to local partners, namely SASDC. The MTE team believes that period is too short to ensure that SASDC is established on sound footings and that the handover of SAIBL2 activities is a smooth one. Clearly, a rush for the exit so soon has the potential to undermine the future sustainability of the SASDC.

According to the extension proposal, the current strategy, priority sectors and activities under the major result areas - SME Competitiveness, Corporations and Business Linkages, and Business Development Services – would continue. Results achieved during the extension would be measured against nine indicators as follows:

1. Number of corporations joining USG supported SASDC
2. Procurement from certified black owned firms

3. Number of corporations receiving training to improve their procurement practices from USG supported SASDC
4. Number of black firms registered and receiving USG supported assistance to improve management practices and operations and to become certified under SASDC
5. Net change in private sector employment of USG assisted firms
6. Number of sales made by USG assisted firms including certified firms
7. Value of sales made by USG assisted firms including certified firms
8. Number of corporations and black firms participating in SASDC business events
9. Number of network facilitators receiving training under BBSDP

These indicators, many of which are carryovers from the first three years of SAIBL2 implementation, appear to reflect a continuation of “business as usual” and fail to capture the essential fact that the project needs to address some important sustainability issues while it is brought to an orderly close. Much is dependent on the development of SASDC during the extension period because CCA expects it, according to its extension proposal, to “continue the mandate of SAIBL2 on an expanded basis, and this institutionalization of the program under South African private sector leadership will be the legacy of the US Government and the American people to South Africa’s economic transformation.”

The need to sharpen the focus on sustainability has taken on greater importance with the USAID decision to extend SAIBL2 for only one year to March 31, 2012. USAID and CCA should consider a new strategy of “consolidation and transfer,” thinking through which CCA activities in the extension proposal would advance such a strategy and consider terminating activities that do not. For example, recruiting new SMEs and implementing pilot activities should be canceled in favor of helping most of the 389 black enterprises already in the database to become SASDC-certified, giving priority to additional assistance to close the gap in the skills of business service providers (BSPs) and identifying the organizational development needs of SASDC for the post-SAIBL2 period.

Systematic and close collaboration should begin between SAIBL2 and the Financial Sector Program (FSP) to determine how FSP and its products can be supportive of SASDC. Priority could be given to “connecting” SAIBL/SASDC’s traditionally disadvantaged black enterprises with FSP financial institutions and their new SME products, collaborating on developing a common rating system for BSPs, arranging for SAIBL2 BSPs to have access to FinFind and the possible future role for FSP in creating a financing facility within the SASDC.

The evaluation team is recommending (see Recommendation section) that USAID consider extending SAIBL into 2013. Whether or not USAID does extend the project, it is imperative that the PMP be revised to reflect a new focus on capacity development to prepare SAIBL clients to become part of the SASDC. The long overdue update of the PMP, which is expected in the second quarter of 2011, will reflect agreed on activities planned for the extension period. It would be enhanced if it were to include a results framework clarifying outcomes and intermediate results leading to a self-sustaining SASDC. Any indicators or Intermediate Results should give priority to identifying outcomes and be defined in capacity building and sustainability terms. Thus, further assistance to BSPs should aim to raise their ranking on a standardized scale of skills and professionalism, and SMEs should be able to demonstrate ability to prepare loan proposals that lead to actual loans.

CONCLUSIONS, LESSONS LEARNED, AND RECOMMENDATIONS

Drawing on the information in this report, this section presents a list of recommendations for SAIBL and USAID Southern Africa to consider for the remaining life of the program and/or for future programming decisions. Recommendations are organized under the following categories: program modifications, program strategy, program sustainability, program extension, performance monitoring plan, and integration with FSP. Some of the recommendations may already be under consideration by SAIBL and the Mission.

CONCLUSIONS

- Assessing the substantive impact of SAIBL2 on historically disadvantaged SMEs, particularly with respect to sales, employment and their overall competitive status is a mixed picture.
- Institutional or structural improvement, such as creation of the SASDC, is a more effective approach to assist SMEs than trying to deal with corporations on an individual basis.
- NBI wisely shifted away from its attempt to create the ELI and turned toward an alliance with the National Minority Supplier Development Council (NMSDC) and adopted its proven diversity council model and methodology.
- Development of the SASDC is a significant accomplishment, although the impact of the council will only be apparent over time. Nevertheless, the potential is there.
- SAIBL2 has been weak in collaborating and partnering with other USAID/South Africa economic growth program implementers, most importantly the FSP.
- The time remaining in the life of the project is inadequate to develop the SASDC to a stage where it can function on its own.

LESSONS LEARNED

- One can try to help individual SMEs, but to scale up the process you need structural transformation like the SASDC.
- Ensure that you have a clear and coherent strategy for business linkages that makes clear the role of enterprise development and linkages.
- Avoid raising expectations inappropriately for both SMEs and BSPs
- Ensure the proportionality of the analysis to the business problems being addressed. If the corporations that are members of the SADCC are not requiring a level of analysis beyond something comparable to the Picking a Sound Company (PSC) tool, it is doubtful something more rigorous for business development purposes is necessary.

RECOMMENDATIONS

PROGRAM MODIFICATIONS

- Given the time left for implementation of SAIBL2, modification of program components or the design would be inappropriate. However, the activities planned during the extension period should be reassessed to confirm that they are consistent with a “consolidate and transfer” strategy.
- Priority should be given to assisting SMEs who are already SAIBL2 clients to ensure that they become SASDC-certified and are, in fact, “transaction ready.” Efforts to identify and help new clients would be suspended in favor of helping existing clients to “graduate.”
- Planned “pilot” projects involving incubators, municipality-based business linkage facilitation units and support to very small enterprises in the arts and craft sector should be re-examined to determine if SAIBL2 should proceed with them in the absence of SASDC or other organization to take them to scale.
- It would be appropriate to continue a selected “pilot” approach, such as assistance to incubators, as an experimental effort to help USAID identify alternative approaches to assist black SMEs following SAIBL2.

PROGRAM STRATEGY

- During the remainder of SABIL2, the implementing partner(s) of SAIBL2 should reconsider the balance between servicing established clients (SMEs, BSPs and Corporations) and identifying new ones. This implies a narrowing of focus rather than widening it.
- An evaluation of SAIBL2 training programs should be undertaken to determine their effectiveness by measuring both knowledge and skills acquired by participants and the degree to which the training has been applied in the work place.⁴
- In its “consolidation and transition” planning, SAIBL2 should include organizational development assistance to the SASDC this year to ensure its “grant worthiness” as required by USAID policy.
- Donors should exercise restraint in encouraging SASDC to take on task before the organization has established its footing. In all cases, they should respect the fact that it is a corporate-driven entity and may operate at a pace that differs from that of donors.

PROGRAM SUSTAINABILITY

- Immediate and significant steps should be taken to promote collaboration between SAIBL2 and FSP, including encouraging SAIBL2 clients to apply for credit at the new FSP facilities and developing FinFind to include BSPs serving both projects.
- Similar linkages between FSP and SASDC should be encouraged because SMEs that manage to get contracts through affiliation with SASDC are going to need new financing to scale up and grow their businesses.

⁴ The well-known Kirkpatrick Model for training evaluation, recommended by USAID, assesses training at four levels. Level 2 measures knowledge and skills acquired and Level 3 measures application on the job. SAIBL2 has been measuring only to Level 1, reaction to the training events.

- The most significant and important element of the SAIBL2 program that will remain after it closes is the SASDC. In addition to organizational development assistance that it will provide the Council, SAIBL2 must work with its current SME and BSP clients to ensure that sufficient numbers of them will be “transaction ready” or certifiable before SAIBL2 ends.
- SAIBL and the SASDC need to find a way to integrate the BSPs trained under SAIBL into the SASDC. If the program concludes before this happens, there is a good chance that SAIBL’s work with BSPs will come to naught.

PROGRAM EXTENSION

- USAID should reconsider its decision to limit extension of the SAIBL21 project to January 2012 and consider extending the project an additional year to March 2013, even if it requires Washington approval.
- USAID would be well served to seriously consider providing direct financial support to SASDC for a limited time and for targeted purposes such as operational staff, certification of SMEs, and training events.
- The Corporate Council on Africa (CCA) is advised to change its stated strategy for any extension period from “deepening and entrenching” to “consolidation and transfer.”
- Approval of an additional extension should be predicated on the CCA presenting a detailed program of activities and results framework that focus on capacity development of existing SMEs, BSPs and SASDC.
- SAIBL2 is urged during any extension to undertake activities, beyond simply training, that develop BSPs to reach an appropriate level of skill and professionalism as determined by a new USAID-endorsed consultant rating system.

PERFORMANCE MONITORING PLAN

- An updated data quality assessment is warranted to better understand the meaning of data that is being reported on the project.
- The Mission M&E Officer should work with the SAIBL2 CO/TR to assist CCA in developing a well-thought out performance management plan with a results framework and indicators,

INTEGRATION WITH FSP

- USAID should review together with the implementing partners the respective roles of SAIBL2 and the FSP project to determine how they can better integrate their efforts to address the issue of inadequate credit to black SMEs.
- USAID should review together with the FSP and other implementing partners how they can coordinate their respective efforts to produce a mutually acceptable BSP rating system.

APPENDIX A. PERSONS CONTACTED

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SOUTH AFRICAN GOVERNMENT

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- Debbie Blanchard, Department of Trade and Industry

OTHERS

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APPENDIX B. REFERENCES

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APPENDIX C. EVALUATION STATEMENT OF WORK

SECTION C - DESCRIPTION / SPECIFICATIONS/STATEMENT OF WORK

C.1 BACKGROUND

South Africa has achieved impressive economic growth since its emergence as a representative democracy in 1994. In fact, between 2004 and 2007 the country was achieving a consistent GDP growth rate of 5% per year (though, as was the case globally, the rate retreated significantly in 2008 and in fact was negative in 2009 due to the global financial crisis). However, the positive macroeconomic trends of the past two decades mask underlying challenges that threaten the country's long term stability. The official unemployment rate in South Africa remains stubbornly high at 25.2%, and when including discouraged job seekers (i.e. those that voluntarily give up looking for work) rises to 35.4%. Furthermore, the unemployment rate is double among the youth population (i.e. those aged 18-24). It is estimated that approximately one-half of the population of South Africa lives below the national poverty line. And, income inequality is among the highest in the world. In fact, South Africa's Gini Coefficient, a simple measure of the distribution of income within a country is second highest only to Namibia, meaning that it is one of the most unequal societies in the world. The economic challenges are quite clear. Wealth is concentrated in the hands of too few. Historically-disadvantaged black firms, and in particular small and medium enterprises (SMEs), lack access to the capital, the technology and the supply chains in order to be competitive, access markets and generate jobs. The workforce, and in particular its youngest members lacks the skills necessary to meet the needs of a dynamic economy.

USAID/Southern Africa's economic growth programs work to address these issues. Programs are tailored to support South Africa Government (SAG) priorities. Specifically, USAID implements three separate yet complementary programs aimed at addressing SME competitiveness, SME financial product access and workforce skills development. This SOW requests proposals to analyze two of these programs, the South Africa International Business Linkages Program (SAIBL) and the Financial Sector Program (FSP). However, while the evaluations will consider SAIBL and FSP individually, they should also consider the interrelationship of all economic growth programs in the USAID/Southern Africa portfolio, particularly as they relate to the efforts of the SAG and other development actors working in South Africa and within the context of the overall needs of the country.

C.2 OBJECTIVES

This Statement of Work (SOW) solicits proposals for conducting two formative, mid-term evaluations for the USAID/Southern Africa Regional Economic Growth Office. These evaluations will separately consider the following programs: 1) the South Africa International Business Linkages Program (SAIBL); and 2) the Financial Sector Program (FSP). Each mid-term evaluation will assess the success of the individual program in meeting targeted objectives, and, more importantly, propose concrete recommendations for adjustments to program strategy and structure for implementation during the program extension and option period for SAIBL and FSP respectively.

The mid-term evaluation reports will provide crucial guidance for USAID and the SAIBL and FSP implementing partners. Offerors should consider these groups as the report's audience. Each evaluation must provide pertinent information, statistics and judgments that will help USAID and implementing partners better understand the initial results and contributions of the projects, and to identify lessons learned from the programs that can be used to guide the design of appropriate interventions in support of the program objectives. The evaluations will identify key accomplishments, as well as challenges that may have impeded

the accomplishment of targeted outputs and higher-level objectives. Evaluators should consider program impact disaggregated by gender, as well as the integration of gender into program activities throughout the evaluation process.

The findings of the mid-term evaluations will inform the design of follow-on activities for SAIBL and the Annual Work-Plans for FSP during their extension and option periods (if exercised) respectively.

C.3 SCOPE OF WORK

South African International Business Linkages Program (SAIBL). SAIBL is a USAID/Southern Africa-financed program awarded through a cooperative agreement to the Corporate Council on Africa (CCA) and implemented in partnership with ECI Africa Consulting (Pty) Ltd and the National Business Initiative (NBI). Awarded on April 1, 2008 SAIBL supports the U.S. Government's Economic Growth Functional Objective in South Africa, aimed at generating rapid, sustained and broad-based economic growth. More specifically, SAIBL supports the Program Area Private Sector Competitiveness and the Program Element Private Sector Productivity. To achieve this SAIBL works to improve the competitiveness of historically disadvantaged black businesses to integrate into domestic and international markets through improved productivity, corporate governance and the development and application of modern technology and marketing practices. SAIBL also supports the Program Area Agriculture and the Program Element Agriculture Sector Productivity, and more specifically the Sub-Element Markets and Trade Capacity.

SAIBL aims to improve the competitiveness of historically-disadvantaged black-owned SMEs. To achieve this SAIBL works to increase SMEs' ability to access quality business services and link into marketing and supply chains. SAIBL includes three program components. First, under the component SMEs, Employment and Sales, SAIBL works to improve the governance and competitiveness of black enterprises through conducting company diagnostics, followed up by focused enterprise level and group interventions to address gaps and weaknesses in the areas of strategic management, leadership, marketing, production and technology, quality management, and human and financial resource management. Under this component SAIBL also works to facilitate networking, matchmaking and linkages for SMEs to business opportunities in the local and international markets. Finally, SAIBL facilitates solutions and support to black enterprises in dealing with the business and health risks of HIV and AIDS. Under the program component Corporations and Linkages, SAIBL conducts sector and value chain analyses to identify areas of growth and opportunity for black enterprises. SAIBL also works with large corporations to improve their policies, practices and outreach to black enterprises in providing advice, technical assistance, training, and procurement opportunities. For example, currently SAIBL is helping to facilitate the creation of the South Africa Supplier Diversity Council (SASDC). SASDC is a membership organization composed of large corporations that commit to increase opportunities for black-owned enterprises to become a part of their supply chains. SASDC will certify identified black suppliers, and where appropriate invest in their development.

Finally, under the program component Associations and Business Development Services, SAIBL works to strengthen the governance and member services of business member organizations and the capacity and number of business service providers (BSPs) offering affordable, quality services to black enterprises. SAIBL also markets service providers to its partners and clients.

Financial Sector Program (FSP)

FSP was designed to support the accomplishment of the U.S. Government's Economic Growth Objective in South Africa. This program is one of three main vehicles to promote vibrant growth of historically-

disadvantaged SMEs and reduce unemployment and poverty - generating rapid, sustained and broad-based economic growth in South Africa.

The objective of FSP is to expand access to financial services and lower financing costs for SMEs through reforming the legal and regulatory framework affecting the financial sector and business environment and improving the commercial viability of lending to historically disadvantaged SMEs in South Africa. The ultimate aim is to mitigate market credit risk leading to increased SME access to a range of quality, affordable financial services. More specifically, FSP works in four distinct yet related areas. First, FSP works to improve the capacity of financial intermediaries to provide financial services to SMEs in an efficient, innovative and cost effective manner in response to market needs. Second, FSP works to improve the quality of business service provision to SMEs in a way that will promote access to finance, and to enhance the financial literacy of SMEs by working with a range of BSPs and or their host organizations (BSOs). Third, FSP works to support the development of an enabling environment for SMEs and implementation of legal, regulatory and institutional reforms that will contribute to expanding access to credit for SMEs, especially historically-disadvantaged black-owned SMEs. Finally, FSP works to strengthen SME finance knowledge management systems through working with multiple stakeholders to capture, codify, and share information about access to finance by historically-disadvantaged SMEs.

DELIVERABLES FOR EACH EVALUATION TEAM

The Contractor shall provide the following Deliverables for each mid-term evaluation:

- **Evaluation Plan/Methodology:** The evaluation teams will each submit a draft Evaluation Plan to be approved by USAID/Southern Africa within ten (10) days after the awarding of the Task Order. The plan should describe the methodology to be used, sampling techniques, site selection, information sources, interview protocols, etc. The methodology should describe how the team will work with USAID/Southern Africa staff, implementing partners, program clients, and South African government, civil society and private sector stakeholders in order to solicit feedback on the Evaluation Plan, and conduct the evaluation, develop the draft reports and the final debriefings. Upon the evaluation teams' arrival in South Africa, the draft Evaluation Plan/Methodology will be discussed with USAID/Southern Africa and implementing partner representatives and revised accordingly prior to implementation.
- **Work Plan:** The evaluation teams will each submit a draft Work Plan (Operations Plan/Gantt Chart) to be approved by USAID/Southern Africa within ten (10) days after the awarding of the Task Order. Upon the evaluation teams' arrival in South Africa, the draft Work Plan will be discussed with USAID/Southern Africa and implementing partner representatives and revised accordingly prior to implementation.
- **Discussion of Draft Preliminary Final Report:** The evaluation teams will each submit a rough draft of the Final Report to the program COTR two (2) days prior to the Debriefing with USAID/Southern Africa staff. The COTR will provide preliminary comments prior to the final Mission debriefing. This will facilitate preparation of the Preliminary Final Report which will be left with the Mission upon the evaluation teams' departure.
- **Debriefing with USAID:** The evaluation teams will present the major findings of the evaluation to USAID/Southern Africa through a PowerPoint presentation after submission of the Preliminary Final Report and before the teams' departure from country. The debriefing will include a discussion of program achievements and issues as well as any recommendations the team has for possible modifications to the respective project approaches, activities or results. The teams will consider USAID comments and revise the draft Preliminary Final Reports accordingly and as appropriate.

- **Debriefing with Partners:** The evaluation teams will present the major findings of each evaluation to USAID implementing partners (as appropriate and as defined by USAID) through a PowerPoint presentation prior to the teams' departure from country. The debriefing will include a discussion of achievements and activities ONLY, with no recommendations for possible modifications to project approaches, activities or results. The teams will consider partner comments and revise the draft Preliminary Final Reports accordingly and as appropriate.
- **Preliminary Final Report:** The evaluation teams will each submit separate Preliminary Final Reports to the respective program AOTR (SAIBL) and COTR (FSP) prior to the Team Leader's departure from South Africa (n.b. The date of the Team Leader's departure is flexible however the Contractor should plan on a maximum of 20-25 working days for the completion of the entire evaluation, including submission of the Final Report). The written report must clearly describe findings, conclusions, and recommendations. USAID will provide comments on the draft reports within two weeks of its submission. The reports must be submitted electronically and written in English.
- **Final Report:** The evaluation team will each submit separate Final Reports (not more than 20 pages each) not more than five days after USAID/Southern Africa provides written comments on the teams' Preliminary Final Reports (see above). The reports must include the evaluation teams' responses to Mission comments and suggestions. The format must include an executive summary, table of contents, methodology, findings, conclusions and recommendations. The reports must be submitted electronically and written in English.

Final Reports

The Contractor shall submit the Final Report of each evaluation team no later than six weeks after the evaluation start date. USAID/Southern Africa anticipates that both the SAIBL and FSP mid-term evaluations will be completed within a six-week period beginning approximately February 22, 2011. This includes preparation days, in-country work in South Africa, and report writing and finalization.

Logistics

The Contractor will be responsible for organizing all international and in country travel and transportation (including airport pickup) and lodging. USAID/Southern Africa will provide key documents and assistance with scheduling meetings and appointments. Once in country, the evaluation teams can schedule additional meetings as appropriate. USAID Southern Africa will be available to the teams for consultations regarding sources and technical issues before and during the mid-term evaluation process.

C. 4. IMPLEMENTATION AND MANAGEMENT PLAN

The Contractor shall provide contract management necessary to fulfill all the requirements of this Task Order. This includes cost and quality control under this contract.

C.S PERFORMANCE MONITORING PLAN

The Contractor's performance shall be evaluated based on the completion of specific tasks and deliverables as outlined in the Task Order, adherence to the work plan, and reports submitted to the AOTR (SAIBL) and COTR (FSP) respectively.

END OF SECTION C

REPORT III

SASDC REVIEW REPORT

SASDC REVIEW AND EVALUATION REPORT

Prepared by

ORRIN BENN IN ASSOCIATION WITH GENESIS ANALYTICS

For



SOUTH AFRICAN SUPPLIER DIVERSITY COUNCIL

And

NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL

Supported by



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The report was based on information and documents provided by SASDC, NMSDC, SAIBL partners and other available information. Although every effort was made to ensure accuracy and completeness of the information in this report, neither SAIBL, its partners, employees and consultants are or may be held responsible for any error, omission or representation whatsoever, and the recipients indemnify SAIBL and its agents against any action.

12 March 2012

Leslie Marbury, USAID Southern Africa

Matthew Govender, Chairperson, SASDC

Eric Vicioso, Director of International Programs, NMSDC

SASDC Review and Evaluation Report

We are happy to present to you the report on the review and evaluation of the operational status conducted on the SASDC between 23 February and 6 March 2012.

We take this opportunity to thank you and all those who gave their valuable time for the cooperation we received.

We are confident that this report provides findings, recommendations and options to assist SASDC, its partners and supporters in developing and consolidating this important initiative.

Sincerely

Orrin Benn

Paul Jackson

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1 INTRODUCTION

SASDC, as a new start-up council, has been successful in attracting top tier South African corporations to become members since it began operations in February 2011; however membership and certification growth, which are key metrics, have not met expectations.

SASDC faces a challenge in getting its corporate members to fully understand that the focus of Supplier Diversity is access to procurement opportunities and the embedding of certified suppliers in the supply chain. Many South African corporations view engagement with black suppliers as transactional, compliance driven and incapable of being core value add providers in their supply chain.

There is a tremendous opportunity to change this mind-set and share best practices used by American companies as more of them join SASDC and become active participants in the workings of the council. Member corporations have expressed a desire for support in building awareness of SASDC within their organizations; however SASDC needs to assist them by demonstrating the business case for Supplier Diversity and the value it adds to corporate supply chains.

SASDC also faces a range of other issues not least among them is governance. There are competing visions of access to procurement versus enterprise development/ capacity building and the priority each holds as the prime driver in getting the new organization off the ground. These issues are addressed in this report.

1.1 Background and Context

Supplier Diversity at its core is more than just business transactions between corporate buyers and black suppliers; it is about previously disadvantaged people and their aspirations to be part of the economic mainstream. It is also about corporations making sound business decisions while being good corporate citizens. Most importantly, Supplier Diversity is about inclusion and the innovation benefit that having a diverse base of suppliers brings to a corporation.

With technical assistance from the National Minority Supplier Development Council—NMSDC—in the United States and leadership provided by leading South African corporations; USAID and others, the practice of Supplier Diversity is taking root in South Africa with the creation of SASDC.

SASDC operates as an independent non-profit organization governed by a Board of Directors composed of major domestic and global corporations operating in South Africa. The vision of SASDC is to be the leading corporate-driven council in South Africa dedicated to promoting sustainable Supplier Diversity, through targeted procurement and black supplier development. The organization aims to boost economic development efforts, employment and inclusion of previously disadvantaged people through business relations and access to procurement.

The National Minority Supplier Development Council in the United States, a key partner with the SASDC, has had over forty four years of continued success in the practice of Supplier Diversity where spend between major corporations and minority suppliers have reached over one hundred billion dollars. Corporations on a global basis have adopted Supplier Diversity as part of a global procurement strategy with Supplier Diversity councils emerging in Canada, China, Europe and Australia. SASDC may be informed by some of the strategies and tactics used in other jurisdictions to launch and sustain Supplier Diversity councils.

1.2 The Review

USAID, which supports SASDC via the South African International Business Linkages (SAIBL) program, requested a review and evaluation of SASDC in order to assist the organisation in its efforts to gain traction and put on a fast track to sustainability. Importantly, the intent of the review is to focus on providing solutions and not dwelling on historical hiccups.

Consultants conducted a review of the organization over the period February 23rd 2012 to March 6th 2012. The review consisted of a review of background documents and information on SASDC, meetings with the NMSDC management committees responsible for Global Link partnerships, meetings with SASDC Board members, staff and certified suppliers. Meetings were also conducted with the SAIBL Chief of Party and the CEOs of ECI *Africa* and the National Business Initiative (NBI), the partnering agencies responsible for the support of SASDC. At the end of the review the consultants also met with USAID Mission Director Jeffrey Borns and Leslie Marbury of USAID Southern Africa. (See Appendix 5.5 for a list of SA interviewees).

The environmental context of South Africa is important in understanding the report's key findings as is the strategies employed by the NMSDC and its Global Link partners in successfully launching new councils in other jurisdictions.

Supplier Diversity is a new business term in South Africa and as such it is not clearly understood and likely to be framed under the legislative mandate of Black Economic Empowerment (BEE), which is compliance driven and is generally viewed as a cost by South African business. In actual fact, Supplier Diversity is voluntary and is regarded by global corporations who have adopted the strategy as a strategic imperative necessary to renew the supply chain and bring in innovation by including all suppliers.

As consultants we were privileged to meet with several board members, certified suppliers and staff. We can truly say that although there are differences of opinion, everyone we met with was passionately committed to the success of SASDC and we see this as a very positive indication of the future success of this organisation.

SASDC Vision

To be the leading corporate-driven council in South Africa dedicated to promoting sustainable supplier diversity, through targeted procurement and development.

SASDC Mission

To enable members to practice supplier diversity as a strategic business objective, by:

- *Establishing and maintaining a database of certified black-owned suppliers;*
- *Sharing knowledge, experience and best practice in supplier diversity;*
- *Supporting members in growing procurement and development opportunities for black owned suppliers.*

2 SPECIFIC MEASURES TO PROPEL SASDC

SASDC must prioritize key activities in order to deliver on its mission. They are as follows, in order of priority:

- i. Hire a competent CEO to lead and stabilize the organisation behind a common purpose.
- ii. Hire appropriate staff at competitive salary levels to fill positions in a realigned operational structure, to secure focused execution on organisational goals.
- iii. Review/ restructure the Board to reduce over-governance and establish clear lines of responsibility for management.
- iv. Certify 900 black suppliers by September 2012 to create a critical mass of suppliers to match member needs – enabled by an online searchable database (by March 31, 2012) and online certification registration (by April 30, 2012).
- v. Establish a 3 year SASDC budget and plan to reflect all country coverage
- vi. Establish a system to track, record and report spend between corporate members and suppliers to validate the existence of the SASDC and gain attention.
- vii. Engage in sector analysis of suppliers and member demand forecasting to meet corporate member needs.
- viii. Develop plans for income generating events: institute an annual conference and Supplier Diversity business opportunity fair for certified suppliers and corporate members; and host an annual founding members' awards gala.
- ix. Develop new marketing and branding materials for membership building and internal corporate support.
- x. Engage NMSDC in exchanges with corporate partners to embed Supplier Diversity learning and build internal support within member corporations.
- xi. Develop annual survey plans to gain information on council effectiveness and monitor the capacity base of certified suppliers to match corporate member needs.
- xii. Engage a local consultant to right-size SASDC, review processes and recommend overhead reductions, in order to fast-track self-sustainability.

These activities must be completed at the earliest for SASDC to reposition itself and focus on its core objectives.

While staff continuity is important in SASDC achieving its objectives the new CEO should be mindful of the risk of confirming high overheads in staff and operations that might handicap

the drive to a restructured lean organisation focused on delivering results to its members and certified suppliers.

3 MEETING SASDC STRATEGIC OBJECTIVES

SASDC has set itself six strategic objectives for the next five years:

- a. Grow membership;
- b. Deliver valued, demand-driven member services;
- c. Provide access to a growing pool of certified suppliers;
- d. Facilitate business linkages;
- e. Achieve self-governance and self-sustainability; and
- f. Achieve recognition as the leader and authority on Supplier Diversity.

Most of these strategic objectives are intrinsically linked. For example, without growing membership, SASDC cannot achieve self-sustainability. However, without providing access to a growing pool of certified suppliers, SASDC will struggle to grow membership.

These strategic objectives are sound and do not require alteration. However, SASDC has been slow to meet these objectives, on all accounts. Deliberate actions are required to drive success in each area.

3.1 Grow membership

Main findings:

SASDC, as a new start-up council, has been successful in attracting top tier South African corporations to become members. However, membership growth has slowed (see Appendix 5.1).

Corporations have ostensibly been reluctant to join SASDC because of the perceived high fee of R150,000. This has been a barrier for US corporations in particular, as this fee is relatively high to what they have been paying for membership in other councils. Lack of a large database of certified suppliers has also been a deterrent.

Recommendations:

Rather than lowering the R150,000 fee, which is necessary for SASDC to achieve sustainability; the council might consider giving US companies, who are current NMSDC members, a membership discount on joining. SASDC will recoup these funds as these companies participate in paying activities of the council.

SASDC will benefit from these companies participating as members because they can be effective drivers in the sharing of best practices and providing for internal support of South African companies struggling to adopt and percolate a Supplier Diversity policy within their organizations.

Many US companies are also tier one suppliers to large South African companies. SASDC should also consider targeting these companies for membership.

Another way for SASDC to rapidly ramp up its membership is to work closely with the NMSDC to bring a delegation of targeted companies to its first procurement fair, when it has a sizeable number of black suppliers in targeted sectors displaying.

American minority suppliers already embedded in the supply chain of major corporations are also quite sizeable and these suppliers may also be interested in forging partnerships with black South African certified suppliers to extend their international reach with the companies that procure from them in the United States. This creates another opportunity for SASDC to demonstrate its engagement with South African black suppliers and dispel the notion that the organisation is just another database.

Having a large searchable database of certified black suppliers would make it easier for SASDC to attract corporate members by emphasizing the fact that these suppliers have gone through a rigorous certification process; weeding out front companies. Other benefits of a large searchable database would include:

- Ability to consolidate and claim procurement spend with black suppliers, validating the existence of SASDC.
- Creating a large branded pool of suppliers who can become engaged in a supplier input committee.
- Meaningful engagement of suppliers supporting SASDC objectives and showcasing their products and services at a procurement fair.
- Attracting government attention and support for SASDC objectives.
- Ability to initiate an effective second tier program engaging suppliers.
- Ability to attract paying suppliers and corporate members at the procurement fair awards gala and other SASDC fund raising events.

SASDC should plan carefully to demonstrate success at its first procurement fair and engage the NMSDC and the South African corporate community. A successful procurement fair can be leveraged to its fullest public relations value in growing awareness of SASDC.

3.2 Deliver valued, demand-driven member services

Main findings:

There is no evidence that members are willing to pay for member services such as supplier diversity training and supplier diversity levels assessments. At this stage of SASDC's organisational development, members appear not to place much value on member services besides certification, a searchable database and support with building greater awareness of the SASDC and supplier diversity within their corporations (see Appendix 5.6).

Recommendations:

Priority should be given to certification, to promote focussed achievement of objectives, with other member services downgraded in priority. It is premature for SASDC to deliver value-adding member services when it is yet to achieve recognition among its members as the leader and authority on Supplier Diversity, never mind the broader population of Corporate SA.

3.3 Provide access to a growing pool of certified suppliers

Main findings:

As mentioned earlier, a key element to “providing access” is the creation of a searchable database. However, this will still be of limited value if it is not a rapidly growing database.

The current organisational structure under which SASDC operates has proven to be inefficient in delivering results, especially in certification. A total of 10 staff¹ working on certifications have been able to certify only 95 black suppliers since the council started; and 49 of those certified have been referred through the SAIBL programme (see Appendix 5.1). Board members have indicated that they have passed on their lists of black suppliers to the council to become certified but few have been certified. Staff have also indicated that once certification processes have been completed it becomes delayed at the board level where certificates must be signed by the Board Chair (see Appendix 5.6). The net effect is that certification team’s productivity is low, where each officer has produced on average 1.7 certified suppliers per month².

Recommendations:

An immediate revamp of the current process is necessary if future targets are to be met. We recommend that certification applications be put on line and a specific time period from when an application is received to when all required documentation is submitted be communicated to the applicant. Failing to provide all documentation in a specific time period would mean that the file is closed and the applicant would have to re-apply. Once all documentation has been received and cleared internally then a site visit should take place to confirm due diligence. The file should then proceed to the certification committee and if there are no issues, the certificate signed by the CEO should be issued forthwith. This process should take no more than 30 days.

3.4 Facilitate business linkages

Findings:

There is no IT system in place to track and report on members' procurement spend with certified suppliers. Coupled with no requirement for members to report on spend, plus a small pool of certified suppliers, has resulted in minimal actual spend with certified suppliers (see Appendix 5.1).

SASDC sees supplier development as being critical to its mandate co-existing with access to procurement. Indeed both activities are inter-related and over time will enhance the organization and its mission.

¹ This includes the certification manager. One certification officer resigned in Dec 2011, reducing the total complement to 9.

² This is a conservative calculation based on 8 certification officers, with a start date of 1 August 2011.

Recommendations:

Formalise processes around member demand forecasting, combined with sector analysis (see below) and publically claim credit on spend with certified suppliers – even if they were pre-existing suppliers to members.

In the short term, the priority should be on certifying as many black businesses as possible and bring them under the SASDC umbrella. This would create a critical mass of certified black suppliers from whose profiles meaningful sector analysis can be done and a path cleared for supplier development. Certification should be a pre-condition for capacity building/ supplier development. Capacity building should not occur prior to certification. The process under which this may best be handled is the establishment of a robust Supplier Input Committee.

We have noted that the Board of SASDC has completely removed the Supplier Input Committee from its structure in its revised Memorandum of Incorporation and we see that as having a detrimental impact on the organisation over time. In other jurisdictions the Supplier Input Committee has proven effective in first being a catalyst for better matchmaking opportunities between corporate members and certified suppliers and later being effective in facilitating procurement opportunities between certified suppliers. We recommend that the Board re-visit this issue and consider reinstating a Supplier Input Committee based along the appended format (see Appendix 5.2).³

3.5 Achieve self-governance and self-sustainability

3.5.1 Self-governance

Main findings:

Board interference in operations has been cited as a reason for higher time demands on staff and may be related to efficiency in meeting operational targets (see Appendix 5.6). Furthermore, the current Board members are not all similarly knowledgeable or experienced to effectively perform their Directorial function (see Appendix 5.4).

Recommendations:

In order to deliver results to its members the SASDC board may consider adopting a leaner board structure appropriate to the size of the fledgling organization. In effect this means adopting a structure where an executive committee will be tasked with guidance of the council's management in the achievement of its objectives. However day to day management and control of the organization will rest with the CEO.

It is recommended that the executive committee be composed of the following:

- Chair

³ Furthermore, we were not permitted to review the minutes of the last Board meeting where decisions around MOI amendments were made, possibly changing the focus and direction of the organization, which may in turn impact on the NMSDC model requirement. This issue warrants further interrogation.

- Vice Chair
- Secretary
- Treasurer
- CEO

The Chair would retain responsibility of appointing individual members or committees to assist him/her in carrying out the Board's mandate. The executive committee could meet on a quarterly basis or less depending on the desire of the Chair and the full board would meet twice a year; to review the audited financial statement and confirm the operating year's budget and at the annual general meeting.

Adopting such a governance structure would place responsibility for the achievement of Board objectives directly in the hands of the CEO and allow the council to operate efficiently like a business.

Chair and executive committee roles and responsibilities are annexed (see Appendix 5.3).

3.5.2 Self-sustainability (Income)

Main findings:

If membership growth continues in the same manner as 2011, total income in Year 2 from membership fees would amount to R3.3mill. In order to reach the budgeted membership income of R5.16mill, SASDC would need to recruit 16 new Charter members or 20 new members (if 10 sign up at Charter level and 10 sign up at Regular/Discounted level). Combining this revenue with at least R800,000 in certification fees (per the proposed certification target of 900), SASDC would still be short by R8mill to cover its budgeted expenses of R14mill. Lastly, SASDC is not guaranteed a donor contribution to cover the losses for the next three years.

Recommendations:

Given the uncertainty of medium-term donor funding, our recommendation to downgrade the emphasis on fee-based member services, and the unlikelihood of receiving substantive ad hoc sponsorship, SASDC needs to a) meet its membership and certification targets; b) reduce its expenses (see further below); and c) generate income from events.

SASDC should employ the strategies per the "Grow membership" section, in order to boost membership. Furthermore, SASDC must start planning for and delivering income generating events, so that by Year 3 it generates at least 25% of its income from events.

The SASDC has not yet staged an income generating event but are making plans to do so with a procurement fair planned for June. The staging of events represents a significant source of income for NMSDC councils. In some councils it represents in excess of forty percent (40%). Events represent an opportunity for corporations and suppliers to become engaged and if staged successfully at the outset, it becomes easier to manage and encourages sponsors and participants to return, each year the event is staged.

The two signature events held at the same time each year in NMSDC councils are the procurement fair and awards dinner gala; other event opportunities such as golf tournaments or sport activities round out the calendar. Staging an event requires lots of lead time for careful planning and preparation and the cumulative experience gained over time is best retained by the hiring of a full time staff member who has the responsibility to develop plans, manage the event and turn a profit.

The SASDC plans to stage a Business Opportunity Fair in June. Even though timing of this event may be a bit premature because of the small number of certified suppliers and the uncertainty of attracting a delegation from the NMSDC in June; SASDC may want to go ahead with the event and use it as a learning experience for a better planned event the following year. Event planning should be an integral part of the marketing plans and budget the council develops.

3.5.3 Self-sustainability (Expenses)

Main findings:

There is serious concern that the support staff may be too large for such a small start-up council. When the review was conducted the interim CEO had just left the council, but continuing on staff was:

- Director Corporations and Linkages
- Manager Member Services & Certification
- Certification Information & Database Administrator
- Project Officer
- Project Finance Officer
- Manager Business Information
- Manager Membership Advocacy & Events

We were told that in addition to their core functions many staff members also supported Board committees on a routine basis.

A full staff complement of SASDC, as it currently stands, and if allowed to carry forward, would be fifteen (15) people. Carrying forward such a staff complement is only possible with significant donor funding. But SASDC clearly cannot sustain itself as a viable organization after funding ceases if it does not restructure itself and begin unloading its overhead.

The SASDC strategy does provide for a minimum staff complement of 9, with total salaries for Year 2 budgeted at R5.8mill. Even with this reduced complement, this salary bill is too high for a start-up organisation, and given the current uncertainty of income, puts the sustainability of the organisation at risk. Likewise, the Year 2 budgeted overhead costs for “Organisational Support”⁴ (R2.5mill) for “Other Direct Costs”⁵ (R3.2mill) are too high.

⁴This cost element refers to recovery of NBI overhead support and use of NBI office infrastructure.

⁵ Direct office and operating costs of the unit and programmatic expenditure associated with setting-up the component structures.

Recommendations:

A “bootstrapping” approach to running SASDC is required. This means driving a lean cost structure of approximately six people that does not depend on a donor subsidy to exist. Reliance on donor money also has the habit of diminishing the entrepreneurial incentive to run a self-sustaining organisation. A superficial estimate of possible savings through a leaner structure would include a reduction in the annual salary bill by at least one third, and a halving of other overhead costs. Whilst it is tempting to establish office space within the existing NBI office space, the SASDC should have the freedom to seek office accommodation on the most favourable terms and create much needed separate identity and physical independence from the SAIBL implementing partners. The SASDC should find appropriate, serviced offices outside of its current NBI location or, if possible, leverage member support to find reasonable or donated rental space and furnishings. Both options would greatly reduce the capital costs associated with establishing an office.

To test the estimated savings and ultimately drive cost savings, we recommend that SASDC work with a local consultant to identify where technology and six sigma processes can be used to streamline the organization, reduce overhead and improve efficiency. This will help the SASDC to achieve sustainability based on its size and growth projections.

3.6 Achieve recognition as the leader and authority on Supplier Diversity

There are many black South African organizations trying to be recognized in the business community as being the leader in black economic development. Consequently this is a huge challenge for SASDC to rise to the top and grow awareness of its mission and contribution to South African society. SASDC is well positioned to accomplish this over time if it leverages the strengths it possesses in having an outstanding roster of leading South African and American companies as members; indeed not many South African organizations can claim this.

Growth in corporate membership and supplier certification growth, as well as publicising the reporting of corporate spend with black suppliers will help; however SASDC needs to be on the lookout for a high profile CEO of a member corporation who can chair its Board. SASDC is unlikely to attract such an individual until it sorts out its governance and management issues and starts building a reputation on its own.

SASDC can also gain credibility by engaging with a South African university and the Institute for Supply Management in a study on Supplier Diversity and its impact on black economic development. The release of the study could generate wide spread publicity in business and government circles if it is handled correctly. SASDC should also leverage its prior association with the NBI to explore ways the two organisations can work together in achieving this objective.

Another option is for SASDC to commission a study (perhaps sponsored by a member corporation, and in partnership with a notable institution) of a black business owner survey for South Africa. SASDC can get assistance in developing a proposal which can easily articulate:

- The Need for the Initiative
- The Benefits and Impact

This could represent a benchmark study that would track business ownership integration in the supply chain. The study could be released every four years. Such activities can be the responsibility of a Board member or committee and can add value to corporate membership and the reputation of SASDC.

4 CONCLUSION

SASDC has a great deal of potential to change the business landscape towards a more inclusive and competitive economy. Much foundational work has been successfully completed, but the SASDC Board needs to take immediate action on the issues raised in order to fast track SASDC to sustainability; failure to do so would greatly increase the risk of the survival of this organization as originally construed.

Timely decision making is essential here and all parties that have a financial stake in the success of SASDC should closely monitor the decision-making and progress of the organisation.

5 APPENDIX

5.1 SASDC performance vs targets

	Actual (29 Feb 2012)	Target (31 Mar 2012)	Variance
Number of members	18	25	-7
Number of certified suppliers	95	150	-55
Number of supplier diversity levels assessments conducted	2	8	-6
Number of supplier diversity training interventions held	1	6	-5
Number of corporations receiving training assistance	4	25	-21
Number of training workshops (for members)	1	7	-6
Number of matchmaking events	0	4	-4
Annual business fair	0	1	-1
Number of promotional/ pre-certification workshops held	42	12	30
Number of attendees to promotional/ pre-certification workshops	385	800	-415
Number of certification applications received	145	200	-55
Value of members' procurement spend on certified suppliers	Not reported	R370mill	

ZAR (excl VAT)	Actual (24 Feb 2012)	Target (31 Mar 2012)	Variance
Revenue from Certification fees	143 877	141 665	2 212
Revenue from Membership fees	3 000 000	3 750 000	-750 000
Revenue from Events	-	160 830	-160 830

Number of SAIBL suppliers that have been identified as potential certified suppliers	400
Number of SAIBL suppliers that have been certified	49
Number of suppliers that have been certified that were referred by members	21
Total number of applicants for certification that have not paid the application fee	8
Total number of potential certified suppliers in the pipeline	3 549
Number of certification officers	8

Date of inception of certification processes:

Started April 2011. 26 applications were presented to the first Certification Committee meeting in Aug 2011.

Members that have purchased from certified suppliers
(who are not pre-existing suppliers to the member): Cummins

	As of 28 Feb 2012
Members at Charter Membership	15
- Charter Members in good standing	8
Members at Core Membership	4
- Core Members in good standing	3
Total members in good standing	11

Members in good standing:

Absa Bank Limited
Afrox Oxygen Limited
Anglo Operations Ltd
Barloworld Siyakhula
Cummins SA Pty Ltd
Foskor (Pty) Ltd
IBM SA Pty Ltd
Rand Water
South African Breweries
Tsebo Holdings t/a Drake & Scull
Cisco

5.2 Supplier Input Committee ToR

The Input Committee conveys the issues of certified suppliers to the Board of Directors monitors SASDC effectiveness in its overall impact upon black business procurement expansion.

Purpose:

The Input Committee is a group composed of certified business owners who provide counsel and recommendations so that the programs and projects implemented by SASDC are relevant and supportive of access to corporate supply chains.

In an organised and formal mechanism, the Input Committee should have officers (business owners only) that create an environment where recommendations, reports and other information can be shared with SASDC board and staff.

Objectives:

- Facilitate the engagement of black businesses with corporate members
- Recruit new black businesses to be certified and encourage their participation in and support of the SASDC Input Committee activities
- Support SASDC staff and its activities
- Establish working relationship with other SASDC Standing Committees of the Board
- Identify needs of black business suppliers and provide recommendations/ observations on programs and services to SASDC Board;
- Ensure continuous communication and coordination of activities between the Board, Staff and members of the Input Committee.

The scope of the Input Committee may include:

- Identification or recommendation of programs to assist in the growth of black owned businesses;
- Recommend training and technical assistance projects that address specific problem areas encountered by black-owned business.

Committee Members:

The Input Committee must be composed of SASDC certified business owners or their representatives. All members are expected to be among the most proactive and committed suppliers in the network. A SASDC staff person should be the ex- officio member and attend Input Committee meetings as required.

Upon recommendation from the SASDC president, members of the Input Committee may be nominated for election to serve a two – year period.

Size of Committee:

The Input Committee's size may be determined by the committee Chairperson in conjunction with the SASDC staff representative, and the size may vary with the sectors represented and interest (commitment) of suppliers in the SASDC network.

5.3 Executive Committee profiles

Board Chair Job Description

Purpose of Position: To provide ultimate leadership of the organisation and ensure that the Board of Directors meets all moral and legal responsibilities; to serve as chief spokesperson in matters of key importance to the organisation; to promote organisation activities aimed at achieving its goals.

The Chairman of the Board of Directors shall be the ultimate leader of the corporation with responsibility for the approval of the organisation's program and budget. In addition the Chairman will:

1. Preside over Board meetings
2. Call for special meetings
3. Appoint individuals and committees to enable him to carry out his responsibilities
4. Appoint a specific number of the organisation members to serve on the Board
5. Encourage Board's role in strategic planning
6. Formally evaluate the performance of the Chief Executive and informally evaluates the effectiveness of the Board members.
7. Evaluate annually the performance of the organisation in achieving its mission.

The Chairman's abilities will require:

1. Upholding the mission of the organisation;
2. Sticking to the Board agendas and moving it beyond details;
3. Building unique relationships with Board members, and using them to shape consensus;
4. Ability to work closely in a cooperative manner with the President of the organisation;
5. Providing direction and guidance to the Board as it establishes policy for implementation by the Council staff;
6. Demonstrating commitment to black South African business development; and
7. The chairperson must use moral and ethical persuasion to elicit proactive involvement from the Board.

Vice Chairman of the Board Job Description

The Vice Chairman of the Board of Directors shall be a member of the Board and shall in the absence of the Chairman of the Board, preside at all meetings of the Board of Directors or the annual members of the Corporation meeting. He/she shall have such powers, authority and duties as may be delegated to him/her from time to time by the Board or the Chairman of the Board. The Vice-Chairman shall be a principal representative of the Corporate Member of the Corporation.

In addition to those duties set forth in the previous paragraph, when the chairman is not present, the Vice chairman shall preside over the Executive Committee when the Committee is in session.

Responsibilities of the Board Secretary

The Board Secretary must be a member of the Board. Responsibilities of the Board Secretary are:

- Maintain records of the Board and ensuring effective management of organisation's records.
- Manage minutes of Board meetings
- Ensure minutes are distributed to members shortly after each meeting.
- Be sufficiently familiar with legal documents to note applicability during meetings.

Responsibilities of the Treasurer

Objective: Manages the Board's review of, and action related to, the Board's financial responsibilities. May work directly with the bookkeeper or other staff in developing and implementing financial procedures and systems.

Additionally, the Treasurer would have the following responsibilities:

- Ensure that appropriate financial reports are made available to the Board. Regularly reports to Board on key financial events, trends, concerns, and assessment of fiscal health.
- Chair the Finance Committee and prepare agendas for meetings, including year-long calendar of issues.
- Recommend to the Board whether the organisation should have an audit. If so, select and meets annually with the auditor in conjunction with the Finance Committee.
- Ensure, through the Finance Committee, sound management and maximization of cash and investments.

5.4 Member and Director profiles

First Name	Last Name	Job Title	Member Company	Industry	Annual Turnover (2010)
Matthew	Govender	General Manager - Enterprise Development	Barloworld Limited	Distribution & Logistics	R 40 830 million
Brian	Minnaar	Integrations & Operations Manager	De Beers Consolidated Mines Limited	Mining & Minerals Beneficiation	R 16 363 million
Sifiso	Mncube	BEE & Supplier Development Manager	Foskor (Pty) Ltd	Mining & Minerals Beneficiation	R 4 611 million
Indrasen	Naidoo	Chief Procurement Officer	FirstRand Banking Group: Corporate Sector	Financial Services	R 35 665 million
Brendan	Raju	Corporate Indirect Purchasing Regional Leader Africa	Cummins South Africa (Pty) Ltd	Manufacturing	R 2 500 million

First Name	Last Name	Job Title	Member Company	Industry	Annual Turnover (2010)
Karen	van Vuuren	Chief Procurement Officer	ABSA	Financial Services	R 19 474 million
Philip	Gregory	Regional Executive - MEA	Johnson Controls	Facilities Management	R 2 500 million
Savvas	Pouroullis	Business Development Manager	Sasol	Integrated Energy and Chemicals	R 142 436 million
Andre	Fourie	Head of Sustainability	South African Breweries	Manufacturing	R 48 632 million
TOTAL					R 313 011 million

Note: amounts contained in shaded blocks are estimates.

5.5 List of interviewees (in chronological order)*

Name	Position and Organisation
Matthew Govender	MD Barloworld Siyakhula; SASDC Chairman
John James	Ex-Chief of Party, SAIBL
Claudia Manning	MD ECIAfrica Consulting
Gary Joseph	Director Corporations & Linkages, NBI
Andre Fourie	Head of Sustainability, SAB; SASDC Director
Brendan Raju	Corporate Indirect Purchasing Regional Leader, Cummins SA; SASDC Director
Kerryn Haselau	Manager Membership & Advocacy, NBI
Abdul Ismail	Manager Certification & Member Services, NBI
Brian Minnaar	Integrations and Operations Manager, DBCM; SASDC Director
John Chitsa	Chief of Party, SAIBL (ECIAfrica Consulting)
Savvas Pouroullis	Business Development Manager, Sasol ChemCity; SASDC Director
Danny Kowlassur	Certified supplier
Veronica Matlaila	Certified supplier
Indrasen Naidoo	CPO, First Rand; SASDC Director
Sifiso Mncube	Group Manager BEE Compliance & Supplier Administration, Foskor; SASDC Director
Joanne Yawitch	CEO, NBI

*Full list of interviewees to follow.

5.6 Interview summaries

Board Function	Interview results
Feedback	<ul style="list-style-type: none"> • The Board has generally been too operational, making excessive demands on Directors' time. There is a need to clearly differentiate the roles of the CEO and the Board. • The Chairman, in particular, has played an interventionist role in operations. His leadership is widely perceived as having served its term. • Board decision-making is slow and sometimes absent. • A smaller Board, with fewer committees, is desirable. • There is division within the Board about the primary focus of the organisation – providing procurement access to black suppliers or black supplier development opportunities. • The Board members do not have high profiles within the business world.
Observations	<ul style="list-style-type: none"> • The existing Directors are very committed to the success of the organisation. • There is a surfeit of governance documentation and processes, which is more suited for a much larger organisation. • The proposed amendments to the Memorandum of Incorporation (MOI), specifically around Director representation on the Board, is both unwieldy and unsuited to the type of organisation. • It is ill-advised that the revised MOI intends removing the Supplier Input Committee and supplier representation on the Board. • The number and type of committees are not suited to the small size and stage of the organisation. • The current Board members are not all similarly knowledgeable or experienced to effectively perform their Directorial function.

Membership	
Interview results	
Feedback	<ul style="list-style-type: none"> • One member (Standard Bank) has given notice of its intention not to renew its membership. • The tiered membership fee structure is considered to be sub-optimal, in terms of not incentivising the desired behaviour and potentially reducing revenue. • The manager of membership and advocacy is perceived to be both well- and ill-suited for the role. • The membership and advocacy function is perceived to be under-resourced. • Multiple existing members have indicated that they have not received value from their membership, and have considered terminating their membership. • US corporations in SA appear to have found the membership fees too pricey. • There is low awareness of the SASDC brand within existing members' and in the general market place. • A minority of existing members appear to fully subscribe to the philosophy and practice of supplier diversity.
Observations	<ul style="list-style-type: none"> • Only 11 out of 18 members are in good standing (as of 28 February 2012). • Member growth is slow, with 8 new members joining in the last 10 months, with half joining at the lowest rate (R75k) and the other half joining at the Charter rate (R150k). • There is no deliberate strategy for membership recruitment targeting e.g. 2nd tier suppliers to existing members; US companies that supply existing members; corporations that operate in SA's main economic sectors. • The recruitment message that is being delivered to potential members may be imprecise, inconsistent and lacking in focus.

Certification	
Interview results	
Feedback	<ul style="list-style-type: none"> • Too few suppliers have been certified to date (95) to make the database attractive to existing and potential members. • The certification process is too slow. In particular, the Chairman should not be signing certified supplier certificates. • Members were reluctant to share their databases of black suppliers. In occasion, when members supplied their lists of black suppliers, the databases were incomplete and inaccurate. • The certification team should have prioritised the certification of existing black suppliers to members.

Observations	<ul style="list-style-type: none"> • Certified supplier certificates display a commodity code, but no description, which is unhelpful for those without access to the commodity code. • The manager of certification is considered to be ill-suited for the role. • There are reporting/performance management difficulties in the certification team, given that the bulk of the officers are employed by a different employer than that of the manager. • It was not made clear to some suppliers that certification did not obviate the need for going through individual members' supplier accreditation and procurement processes.
	<ul style="list-style-type: none"> • The certification team's productivity is low e.g. each officer has produced on average 1.7 certified suppliers per month. • The lack of online application functionality hinders achievement in certification. In addition, it places reliance on costly labour. • It is inappropriate for the organisation to be performing a database cleaning function on behalf of the members.

Member Services and Events	Interview results
Feedback	<ul style="list-style-type: none"> • Members are unwilling to pay extra to receive supplier diversity training and levels assessment. • The lack of a searchable database of certified suppliers is hindering members that are looking to open up procurement opportunities for certified suppliers. • Some members would prefer that the organisation focused first on certification, leaving the delivery of other member services for a later date.
Observations	<ul style="list-style-type: none"> • Members appear not to place much value on services besides certification, a searchable database and support with building greater awareness of the SASDC and supplier diversity within their corporations. • Holding a Business Opportunity Fair (BOF) in June 2012 may be premature, given the low number of certified suppliers. • There are no professional events management skills within the existing team, hence the intention to outsource the role for the BOF.

Finance and Operations		Interview results
Feedback		<ul style="list-style-type: none"> • The NBI is seeking to sign a sub-lease agreement with the SASDC to provide the organisation with serviced office space. • Delays around the appointment of staff, especially the CEO, will likely compromise the continuity of the organisation given that seconded staff contracts expire on 31 March 2012.
Observations		<ul style="list-style-type: none"> • No IT system in place to track and report on members' procurement spend. Coupled with no requirement for members to report on spend, plus a small pool of certified suppliers, has resulted in minimal actual spend with certified suppliers. • No searchable database in place for members to find certified suppliers. • Dedicating human and financial resources to the development of an ERP system is most likely premature and an example of incorrect prioritisation of activity. • Budgeted expenses for the organisation are too high – salaries in particular.

Partnership		Interview results
Feedback		<ul style="list-style-type: none"> • There is tension and mistrust between implementing partners.
Observations		<ul style="list-style-type: none"> • The lack of an appointed CEO, coupled with the reality of budgets and decision-making power resting with multiple people, has created tension. • Ongoing debate about organisational focus and the appropriateness of the NMSDC model, has not promoted a unity of purpose and focus.

Classification	Issue	Consequence	Evidence	Possible cause/s
Funding	Approximately 50% of the members are in good standing.	It compromises the financial health of the organisation and brings into question the commitment of the members.	SASDC journal of payments as at 28 Feb 2012 reflects 11 membership fee payments. One member has indicated its intention not to renew its membership.	Members do not see value in their membership. Administrative delays.
Funding	50% of new members have opted for the lowest tier of membership.	Tiered membership fee structure results in potential members defaulting to the lowest tier option, resulting in lower membership fee revenue.	4 out of the 8 members that have joined since the tiered structure was introduced have selected the lowest tier option.	Distinction in member benefits between membership tiers is insufficient to justify the distinction in fees. New members are not convinced of the value of their membership.
Governance	Large number of non-member representatives proposed for the future Board composition.	It may dilute the influence of members and potentially result in decisions that don't align well with the business interest of members.	Proposed amendment to the MOI.	Interpretation of the current Companies Act and King III code.

Classification	Issue	Consequence	Evidence	Possible cause/s
Governance	Directors perform some executive functions, instead of being restricted to a strategic and oversight function.	Directors are too operational, resulting in inefficiencies for the organisation and making demands on the directors' time.	6 committees, where each director sits on multiple committees. The Chairman signs all certified black supplier certificates.	Perceived Board role in the light of no permanent employees of the organisation. Number and type of committees is not suited to small size and stage of the organisation. The current Board members are not all similarly knowledgeable or qualified to perform their directorial function. There is no CEO for the organisation.
Operational	Members are not reporting procurement spend with certified suppliers.	The organisation is unable to measure and demonstrate progress in creating procurement opportunity for certified suppliers. Which in turn inhibits growth in membership and certified suppliers.	No data on procurement spend with certified suppliers.	No IT system in place to track and report on members' procurement spend. Members are not required to report their spend.
Operational	Members are not transacting with certified suppliers.	The organisation is not meeting its core objective of opening up procurement opportunity for certified suppliers.	One member has purchased from a certified supplier who was not a not pre-existing supplier to that member.	No searchable database where members can find certified suppliers. Mismatch between members' supply needs and certified suppliers because a) members do not share procurement opportunity information (demand forecasts) or b) the Certification team has not correctly prioritised suppliers for certification e.g. SAIBL suppliers over member suppliers. Some members are non-core subsidiaries of

Classification	Issue	Consequence	Evidence	Possible cause/s
				their main company and as such do not hold sway within their corporation; or they do not have the ability to influence procurement behaviour.
Operational	Tension and mistrust between implementing partners.	Slowed progress in the achievement of organisational objectives.	Reported tension and dissatisfaction.	Budgets and decision-making power rests with multiple people. There are multiple implementing partners with different paradigms. There is no CEO for the organisation.
Operational	Relatively low number of black suppliers that have been certified.	The small pool of certified suppliers are unlikely to meet the procurement needs of the members and may inhibit new members joining. Members will query whether they are receiving value for money.	95 suppliers have been certified (of which approx. 49 originate from SAIBL), with a current pipeline of 3,549 possible suppliers. Certification processes started in April 2011, with 26 applications presented to the first sitting of the Certification Committee in Aug 2011.	No option for online applications. Certification officers are not productive. Members were reluctant to share their databases of black suppliers. Members supplied lists of black suppliers, which were incomplete, inaccurate etc. Certification process is too slow and cumbersome.
Operational	Low uptake of member services and general member participation.	Members will question the value they derive from their membership.	Limited number of supplier diversity training events (1) and supplier diversity levels assessment exercises.	Member services are not valued or in demand. Some member representatives perform a non-core function within their corporation and are unable to act as an influential

Classification	Issue	Consequence	Evidence	Possible cause/s
				champion for the organisation within their corporation.
Operational	The organisation plans to outsource the event management of the Business Opportunity Fair.	Profit derived by the organisation is diminished.	Reported intention.	No professional events management skills in existing team. Preference for outsourcing.
Operational	The organisation may lease space at NBI premises.	It will impinge on the organisation's independence and need for a "fresh start".	Reported intention.	Desire for maintaining NBI involvement. Potential overhead cost benefits.
Operational	Slow growth in membership.	The organisation struggles to gain critical mass - for purposes of funding and business linkages.	8 new members have joined in the preceding 12 months.	Corporations do not see value in joining. The membership fees are too high. The message of the value proposition is not effectively communicated. Insufficient resources to promote membership.
Strategic	No supplier input committee or representation at Board level.	It will have long-term negative implications on the business compact between members and certified suppliers; and will remove a valuable feedback mechanism.	This is currently the case, and will be perpetuated through the proposed revisions to the founding documents (MOI).	Perception by the person or people who are driving the MOI amendments that supplier representation is either unnecessary or potentially problematic.

Classification	Issue	Consequence	Evidence	Possible cause/s
Strategic	A minority of existing members appear to fully subscribe to the philosophy and practice of supplier diversity.	A majority of members either lack commitment to, or understanding of, supplier diversity, thereby limiting the organisation's impact.	A minority of members shared a list of their black suppliers with the organisation. Little spend with certified suppliers.	Black suppliers are viewed as transactional and not permanent members of corporate supply chains. There is only anecdotal evidence that demonstrates that black suppliers are capable beyond transactional relationships.
Strategic	Board members are divided on the primary purpose of the SASDC - to provide capacity building or procurement opportunity to certified black suppliers.	Organisational focus will be compromised.	Reported distinctions in area of emphasis.	Board members have different professional backgrounds.

STUDY I

CASE FOR SUPPLIER DIVERSITY

THE CASE FOR SUPPLIER DIVERSITY



TRANSFORMING **SOUTH AFRICA** THROUGH SUPPLIER DIVERSITY

September 2011

THE CASE FOR SUPPLIER DIVERSITY

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ABOUT THE SOUTH AFRICAN SUPPLIER DIVERSITY COUNCIL

The main purpose of the South African Supplier Diversity Council (SASDC) is to promote direct relationships between its corporate members and black suppliers certified by the Council, in ways that contribute measurably to:

- opening business opportunities and growing meaningful business linkages with certified suppliers
- improving business skills, practices and standards of certified suppliers
- creating and maintaining a credible database of certified suppliers
- setting best practice standards for supplier diversity and certification, and
- leveling the playing field for certified suppliers.

The SASDC members are committed to increasing the number of bona fide black suppliers from whom they source, or through whom they distribute goods and services, and to growing the number and value of transactions. By acting as a collective, the members aim to:

- achieve greater effectiveness through scale and impact
- increase efficiency through shared knowledge, lessons and best practices
- leverage and optimise resource use, and
- provide transformational leadership on supplier diversity, going beyond compliance and philanthropy.

The membership of the SASDC includes several well known companies listed on the Johannesburg Stock Exchange and local subsidiaries of global companies.

The SASDC is affiliated to the National Minority Supplier Development Council (NMSDC), the first to pioneer supplier diversity in the US from 1972. The NMSDC has over 460 national corporate members, and a network of around 38 Regional Councils throughout the US, with over 3000 regional corporate members collectively, and more than 16000 certified suppliers. Other councils affiliated to the NMSDC, include the Australian Indigenous Minority Supplier Council (AIMSC); Canadian Aboriginal and Minority Supplier Council (CAMSC); Minority Supplier Development China (MSD China); and Minority Supplier Development United Kingdom (MSDUK) all of which are modeled on the NMSDC.

All these Councils have the common purpose of promoting supplier diversity involving historically marginalised minority groups of their citizenry and indigenous peoples. The SASDC is the only affiliate council operating in a country where the marginalised groups (defined as Africans, Indians and Coloureds) make up the majority black population. This provides both a major challenge and a unique opportunity for the SASDC to play a pivotal game-changing transformational leadership role in contributing to inclusive and equitable economic development, by leveling the playing field for black suppliers. Diversity has become a significant factor in business and can be used strategically by far-sighted business leaders to create dynamic teams, enrich their procurement practices, and open new market opportunities.

For more information on the SASDC visit www.sasdc.org.za/

OVERVIEW

AN INTERNATIONAL PERSPECTIVE AND CASE FOR SUPPLIER DIVERSITY

The United Nations estimates that between 1990 and 2005, transnational corporations more than doubled from 37,000 to 77,000 and their foreign affiliates grew from 170,000 to almost 800,000; many of them in new markets in developing countries. Another study by *UNIDO and the Kennedy School of Government, Harvard University 2007* indicates that more than 4 billion people have made the transition from centrally planned to market-oriented economies. This has resulted in large scale transfer of resources to the private sector, and expanded global value chains and cross border transactions at an unprecedented rate. These trends have spawned new business models and new industries, and increased wealth creation and economic growth, accompanied by fast-changing demographics and markets within and across countries. This phenomenon of globalization has raised complex and multi-dimensional issues around the quality of growth and wealth creation in terms of its sustainability, environmental impact, composition and equity. Exploitation of resources without benefiting local communities has contributed to ever widening income gaps, pervasive poverty and growing unemployment at the base of the pyramid, and has given rise to questions and a new activism around corporate values, leadership, practices and roles.

Over the past decade many corporations have realised that it is no longer good enough to simply comply with regulations, control risks, invest in philanthropy and public relations, and engage in “do no harm” strategies. Technology advances and the information dissemination revolution have increased stakeholder awareness, and the vigilance and influence of civil society organisations, consumers and activists. Business leaders and corporations are under unprecedented pressures to perform, not only in terms of competitiveness, market value and returns, but also in terms of benefiting communities and the environment in which they operate.

The markets in which global corporations operate are becoming highly competitive, with a growing base of diverse consumers. Managers of global companies are challenged to think differently about the roles that diverse suppliers can play in reaching a variety of constituencies and strategic objectives. There is growing recognition and evidence that corporations engaging in supplier diversity initiatives as a strategic business process, stand to improve their long term competitiveness, bottom line and sustainability in terms of:

- developing new markets and competitive forces
- reduced procurement, production and distribution costs
- increased corporate opportunities for responsible social investment in local value chains
- meeting local procurement and local content requirements
- enhanced brand recognition and reputation
- legitimacy and license to operate; and
- contribution to local enterprise development and jobs

Visionary corporate leaders realise that the most sustainable way to remain competitive, legitimate and influential is not only by doing business in a productive and profitable way, but also by creating other development multipliers that generate positive value for themselves, the country and communities in which they do business. Several research reports, and the experiences and evidence from the various established supplier diversity councils, show that supplier diversity is becoming a strategic practice in many top performing global companies, because they realise that their host governments, customers, communities and employees care about it, and require it. Many of these corporations attest to improved brand image and market share attributable to supplier diversity.

Even though the concept of supplier diversity may appear counter-intuitive against a growing procurement optimization practices of contract bundling and supplier-base consolidation, [as pressures lead to companies introducing more sophisticated and competitive supply chain management] doing it and getting it right generates tangible and intangible benefits shown below, that may far outweigh the costs and risks of getting it wrong. A report by the Hackett Group (*World-Class Defined 2006*) also found that implementing supplier diversity does not hinder a company’s efforts to drive spend cost savings, nor does it result in sacrificing procurement savings. Instead the evidence suggested that corporations with world class procurement systems, embracing supplier diversity, are able to generate greater returns on the cost of procurement operations than typical companies.

BENEFITS OF BUSINESS LINKAGES AND SUPPLIER DIVERSITY		
TO LARGE FIRMS	TO BLACK SUPPLIERS	TO COMMUNITIES
<ul style="list-style-type: none"> ✓ Avoidance of costly regulations , increased compliance burdens, fines, damaging publicity, consumer boycotts, activist campaigns, lawsuits ✓ Compliance with local procurement and empowerment requirements ✓ added competitive advantage when tendering for public contracts ✓ Enhanced reputation , stakeholder relationships, license to operate, and acceptance by local communities ✓ Reduced production and distribution costs, and improved returns on procurement operations ✓ Increased ability to outsource non core business activities and to deal with downsizing ✓ Increased brand loyalty and ability to reach consumers and new markets ✓ Greater opportunities for innovation, new product, service and market development ✓ Creation of a more integrated, performance –driven culture, greater cross functional linkages, increased employee learning and motivation ✓ Greater investor, shareholder, employee and customer loyalty ✓ Increased opportunities for corporate social investment and rewards ✓ Reduced environmental impact from lower carbon mile 	<ul style="list-style-type: none"> ➤ Increased motivation and effort to prove their value and to insinuate themselves into supply chains ➤ Acceleration of knowledge and technology upgrading ➤ Enhanced skills, standards and capacity ➤ Increased prospects to secure business financing ➤ Increased ability to attract better qualified employees ➤ Opportunities to innovate, upgrade and increase competitiveness ➤ Risk sharing through joint collaborations, technical assistance and coaching ➤ Increased job creation, employment and local wealth creation by local firms ➤ Opportunities for joint ventures and partnerships in tackling bigger opportunities 	<ul style="list-style-type: none"> • Stimulation of local value chains and local economic development • Increased employment, local purchasing power and tax base • Access to better services and products • Long term increase in local or regional competitiveness • Development of local business service providers and professional services • Greater well being and stability in local communities • Improved relationships, image and acceptance of the corporation as a responsible investor and partner in local communities • Reduction in crime and poor service delivery protests • Successful black suppliers getting more involved in local social and philanthropic activities that benefit the communities
<p>Sources: Adapted from Jenkins Beth, Akhalkhatsi, Roberts Brad, Gardiner Amanda -<i>Business Linkages, Lessons, Opportunities and Lessons</i>. IFC, International Business Leaders Forum, and the Kennedy School of Government, Harvard University; and Jane Nelson –<i>Building Linkages for Competitive and Responsible Entrepreneurship</i>. The United Nations Industrial Development Organisation (UNIDO), the Kennedy School of Government, Harvard University, and the Fellows of Harvard College</p>		

Studies by the World Bank and other reputable institutions show that in high income countries the SME sector contributes more than 60% employment and 50% to GDP, whereas in low income countries contribution to GDP is around 16% and employment at about 30%. Put another way, countries that develop and integrate the SME base into the mainstream economy become more competitive and prosperous in the long run. They raise incomes and broaden the tax base, prime demand for goods and services, and narrow the gap between the rich and poor. If supplier diversity helps to broaden and integrate the entrepreneurial base into the mainstream economy it cannot be a cost of doing business; it is an investment in the future.

SOUTH AFRICAN PERSPECTIVE AND CASE FOR SUPPLIER DIVERSITY

Supplier diversity is a process through which equal opportunities and a level playing field are provided to all businesses representing various ethnic communities to compete. It mainly refers to inclusion of businesses that have traditionally found it difficult or have been deliberately excluded from participating in the supply chains of large corporations. In South Africa the case for supplier diversity and development carries momentous and far reaching implications going beyond the impact on the bottom line, brand image and market loyalty.

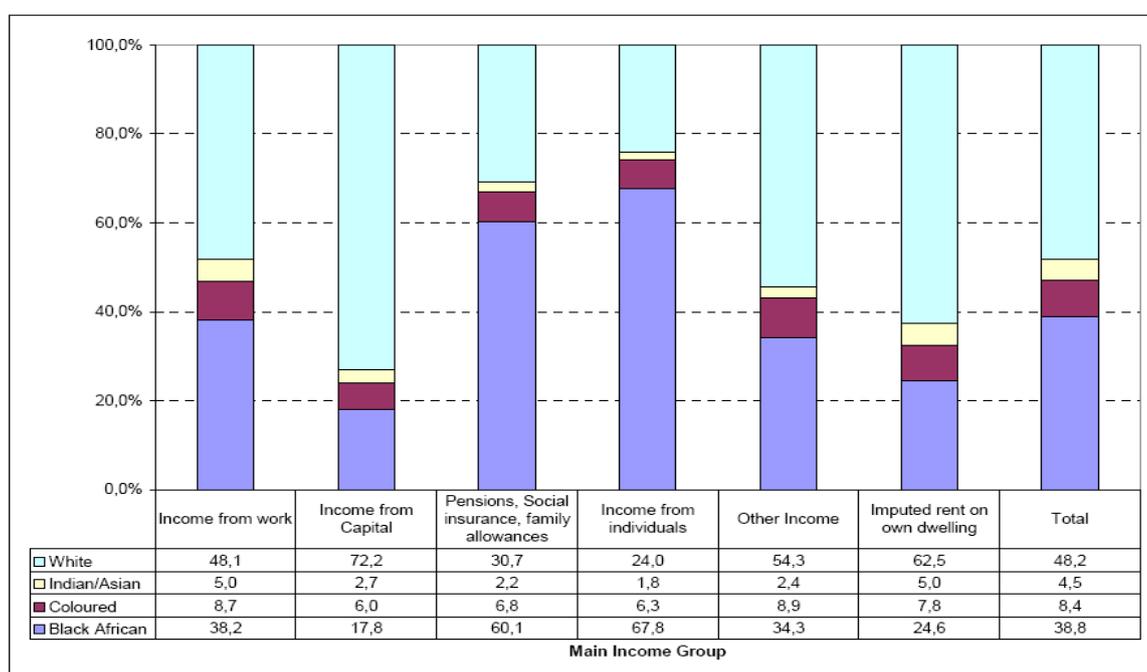
“Political emancipation without economic transformation is meaningless...”

President Jacob Zuma, ANC 99th Anniversary Celebration, Polokwane, 8 January 2011.

“Having scored many achievements during the last 18 years, there is widespread consensus that we have been unable to reach the goal of a truly prosperous, inclusive, non-racial and non-sexist societyOur broad-based black empowerment strategy and employment equity policies have not yielded sufficient results. The ANC must democratize and de-racialise the ownership and control of the economy by empowering Africans and the working class in particular to play a meaningful role”

President Jacob Zuma at the ANC National Policy Conference, Gallagher Estate, Midrand, June 2012

South Africa’s GDP growth has remained at less than half the 6% required to create sufficient job opportunities to absorb the ever-growing ranks of the unemployed. Unemployment stands at around 25.2% and rises to almost 40%, if those who ceased to look for a job are included. Faced with more than 15 million people on social grants and huge demands to provide basic health, education, power and potable water services to the poor, the Government is forced to levy higher taxes on a narrow tax base. Blacks (defined as Africans, Indians and Coloureds) make up 91% of the population of 50.6 million South Africans, but own less than 10% of shares in JSE listed companies, and own about 30% of around 2 million formally registered small and medium enterprises. South Africa has consistently topped the list of countries with the widest income and wealth inequality in the world. The disparities overwhelmingly favour the minority white groups over the majority black population.



Since 1995 the Government, supported by many bilateral and multilateral donor partners, has given high priority to the development of small and medium enterprises as the catalyst to economic growth and job creation. The support programmes covered the main support needs of small and medium businesses, and have focused mostly on black owned enterprises. However, most studies show that these programmes have had a low impact in improving the prospects of black enterprises in entering corporate supply chains, which still remain largely inaccessible.

By 2007 the government introduced policies and legislation to put pressure on corporations to engage in preferential procurement and enterprise development, targeting black suppliers. While most corporations boast of their B-BBEE ratings and impressive business transactions, running into hundreds of millions of Rand with Broad-based Black Economic Empowerment (B-BBEE) rated companies, few are able to provide reliable verifiable data on the number of bona fide black owned suppliers with whom they transact business, or the value of transactions. Many BEE rated suppliers have minority black shareholders who play no real role in running the companies. "Fronting" has been a major problem. A fast growing new business consulting industry has developed, supporting corporations to find clever ways to "tick the boxes" on preferential procurement and enterprise development, without changing the way they do business.

The elite compromise reached between the corporate sector and a leadership core of the ANC before 1994 exonerated white corporations and citizens from the part they played in the exploitation and deprivation of blacks. It enabled whites to transfer almost all their accumulated wealth almost intact to the new South Africa. After agreement on the elite compromise, the ANC leadership core was, admittedly, able to implement a policy of black elite formation, but it was deprived of the power to hold white corporations and citizens accountable for the systemic exploitation and deprivation of black people during the "century of injustice (1894-1994).

Lost in Transformation: South Africa's Search for a New Future since 1986, by Solomon Johannes (Sampie) Terreblanche, Emeritus Professor of Economics at Stellenbosch University, published by the KMM Review Publishing Company

The reality in South Africa is that the social engineering of apartheid deliberately marginalised and retarded black business, and proactively and successfully invested in and opened opportunities for Afrikaner businesses. Is it not possible to muster the same will, effort and innovativeness in developing black business, given the promise and prospects of creating a more robust, competitive and equitable economy? South African corporations have become global players having benefited from cheap black labour, and forced displacement of black communities from ancestral lands in order to exploit natural resources and land, leaving local communities in poverty and as ready reservoirs of cheap labour.

With the recorded low participation of black suppliers in corporate supply chains and poor support by corporations over the last 18 years, there is a wide perception and growing realisation that economic apartheid is alive. This is giving rise to a groundswell of a new activism demanding radical change, and increasingly violent worker strikes and service delivery protests. Transformation will happen. The question is whether South African corporations will lead the transformation and develop a win-win approach or wait for history to repeat itself at a high cost to everyone.

"The inability of business to really make a difference to the lives of all our people has been at the root of the calls for nationalisation in this country. As long as the growth of the economy does not benefit the majority of our people, calls for nationalisation will return." Patrice Motsepe in an article by Loni Prinsloo, Sunday Times 1 March 2012.

Corporations lament that they cannot find sound black businesses. And yet initiatives such as the DTI's Black Business Supplier Development Programme, the South African International Business Linkages Programme, the Tourism Enterprise Programme and others have found and supported thousands of sound black enterprises capable of B2B transactions with corporations. Some are sizeable and ready,

while many are relatively small and need improvements. What they all need are business opportunities and a chance more than anything else.

For thousands of entrepreneurs from the black population groups the playing field is far from level. Many of these entrepreneurs have good ideas, are persistent, and have committed all their savings and physical assets to their businesses. What they lack are strong networks; access to opportunities and decision makers in corporate value chains; access to technology, business mentoring and coaching; training to meet quality, safety and environmental standards; and scale required to get into corporate value chains.

Most of these types of entrepreneurs understand that they are not entitled to receive contracts unless they meet the requirements, that they must develop their capabilities and standards to compete, and when they secure contracts, they must continuously demonstrate competence to leverage their relationship with corporations. However South African corporations can and should go out of their way to offer carefully targeted supplier development support (coaching, mentoring, training, etc) to create a supportive culture in which the relationships can thrive.

Surveys with black SMEs indicate that few corporations engage in serious supplier development aimed at promoting supplier diversity or B2B relationships. Most opportunities made available are once-off and mainly low value, low margin transactions. Enterprise development takes place in standalone programmes; mostly outside of supply chains and with enterprises with which the corporation has no intention of doing business, done simply to score B-BBEE points.

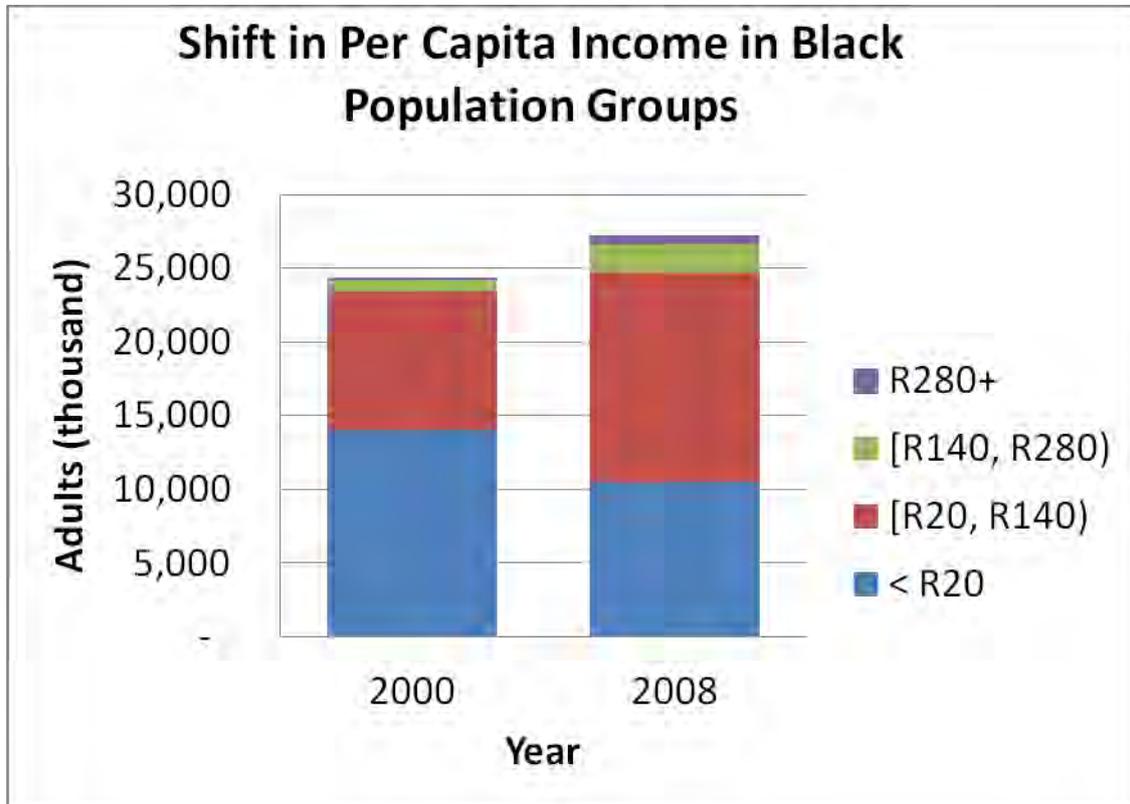
Practicing preferential procurement and enterprise development as an exercise in “ticking boxes” to meet minimum compliance requirements and safeguard access to public sector contracts and concessions to operate, is short-sighted, unethical and counter-productive. In 2011 the government was compelled to introduce new legislation and a BEE Bill that will impose stricter requirements and increased penalties for non-compliance. Also in 2011 government, business, labour and community organisations agreed to a new voluntary accord to increase local procurement. Despite these attempts to strengthen the BEE Codes and to forge partnerships, it is apparent that corporations will not have to do much more to comply with the codes. A few adjustments will enable them to meet the higher compliance standards, and even if they do not do so some will take comfort in the weakness of the system in holding them to account. What is needed is true transformational leadership and a change in attitude and values of Damascus Road proportions.

A return is needed to the "puritan" values of earlier capitalism (which also resemble much of contemporary , with its future orientation, its ..., long-term horizons and benefits of economic activity accruing not just to the individual but to the community as a whole. While many companies are doing sterling work in the truly transformational areas of education, training, enterprise development and community investment, all prerequisites of more substantive employment creation, there is also much evidence of a compliance mentality and a box-ticking approach to contributing to development and growth in these areas. Lose the Short-term Thinking Michael Spicer | 26 February, 2012.

There is a real positive commercial opportunity and business rationale for embracing supplier diversity. As in other markets, significant changes are taking place in the black consumer market in South Africa. As shown below the total purchasing power of black communities has increased and presents a growing market opportunity for corporations.

- 1985 = R125 billion (41%)
- 2000 = R240 billion (54%)
- 2007 = R335 billion (59%)

As more blacks occupy positions at all levels in the public service, state corporations, and in private sector corporations, their purchasing power is growing. It is only a matter of time before activists, aided by social media, raise the consciousness of black consumers to make choices about which corporations they support. The diagram below shows the shift in per capita income within the majority black consumers in South Africa.



*Source: AMPS 2000 (re-drawn using data from previous graph)

As consumer awareness and activism in these groups grows, they will support companies that are visible in working black suppliers from their communities, and may shun companies that are doing very little to support supplier diversity. There are significant opportunities for corporations that seriously engage in supplier diversity to build an advantage over competitors in gaining market share and establishing brand loyalty in segments of the black communities.

Many SA based corporations, especially in the extractive, construction and retail sectors are also increasingly venturing into countries in the region and further into Africa. The corporations that quickly embrace supplier diversity, learn the ropes, and carry the practices with them into these new markets will gain a head start and find it easier to compete in these markets, where competition from China, India and Brazil is increasing. Most countries, especially those with energy and mineral resources such as Angola, Ghana, Nigeria, Mozambique, Zambia and Zimbabwe are requiring greater local participation and benefits for local communities under local content and indigenisation regulations.

As a country we are failing to build on the foundations of magnanimity, caring, pride and hope embodied in the Presidency of Nelson Mandela; Archbishop Desmond Tutu writing in Business Report on 12 August 2012

The SASDC members have a unique opportunity to bridge the gap between corporations and black business, going beyond compliance. Supplier diversity has never been an easy process anywhere in the world. The issues and challenges are well documented. To be successful and to have a real impact, supplier diversity in South Africa has to go beyond opening up routine low value transactional opportunities. It must involve technical assistance, mentoring, coaching and nurturing black business, to grow their capacity so that they stand a decent chance of becoming reliable partners. The investment in developing these suppliers needs to be driven not by compliance, but by the genuine desire on the part of corporate members to grow their black suppliers' performance and overall competitiveness – allowing them to become a real part of the corporate supply chain, with all the challenges and responsibilities this brings. Anything short of this will simply result in more lip-service to the cause of affirmative procurement and enterprise development, with no discernable changes in the way that large companies procure and small businesses fail to perform.

South African corporations continue to enjoy prosperity and to have the opportunity to contribute to a new and inclusive “rainbow nation”. A “reconciliation or Mandela dividend”, in the form an extraordinary effort, innovativeness and investment in black supplier development by business leaders and corporations, to reverse the marginalisation of black business is merited and long overdue.

In the United States the supplier diversity initiatives that are seen as successful today, with purchases from black suppliers exceeding \$100 billion dollars a year from a starting point of just over \$80 million in 1972 were borne out of the race riots of the late sixties and early seventies, ignited by marginalisation of the minority black and Hispanic populations. South Africa is experiencing what are euphemistically referred to as service delivery protests, pervasive crime rates, and growing calls for nationalisation and expropriation. These are clear and timely signs that a business as usual approach to how corporations respond to the need for inclusiveness is steadily taking us towards the economic precipice as a country. It may be tempting to view this as alarmist, but it would be short-sighted to do so.

Transactional leadership is a form of management that regards common, purposeful action as the result of a trade-off between those in authority and those who form the group. The ethics of this form of leadership may be questionable, as the end can justify the means. To bargain with interest groups, telling them what they want to hear at the cost of laying down tough but achievable goals is a mark of transactional cynicism.

Transformational leadership is a style that produces positive change in the group and in each person in the group. Transformation means change for the better and by its nature this form of leadership is ethical and visionary for the long term. Ultimately it is when the leadership truly empathises with the plight of the downtrodden, and seeks to build a better society on the basis of a historically rooted vision, predicated on an ethical value system, beckoned and guided by a compelling, wholesome sense of destiny, that people can truly walk proud and rise to the best in themselves.

There are no short cuts and those who try to achieve their own narrow purposes - be it the retention of power, profit at any cost- will destroy our Constitution and with it the dream of a common, tolerant, caring and equitable South Africa.

Reuel J Khoza, Chairman, Nedbank in an article in Politicsweb.co.za published on 14 August 2012

THE CASE FOR SUPPLIER DIVERSITY AT FIRM LEVEL

It is important to obtain the go ahead from senior management (CEO or CFO or CPO) to form a task team or steering committee to make the case and scope the project to introduce supplier diversity in the corporation. Selecting the right people and enlisting the support of key senior managers in making the case and developing an action plan will impact on the success of the project. The team should include:

- A team leader, who should be a respected, skillful, influential manager who knows the corporate organizational structure well. The team leader will have to make sure that the team members buy in to the assignment and carry it out with integrity, and in line with the corporation's strategic objectives.
- A procurement manager or specialist to provide inputs on commodity policies and supplier contracting and management
- An enterprise development or transformation manager who has experience in supplier development
- A marketing executive, to provide expert inputs on market demographics and trends

While supplier diversity is primarily a supply chain-led function, it requires collaboration and team effort across corporate functions. Other independent consultants or line managers can be brought into the process as needed and where they can add value or help to influence decisions.

In joining the Council a member corporation signifies an intention to pursue supplier diversity, and in signing and paying the subscription it implies approval by senior management. A member corporation also implicitly commits to working within the values and codes of practice of the Council.

Each member corporation is unique and will have its own motives, objectives and desired outcomes for wanting to invest in supplier diversity, and which will influence its approach to practicing supplier diversity. For example one member corporation may wish to place weight on measuring value of transactions, in which case it will prefer working with fewer but much larger black suppliers. Another corporation may place greater weight on market visibility and image, and therefore feel it will be better served by having a larger pool of smaller suppliers. Others may want to outsource non core business functions or improve local procurement and opt to develop local value chains and suppliers.

Each corporation must make its own case for incorporating supplier diversity as a strategic process in the way it does business. In making the case for supplier diversity the task team should take into account the following key factors and elements. In analysing each of the elements the team will be able to build a sound case, including expressing the goals and benefits quantitatively and qualitatively. The team must also provide sufficient motivation and evidence that the tangible and intangible benefits from supplier diversity will outweigh the costs, and also attempt to reflect the likely impact on the bottom line.

Know the Company and Assess Broad Thinking Toward Supplier Diversity

- Review company information (annual reports, policy statements, executive speeches, publicity documents, etc)
- Meet decision makers in the Board, EXCO, Finance, Operations, Strategy, Marketing, Corporate Affairs, etc
- Meet strategic partners, stakeholders and key 1st and 2nd tier suppliers
- Talk to supplier diversity organisations and corporations that have done it and "Google" case study material
- Meet BEE rated and bona fide black suppliers on the database doing and not doing business with the corporation

Supplier Demography and Procurement Issues

- What is the demographic make-up of suppliers in relation to customer markets?
- Is there a growing pool of black suppliers who will become a factor in the overall business stock?
- Can these be built into an expanded and sustainable resource base and supply chain relationship?
- Do supply chain policies and procedures in place for supplier master data, commodity, procurement, demand management and supplier performance generate accessible opportunities for black suppliers?
- What could be the value-add to the supply chain? The concept of value here goes beyond simple financial measures (it includes buying and selling opportunities, intelligence, cost effective solutions, etc)
- What will be the impact on production and distribution costs, and returns on procurement costs?
- What supplier diversity facilitate outsourcing non-core business activities and to deal with downsizing?
- Can diversity create a more integrated, performance –driven culture, greater cross functional linkages, increased employee learning and motivation?
- Are there commodities at the 1st, 2nd, 3rd tier level that can be opened up to black suppliers?
- How does the corporation source suppliers and does it level the playing field for black suppliers?
- What is the size of the supplier population and what are its characteristics?
- Are there special areas of need or gaps?
- Who are the decision makers and buyers?
- Who might be the likely champions and mentors for supplier diversity?

Customer Demography and Issues

- What is the demographic make-up of existing customer base including age and gender profiles?
- What are changes in incomes and consumer tastes and how will they impact the company's customer base?
- What are migration trends between and within locations and how will they impact the company's business
- What are changes in education, skills and lifestyles and how will they impact the company's business
- What do surveys say about brand loyalty and ability to reach diverse consumers and new markets
- What business has or may be lost because of lack of diversity?
- What new markets is the company interested in and how will diversity of suppliers and employees help?

Legislative Framework

- B-BBEE legislation and Codes of Good Practice requirements
- Local procurement accord and social contracts requirements
- License to operate requirements
- Added competitive advantage when tendering for public contracts
- Environmental regulations and reduced environmental impact from lower carbon miles

Local Economic Development

- Increased opportunities for corporate social investment and rewards
- Stimulation of local value chains and local economic development
- Increased employment, local purchasing power and tax base
- Access to better services and products
- Long term increase in local or regional competitiveness
- Development of local business service providers and professional services

Stakeholder Issues

- Acceptance by local communities
- Greater investor, shareholder, employee and customer loyalty

At the end of the exercise the team should distill the information and filter it through the tests of internal and external opportunity, benefits, challenges and risks. The team must also subject its analysis, findings and recommendations to feedback from management teams and business units that will be affected.

The result of the research, analysis and feedback sessions should be a concise report and recommendations that enable the team to:

- build the case on how supplier diversity will be of strategic value and bring benefits to the company
- sell the case and win the support of the top management

Supplier diversity CANNOT be implemented without the Chief Executive Officer's approval and support, and ownership at Executive Committee level. At the very least the case presented to top management must articulate the following aspects.

- That the tangible and intangible benefits of supplier diversity will outweigh the costs from
 - the internal business perspective
 - the market and customer perspective
 - the stakeholder perspective (investors, shareholders, employees, communities, government)
 - the financial perspective
- That it is a feasible strategy and well within the company's capacity to do
- What should be tracked and measured as outcomes and outputs
- Proposed critical path activities, timeframes and milestones/results
- Risks and issues and how these will be mitigated and managed
- The composition, mandate and terms of reference of the Supplier Diversity Committee
- The kick-start budget and funding

When buy-in at top management level has been achieved the team must act quickly to present the case and top managements position to all business units and levels, especially those responsible for supply chain activities, procurement and buying.

It is also strongly recommended that from this point forward the firm's commitment to supplier diversity should be posted on its website along with their track record of engagements with black suppliers.

The following key pillars must be in place to have any chance of success.

- 1. A sound case for doing it, supported by a vision and policy statement signed off by the CEO**
- 2. Agreed metrics for measuring progress and reported regularly at EXCO or Board level**
- 3. An adequate budget to support development, outreach, and training at all levels**
- 4. Recognised champions and performance requirements and incentives**

Once supplier diversity becomes embedded as a strategic process it will be reviewed at least annually to incorporate changes externally and internally and to remain aligned with corporate values and objectives.

GUIDELINES FOR IMPLEMENTING SUPPLIER DIVERSITY

A practical guide to developing and implementing a corporate supplier diversity process

The guidelines that follow provide practical steps to equip supplier diversity champions to develop and successfully implement policies and processes at all levels of the corporation

The guidelines draw on tried and tested processes and practices of global companies that have successfully implemented supplier diversity. Each member corporation is unique. The processes outlined can be adapted and applied by the entire corporation, in a department, a division or unit. This is just a resource guide to help a member corporation in getting started on the long journey of supplier diversity.

Member corporations can and should also seek support and guidance from the South African Supplier Diversity Council, especially in accessing literature and information on best practices and case studies, supplier diversity tools, and reaching out to certified suppliers. The SASDC is able to provide this type of assistance directly or through its affiliation to the NMSDC and its partners. Learning from one's own mistakes or attempting to "re-invent the wheel" may be an unnecessary and costly option, when there are easier routes to follow.

Member corporations that apply the steps process that follow diligently will enhance their chances of achieving their goals in this tough but important undertaking.

STEP 1: DEVELOP A SUPPLIER DIVERSITY MISSION AND POLICY STATEMENT

STEP 2: DEVELOP A SUPPLIER DIVERSITY ACTION PLAN

STEP 3: RUN EFFECTIVE INTERNAL AND EXTERNAL COMMUNICATIONS AND OUTREACH

STEP 4: ESTABLISH A PIPELINE OF OPPORTUNITIES FOR BLACK SUPPLIERS

STEP 5: ESTABLISH EFFECTIVE BLACK SUPPLIER DEVELOPMENT PROCESSES

STEP 6: MAINTAIN EFFECTIVE TRACKING, MEASURING AND REPORTING SYSTEMS

STEP1: DEVELOP A SUPPLIER DIVERSITY MISSION AND POLICY STATEMENT

Rationale

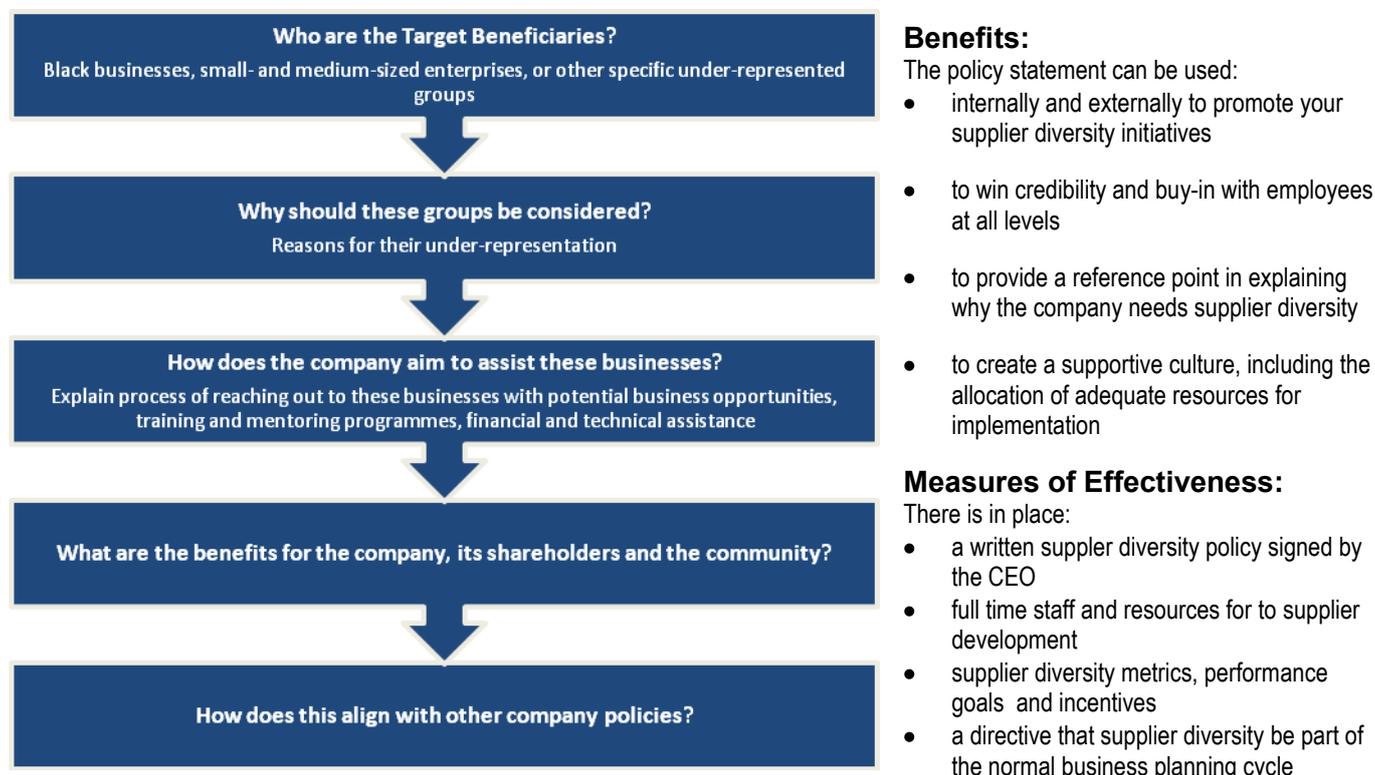
Top management support and commitment is a critical factor in gaining support and motivating action down through the company, including the provision of resources needed to ensure supplier diversity is fully implemented and achieves the desired outcomes. Top level support should be in the form of a clear policy statement outlining:

- aims, objectives and benefits for the company and its shareholders
- desired annual performance goals
- accountability and measures of success to be reported
- a mission statement encapsulating the rationale and goals

This statement must be signed off by the Chairman or Managing Director or Chief Executive Officer, as a demonstration of the commitment at the highest level.

Process

In drafting a supplier diversity policy statement that communicates the right message to different stakeholders and drives results, the following points need to be considered.



EXAMPLES OF MISSION STATEMENTS

Hewlett Packard: Ensure that disadvantaged businesses are provided an equal opportunity to become suppliers of goods and services to HP. HP's customers, partners and consumer marketplace require it.

Verizon: A diverse base of suppliers contributes to customer loyalty, stimulates economic development and taps into innovation and entrepreneurship needed to win in a competitive marketplace

Burger King Corporation: To facilitate business development and trade between BKC and ethnic business communities and to remove barriers that impede good business relationships. Why? Fastest growing demographic. Fastest growing numbers of entrepreneurs. Contributes over 40% of BKC sales

STEP2: DEVELOP A SUPPLIER DIVERSITY ACTION PLAN

Rationale

It is essential to develop a robust supplier development plan to facilitate and ensure that there is a corporate or business-wide common processes and measurements. The effective execution and success of supplier diversity strategy depends on a clear vision, motives and goals which are understood, accepted and implemented with commitment at all levels.

Process

Understand the internal spend and external market	<ul style="list-style-type: none"> Identify existing black suppliers and determine spend with them Research commodity areas where there is concentration of black suppliers Understand past and current success with black suppliers
Develop a black supplier portfolio	<ul style="list-style-type: none"> Include black suppliers in all RFI/RFQ and/or Market Scan process Consider developing a supplier diversity web page on company website Encourage "certified" minority business to fill-in-supplier registration form online, if available. Attend outreach events like SASDC "Meet the Buyer Event" to meet black suppliers.
Communicate supplier diversity goals internally and externally	<ul style="list-style-type: none"> Appoint supplier diversity champions in individual departments to co-ordinate supplier diversity activities Establish cross-department/functional Diversity Councils to share best practice and promote success Work with external advocacy organisations like SASDC and share future sourcing plans with them to identify potential contracting opportunities for black businesses
Work with 1st and 2nd tier suppliers	<ul style="list-style-type: none"> Encourage 1st and 2nd tier suppliers to use black businesses and consider subcontracting opportunities Organise 1st tier supplier briefing events to make them aware of company Supplier Diversity policy Evaluate 2nd tier subcontracting opportunities
Develop learning and training opportunities for black businesses	<ul style="list-style-type: none"> Leverage company resources to address supplier capacity constraints, perhaps through supplier development or mentoring programmes Develop an effective feedback mechanism for all successful and unsuccessful black business Identify areas for improvement as well as opportunities for expansion for black suppliers e.g. through partnerships or joint ventures
Monitor and track programme performance	<ul style="list-style-type: none"> Drive behaviour change through use of scorecards and goal setting within procurement team objectives Ensure continuous and robust monitoring of action plan amongst employees and 1st tier suppliers through quarterly review Include supplier diversity performance in employee annual review To ensure that the Supplier Diversity plan performance is reviewed by senior management regularly

Benefits

- Establishes company-wide common standards and processes in delivery of the programme
- Ensures commitment to action and accountability from all business units
- Helps achieve company supplier development goals in a coherent and measurable manner
- Helps in inducting new employees

Measures of Effectiveness

- Supply chain policies and procedures for supplier master data, commodity, procurement, demand management and supplier performance include improving the pipeline of accessible opportunities, making them accessible and contracting arrangements.
- Supplier diversity and development is part of corporate business planning and regular reporting to senior management
- The corporation has an effective cross functional supplier diversity steering committee
- There is ongoing training and capacity building for supplier diversity teams and for black suppliers
- Employee performance reviews include performance in promoting and facilitating supplier diversity

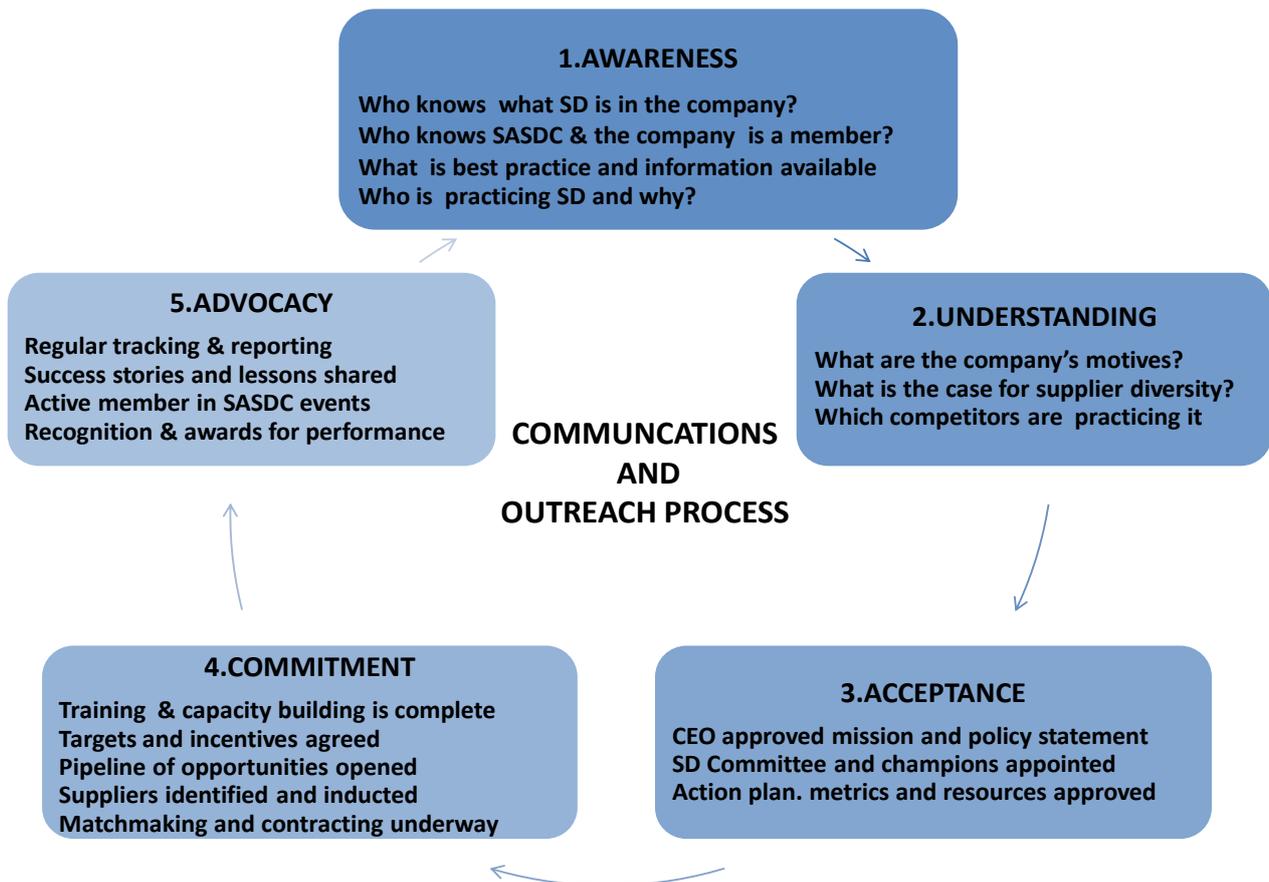
STEP3: RUN INTERNAL AND EXTERNAL COMMUNICATIONS AND OUTREACH

Rationale

The communication and outreach are the oxygen for infusing supplier diversity into the DNA of the corporation. To be effective and credible, it must be an ongoing process, properly resourced and supported by senior management.

Supplier diversity is relatively new to South Africa and it will face resistance and skepticism from those who view black suppliers as risky, while black suppliers, communities and government generally view the commitment of corporations to transformation with disbelief. The BEE Codes and scorecards are seen as window dressing and ticking boxes, with only the politically connected benefiting.

The approach and rationale of the communications and outreach process is to build awareness, understanding, acceptance, commitment and support of supplier diversity as truly transformational leadership and behaviour. For this reason it is standard practice in global companies to field CEO's and high ranking executives as key speakers and champions of the cause in events and workshops promoting supplier diversity. It takes time to gain incremental support from various key stakeholders, with carefully crafted messages at each stage of the process, win over their minds, then their hearts, and their belief.



Process

An effective communication and outreach process starts when supplier diversity is first proposed, and continues through making the case, approval of the mission and policy statement, commitment to action, implementation and reporting on progress and lessons.

It can be implemented as a simple, well thought out process of identifying key stakeholders; what interests them; and pitching the message to their interests, as shown below. This is an example and each company is unique and should carry out its own research and develop its own communications and outreach strategy and processes to achieve the desired level of stakeholder management.

STAKEHOLDERS	AREAS OF INTEREST	MESSAGES	MODE	FREQUENCY
Management	Results and outcomes Return on Investment Perceptions & learnings	Success stories ROI Company & brand image	Executive reports Annual report Briefings	Quarterly Annually
Supplier Diversity Teams	Competitive suppliers Competitive advantage Performance reliability Training & capacity building SD best practices	Success stories Sources of sound suppliers SD best practice information	website, social media meetings workshops	
Black Suppliers	Business opportunities Contracts & sustained relationships Rules of the game Who to talk to			
Customers Consumers	Values of the company Support to local communities Equitable treatment			
Business Service Providers	Business opportunities Partnerships			
Communities	Local economic development Skills and jobs			
Shareholders	Risk management Good corporate citizen Long term competitiveness			
Finance Institutions				
Government (Local, Provincial, National)				

Benefits

- Visibility and demonstration of the company's and top management's commitment
- Greater transparency, credibility and trust
- Improved corporate image
- Improved employee motivation and cross functional relationships and cooperation

Measures of Effectiveness

- Company-wide awareness and acceptance of the supplier diversity strategy and initiatives
- Improved capacity and skills in implementing the supplier diversity initiative
- The rules of the game are known by everyone and the playing field is seen to be more level
- Senior managers talk about the initiative and take part in events
- Supplier diversity results are published in the annual report and sustainability reports
- Suppliers, consumers and communities speak well off the company

STEP4: ESTABLISH A PIPELINE OF OPPORTUNITIES FOR BLACK SUPPLIERS

Rationale

This is the essence of any good supplier diversity strategic process and one that will most determine the company's reputation generally, and its seriousness amongst suppliers. The perception is that the playing field is not level. Black suppliers do not have the same long standing relationships with corporate buyers, are given the run around, and are required to fill long forms with daunting requirements. The systems appear to be designed to keep them out rather than to admit them.

Process

Each company may follow the processes outlined below taking into account its own established policies and practices. It is important to drill down in identifying opportunities and setting targets and to set targets at every level to track performance and to ensure accountability.

Put in place written policies and guidelines signed off by management

- **Supplier selection, master data, commodity , procurement , contract , demand, materials and supplier performance management policies incorporate written guidelines and directives on opportunities that must be opened up for black suppliers.**
- **Contracts and purchasing documents should be reviewed to include black supplier inclusive language**

Carry out spend analysis and set company wide goals and targets

- **Analyse corporate spend by department and drill down to the buyer level**
- **Set targets by commodity, by department and all the way down to unit level**
- **Identify opportunities well in advance looking forward 3-5 years.**
- **Other places to look: savings pipelines and contract databases**

Manage the matchmaking and linkages processes

- **Verify existence of opportunities and understand the supplier requirements**
- **Know the internal players and their particular needs and requirements**
- **Research the black supplier market starting with company and SASDC databases**
- **Train suppliers on company policies, procedures , registration admittance & legal /compliance requirements**
- **Meet the buyer and matchmaking events**

Benefits

- Compliance with B-BBEE Codes of Good Practice
- Added competitive advantage when tendering for public contracts
- Meeting local procurement/local content and social contract accords
- Changing demographics as stock and quality of black suppliers grows relative to white suppliers
- Visibility within targeted markets and sourcing market intelligence on targeted markets
- Outsourcing of non-core business activities or units or downsizing

Measures of Effectiveness

- Supplier diversity is formally integrated into the company's strategic sourcing process
- Systems are in place to set targets and track RFXs for inclusion and awards to black suppliers
- Regular training, induction and matchmaking events take place
- There are feedback systems for making sure the processes are applied fairly and within the guidelines
- There is accountability at all levels and incentives in line with performance

STEP5: ESTABLISH EFFECTIVE BLACK SUPPLIER DEVELOPMENT PROCESSES

Rationale

South African corporations have not had it easy finding quality black owned suppliers. It should not be a surprise given the historical background. Member corporations will have to become active and innovative in recruiting black suppliers, and where there are gaps in investing in black supplier development. A sustainable process combines access to procurement opportunities with capacity building efforts. In South Africa more than anywhere this not only makes sense; it is essential. There are 3 areas where the need for supplier development is evident and should happen.

LAYING THE PLAYING FIELD AND BUILDING RELATIONSHIPS

- Identify potential suppliers on SASDC Certified Supplier Database , company database, other databases and local value chains
- Run induction and training workshops on supply chain policies; how to qualify as a supplier, what you buy, how suppliers are evaluated, required standards and certifications, e-procurement and payment systems, and contracting
- Run networking and meet the buyer events
- Show case success stories involving existing successful suppliers

BUILDING CORE COMPETENCIES AND STANDARDS

- Identify areas where black suppliers that have been accepted or do business with the company exhibit shortcomings and weaknesses.
- Work with SASDC and other market based service providers to identify suitable interventions to support existing and potential suppliers with capacity building
- Enter into partnership arrangements to provide capacity building and technical assistance to support existing and potential suppliers to improve their competencies and standards

INVESTING IN DEEPENING AND EXPANDING SUPPLIER STOCK

- Review commodities earmarked for black suppliers and where the stock of black suppliers needs to be deepened and increased
- Work with SASDC and other members to develop a collaboration project to identify, select and develop potential suppliers
- Empower and release experienced staff to take part in mentorship, coaching, and training assignments for black suppliers

The SASDC database of certified suppliers will be a good source of suppliers that are bona fide black, and that meet minimum B2B standards for performance. Other sources will be local value chains and other established reliable databases. Members can also enter into partnership arrangements with SASDC and market based business service providers and consultants to deliver capacity building interventions.

Benefits

- Compliance with B-BBEE Codes of Good Practice
- Levels the playing field and improves relationship management with suppliers for sustainability and building mutual trust
- Improves performance standards and the perception of black suppliers
- Builds the stock of competent black suppliers

Measures of Effectiveness

- The company carries out regular induction and training workshops
- The performance of supplies is seen to be improving
- Black suppliers speak well about the company in promoting supplier diversity

Indicator	Unit of Measure	Disaggregation
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STEP 6: MAINTAIN EFFECTIVE TRACKING, MEASURING AND REPORTING SYSTEMS

Rationale

What does not get measured, reported and acknowledged does not get done. Setting targets underwrites commitment, accountability, recognition and reward throughout the organisation and helps to measure progress.

Process

The metrics should track the effectiveness of the supplier diversity programme and link to company objectives.

Each company has to decide what it will measure. It is very important to define:

- what is being measured
- the unit of measure
- the disaggregation
- the period over which the measure is recorded

The items to be measured must be relatively easy to collect and to verify. Examples of key items to measure include the following.

Outreach	Locations, events, number of suppliers reached
Spend	Rand spend , % of total procurement
Black suppliers	Number registered, Number contracted
Capacity Building and Technical Assistance	Number of suppliers assisted, Rand value of support
Return on Investment (ROI)	Spend against benefits realised

Benefits

- The process is auditable
- Progress is measured against set goals and performance targets
- Provides a basis for taking timely corrective actions
- Provides a basis for performance evaluation and incentives

Measures of Effectiveness

- There is regular and consistent tracking, evaluation and reporting on supplier diversity at all levels
- Supplier diversity metrics are reviewed regularly by senior management
- Scorecards are maintained to measure performance and to share results with selected stakeholders
- Evaluations and audits are carried out to ensure efficacy of the processes and results

APPENDICES

APPENDIX1: BUDGET CONSIDERATIONS

The following are expenses that should be taken into consideration when developing/planning your budget for Supplier Diversity and will support some of the activities necessary to support a viable process:

- Internal training
- External supplier training
- Annual dues for local, regional or national councils and chambers
- Travel
- Conference participation (booth cost, graphics cost, give-a-ways, registration cost)
- Annual business fair
- Networking events (Golf days, luncheons, dinners)
- Promotional Items
- Subscriptions
- Resource books
- Sponsorships
- Other donations & contributions (i.e., community fundraisers, etc.)
- Report updates (system or format)
- Cost for communication plan

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STUDY II

CORPORATE REPORT: DRAKE & SCULL FACILITIES MANAGEMENT

Drake & Scull Supplier Diversity Assessment

SASDC analysis of Drake & Scull Facilities Management (DSFM) readiness to engage in supplier diversity as a strategic process for identifying and making opportunities accessible to certified black suppliers.

Final Report on the analysis conducted between

9 July – 31 August 2012

For

ECI Africa on behalf of

SASDC

CONTRACT REF:

ECI Africa contract dated 3 July 2012

Preliminary Report: 20 August 2012

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Drake & Scull Supplier Diversity Assessment

1 Executive summary

The procurement department at DSFM is a dedicated and competent group who were most cooperative and helpful in the assessment with a good understanding of the issues at hand. A positive intent to develop supplier diversity is evident but the application in certain instances is lacking. There is a strong willingness to identify these shortcomings and improve on the overall supplier diversity programme.

DSFM maintains its Level 2 BBBEE contributor status which it achieved in 2008. DSFM is implementing a new Enterprise Development Strategy, which is referred to as the Franchise Model. This exciting new project is ground breaking and deserves special mention. It is very innovative with considerable potential for developing a large number of rural entrepreneurs. This project should be showcased for other SASDC members.

On completion of the assessment, DSFM is classified as a Level 2 program where the concept, development and implementation of Supplier Diversity is seen as an expense that should be controlled vigorously to ensure the lowest price for the client. It is not regarded as an asset. Although senior management is involved to some extent their involvement does form an integral part of the process. Supplier Diversity currently does not form part of specific job functions and primary purpose for embarking on such a process is to comply with government requirements and satisfy corporate clients. There is a strong connection to strategic sourcing as this form part of the business model but the second tier programme is loosely structured.

With very little effort DSFM could progress to higher levels by developing existing partnerships, increasing budgets, expanding the franchise model and integrating SD into the procurement process. Organisational support and structure for a Supplier Diversity programme would expedite the progress. The strategies and structures to accommodate black enterprises should be applied consistently to inculcate the culture within the organisation.

Drake & Scull Supplier Diversity Assessment

2 Introduction

ECI Africa on behalf of SASDC appointed two consultants to carry out an analysis of identified **SASDC members' readiness to engage in supplier diversity as a strategic** process for identifying and making opportunities accessible to certified black suppliers on behalf of the South African International Business Linkages (SAIBL), a programme managed by ECI Africa.

This is one of the areas identified as requiring support from the SAIBL programme in terms of the agreement signed between SASDC and SAIBL.

The Consultant's main tasks include the following:

- Preparation & Review of company information
- Selection of companies and collection of base data from the company
- Research finalization and preparation for interviews
- Conduct Site Interviews with identified individuals
- Analysis of data and Reporting

3 Acknowledgements

We would like to thank the following persons for their valuable time and inputs into the Supplier Diversity assessment:

- Tessa King, National Procurement Manager;
- Prof Vladimir Bakman and Allison Moschetta

4 Drake & Scull Facilities Management (DSFM): Relevant company information

3.1 Introduction to DSFM

Drake & Scull FM is a core division in the Tsebo Outsourcing Group of companies which started operations in 1996 and is one of the leading Facility Management service providers in South Africa. The company offers tailored solutions to meet the demands of predominantly long term corporate clients.

They supply an integrated facilities management service on a local, regional or national basis which is achieved through outsourcing to external suppliers. Typically the corporate would have a single contract with DSFM which includes multiple services with a single point of contact.

The assessment has been done for DSFM although much of the policies and BEE structure is entrenched in Tsebo, the holding company. An assessment for the Group might deliver other perspectives, but it was agreed that Fedic, the other large division in the Group, may warrant a separate assessment as Group assessment without the inclusion of Fedic would not make sense.

3.2 DSFM's Black Economic Empowerment (BEE) and Supplier Diversity (SD) position

Strengths: DSFM maintains its Level 2 BBBEE contributor status which it achieved in 2008. DSFM is implementing a new Enterprise Development Strategy, which is referred to as the Franchise Model. This exciting new project is ground breaking, innovative and has a lot of potential for developing a large number of rural entrepreneurs.

Transformation within the Tsebo Group is not seen as a compliance requirement but rather an integral part of the business model, business processes, cultural values and business strategy. Tsebo champions the development and promotion of previously disadvantaged employees with numerous programmes in place to source and nurture previously disadvantaged individuals. For the last four years Tsebo has achieved the maximum 20 points on the DTI's Generic Scorecard for Procurement and is committed to a procurement policy focussed on BEE compliant suppliers, Small Businesses, Black Owned and Black Women Owned suppliers.

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In the past financial year Tsebo Outsourcing Group's total procurement spend with BEE compliant suppliers represented 138% against a target of 50%. BEE Procurement spend with Qualifying Small Enterprises or Exempted Micro Enterprises represented 35% of spend against a target of 10%. BEE Procurement spend with Suppliers that are 50% Black Owned represented 23.5% of spend against a target of 9% and BEE Procurement spend with Suppliers that are 30% Black Women Owned represented 26% of spend against a target of 6%.

Supplier development programs - Tsebo have created more than 150 sustainable small rural businesses through their joint ventures. They are also involved in capacity building programmes for these businesses, developing local skills which could be applied for other contracts as well, and which is encouraged to ensure long-term sustainability.

Tsebo is involved in a number of other programmes such as the regeneration of a derelict commercial farm to service the catering contract for Lonmin. This involved business planning, training, finance and supply agreements. The result is a 67,000 hectare farm providing 75,000 tons of vegetables per month to local mines and employs 1000 rural women. Another project does in-house training of hospitality skills that has provided skills to 20,000 unskilled/ semi-skilled employees in the last 3 years.

DSFM subscribes to equal opportunity and strives for a composition that reflects the demographics of South Africa. Their employment equity strategy forms part of the annual strategic planning process and is reported and reviewed at monthly executive management meetings. DSFM's BEE procurement policy is a pro-active, preferential procurement initiative that ensures constructive participation by South African black people at all levels of business in the South African economy. They subscribe to the principles of accountability, collaboration and transparency and strive to implement best procurement practices and continually seek ways to reduce the total cost without compromising quality or service.

Drake & Scull Supplier Diversity Assessment

Weaknesses: The Supplier Diversity strategy is not completely developed or formalised at this stage but has a strong **alignment with the company's value and vision** and processes. National contracts are important but the process of identifying and supporting new BEE companies nationally poses some difficulties as the IT support infrastructure is in development. The channels of communication with stakeholders are not formalised but rather on an ad-hoc basis, thereby limiting the alignment between strategy and operations. The broader concept of supplier diversity needs to be understood and integrated into the procurement process.

4 Company Review Summary

4.1 Introduction & methodology

To ensure the successful integration of Supplier Diversity into the fibre of an organisation it must be "owned" by all levels of the organisation. Success is achieved once a plan, founded on and supported by a sound business case and rationale, is put in place to guide and drive the Supplier Diversity process.

The Supplier Diversity Plan is required to ensure corporate-wide commitment including strategy, sourcing and development process, communication and education and training to establish actions that will enable the identification, inclusion and development of competitive black enterprises.

An organisation is reviewed using the SASDC Supplier Diversity Levels Assessment Tool, assessing the policies, strategies and procedures with respect to supply chain set up, the supplier application process, supplier master data management, commodity management, procurement management, demand management, materials management and supplier performance. The assessment delivers a report identifying the maturity levels of the strategic, organisational and operational capacities of a Supplier Diversity program. The organisation would be in a position to identify areas where it can make significant progress and gains in the implementation of a supplier diversity program and where there are organizational and operational level capacity constraints.

Drake & Scull Supplier Diversity Assessment

An organisation can be categorised as falling into one of the following levels based on the assessment of Supplier Diversity practices:

Level 1: **A Token Program** where the concept of Supplier Diversity is managed by a manager with little or no approval or involvement from senior management

Level 2: **A BEE Compliance Programme;** The development and implementation of a Supplier Diversity strategy are seen as an expense, rather than an asset. Senior management is not integrally involved in the process.

Level 3: **A Price Competitive Supply Chain Programme;** Organisations have already started to work more closely with black suppliers, but the emphasis is on getting the lowest price. Black enterprises supply mainly non-essential goods and services. Existing partnerships are not expanded and only a limited, fixed budget is made available for black supplier development. A very loosely structured 2nd tier process is available with a limited connection to strategic sourcing.

Level 4: **Corporate Competitiveness:** Supplier Diversity is no longer a programme, but is now a process that is driven and managed from top management. The CEO and directors are involved and firmly believe in the value of the process. A steering committee existing of key executives is in place which is driving the process.

Level 5: **Corporate Sustainability:** The SD process is driven by senior management and is viewed by management as a key resource within the organisation. Supplier Diversity is seen on equal ground with processes such as workforce diversity.

Performance attributes are used to measure the application of Supplier Diversity within **an organisation's strategy, organisation and operations. These attributes are** awareness, comprehension, alignment, application and control. The extent to which these all of these attributes are demonstrated will determine supplier diversity performance and the associated level of maturity. **Awareness** refers to the knowledge and understanding of an organisation with relation to Supplier Diversity and related concepts. **Comprehension** refers to the ability of organisations to understand the value of embarking on Supplier Diversity awareness of role players with regards to the relevant legislation and the extent to which Supplier Diversity can improve/enhance output, productivity and sales. **Alignment** refers to the inclusion of Supplier Diversity into the business strategy. **Application** refers to the process and/or methods followed

Drake & Scull Supplier Diversity Assessment

to ensure that Supplier Diversity is implemented at various levels of the organisation. **Control** refers to the methods used to measure, report and refine the implementation of Supplier Diversity.

4.2 Review Summary

DSFM is classified as a Level 2 program where the concept, development and implementation of Supplier Diversity is seen as an expense that should be controlled to ensure the lowest price for the client. It is not regarded as an asset. Although senior management is involved to some extent their involvement does form an integral part of the process. Supplier Diversity currently does not form part of specific job functions and primary purpose for embarking on such a process is to comply with government requirements and satisfy corporate clients. There is a strong connection to strategic sourcing as this form part of the business model. With a small amount of structure and effort, DSFM could quite easily progress to the next level.



4.2.1 Strategy: Overall score of 51%

4.2.1.1 Context & Purpose: Score = 56%

Although the broader BEE strategy is entrenched in the company it is limited in its application and incorporation of Supplier Diversity. It is understood that the need exists and this is acknowledged. Preferential procurement is rooted in the procurement processes but a clear SD strategy is not defined nor approved at senior level. Executive managers are not taking leadership in the implementation of Supplier Diversity and subsequently it is not part of **the organisation's strategy.**

Drake & Scull Supplier Diversity Assessment

4.2.1.2 Alignment: Score = 49%

Organisational support for a Supplier Diversity programme is present but operationally it is absent. Supplier Diversity per se is not reflected in business plans of the organisation although most aspects are covered in the preferential procurement process. Measurements to determine the effective use of black suppliers is evident with regular tracking and reporting but the detail of the reporting has space for improvement. Black suppliers are an integral part of the service delivery process. Identification and control of potential new suppliers is not aligned with strategic sourcing.

4.2.1.3 Business Case: Score = 49%

Alignment between strategy, structure and culture is evident but the business case for a sustainable Supplier Diversity program which provides suitable a return on investment is has not been made.

Strategy	Awareness	Comprehension	Alignment	Application	Control	Total
Context and Purpose	78%	82%	56%	35%	28%	56%
Alignment	75%	74%	48%	26%	22%	49%
Business case	86%	86%	35%	24%	13%	49%
Total	81%	82%	45%	28%	20%	51%

4.2.2 Organisation: Overall score of 55%

4.2.2.1 HR Capacity: Score = 61%

Staff have received some training on an ad-hoc basis on the most critical issues but would benefit from additional training on Supplier Diversity processes and procedures. Key performance indicators and incentives are linked to performance in this area but do not include diversifying of suppliers.

4.2.2.2 Resources: Capability: Score = 59%

There is a lack of a strong team of Supplier Diversity specialists to manage such a program and what is done is accomplished with resources available.

4.2.2.3 Process: Control: Score = 44%

Accountability is limited to few individuals and is not evident throughout the organization including at senior executive level.

Drake & Scull Supplier Diversity Assessment

Organisation	Awareness	Comprehension	Alignment	Application	Control	Total
HR Capacity	89%	82%	55%	48%	33%	61%
Resource (capability)	100%	78%	52%	38%	26%	59%
Process (control)	70%	64%	37%	32%	15%	44%
Total	86%	74%	48%	40%	25%	55%

4.2.3 Operations: Overall score of 68%

4.2.3.1 Supply & Demand Analysis: Score = 67%

Due to the nature of the business DSFM are continually exploring new opportunities for BEE companies. A specific Supplier Diversity outreach and marketing plan is absent.

4.2.3.2 Acquisition Process: Score = 66%

Programme tools are used within the organisation but the frequency and content would benefit from a review.

4.2.3.3 Supplier Management: Score = 71%

Training and support to develop black supplier capacity and capabilities so that they are able to reap the long term benefits is evident.

Operations	Awareness	Comprehension	Alignment	Application	Control	Total
Supply & Demand Analysis	97%	92%	63%	53%	30%	67%
Acquisition Process	89%	89%	61%	50%	39%	66%
Supplier Management	94%	94%	57%	57%	52%	71%
Total	94%	92%	60%	54%	40%	68%

Drake & Scull Supplier Diversity Assessment

4.3 Opportunity Assessment

Identification of opportunities for Supplier Diversity for potential matches with SASDC certified suppliers.

The opportunity assessment was conducted through an interview process, reviewing the current high level spend analysis and existing procurement and/or strategic sourcing strategies. This was accomplished in collaboration with the National Procurement Manager.

The approach and methodology adopted was to identify tangible opportunities for Supplier diversity initiatives, which could be matched and potentially lead to opportunities with current SASDC certified suppliers.

The high-level spend, categorized in various commodities ranked by annual spend values, was discussed to determine the levels supplier diversity, constraints, supply risk and current sourcing initiatives associated with these commodities. The outcome hereof resulted in the identification of potential opportunities in support of supplier diversity.

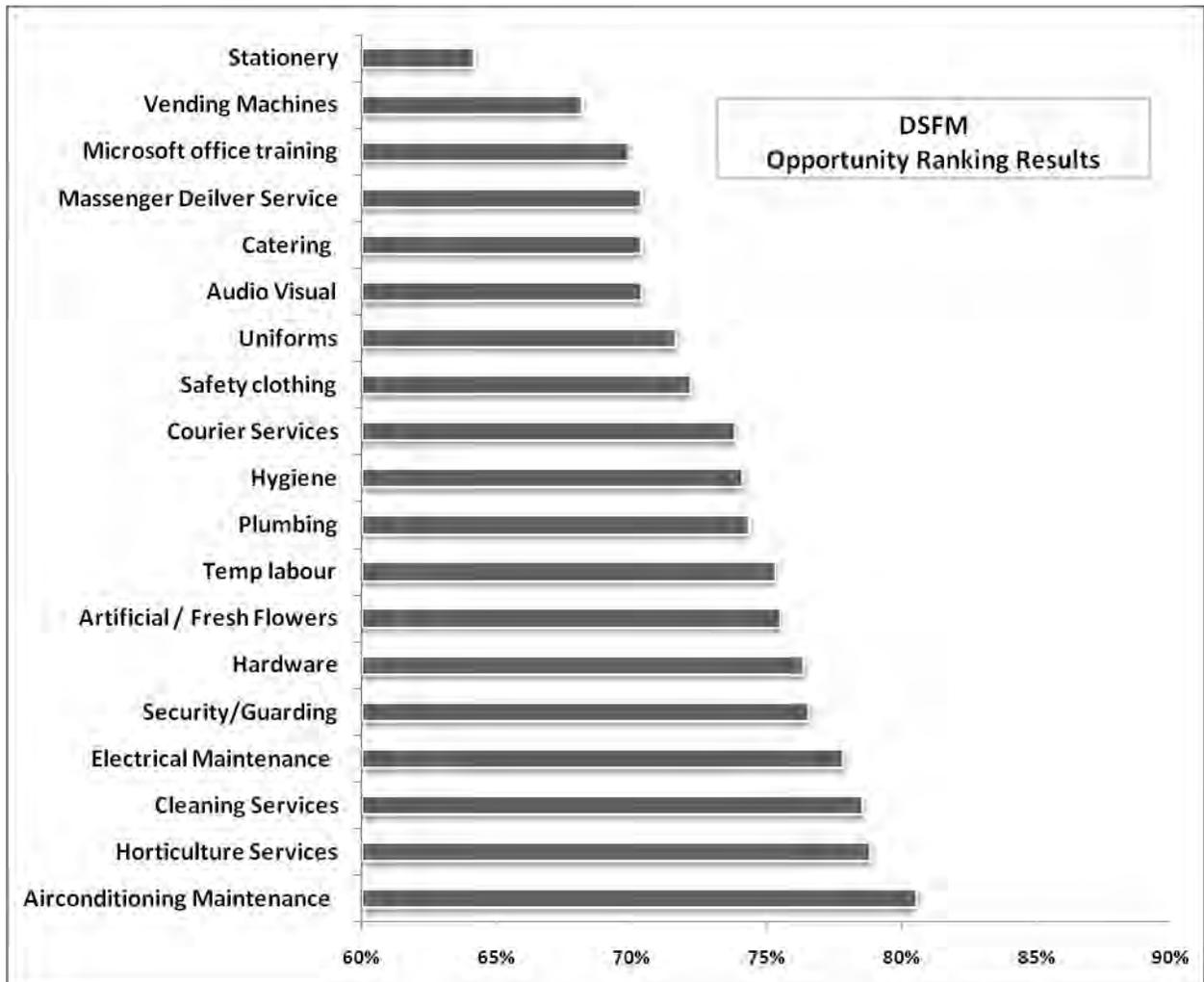
Thereafter a quantitative analysis was performed on all the identified opportunities to rank and evaluated against the organisations opportunity, support, capacity and supply risk. Refer to detailed analysis in Appendix B.

The table below highlights the criteria and scoring methodology used in the quantitative analysis.

Criteria	Weighting	Sub Criteria
Opportunity	40.00%	Relevant Technical, Economic and Developmental considerations
Support	15.00%	
Capacity	20.00%	
Risk	25.00%	

Drake & Scull Supplier Diversity Assessment

Results and the Quantitative Analysis illustrated below:



DSFM has the opportunity to develop a large number of suppliers in a wide range of industries. The obvious choice would be to start with the opportunities which offer the highest potential, but in the case of DSFM, there are abundant opportunities in multiple sectors which are equally suitable. It is recommended that the SASDC match these identified opportunities with certified supplier offerings and to facilitate potential linkages with DSFM. SASDC suppliers should be included in current and future DSFM sourcing strategies and it is suggested that the gaps in suitable suppliers be identified and highlighted for active recruitment of suitable suppliers. Continuous communication is encouraged between all parties to ensure that these opportunities are effectively utilised.

Drake & Scull Supplier Diversity Assessment

4.4 Main Outcomes

DSFM would be classified at the lower end of a Corporate Competitiveness (level 4) programme where the Supplier Diversity is an integral part of the process that is driven and managed from top management. It should however be clear that the supplier diversity status is a reflection of the preferential procurement policy and process in the organisation and that SD as such is not yet entrenched.

The CEO and directors are involved and firmly believe in the value of the PP process which should be broadened to incorporate SD. A steering committee consisting key executives that drives this process would add value.

DSFM have set aside resources, including technology, and a strong team of Supplier Diversity professionals are driving the process. The Supplier Diversity process aligns with strategic sourcing as well as marketing and sales processes. An advanced 2nd tier process exists which opens up further opportunities to contract black suppliers.

On this level the Supplier Diversity process provides excellent return on investment. Solid strategies and structures to support Supplier Diversity exist. However, culturally, the organisation has not yet fully embraced Supplier Diversity. Key criteria for a Supplier Diversity process to be on an advanced level include:

- Executive programme leadership and senior management involvement;
- Programme has sufficient resources;
- Strong team of Supplier Diversity specialists;
- Second tier programme is integrated into sourcing strategy and outcomes; and
- Innovative Supplier Diversity development initiatives are available

DSFM subscribes to a broader BEE strategy but its application does not incorporate a well-defined Supplier Diversity initiative which is approved at executive level. Training in the theory, application and subsequent value of such a program should be sought on an executive and operations level. Once this has been concluded it would be possible to engage in a strategic planning session to develop an integrated programme. Alignment between strategy, structure and culture will be followed by organisational & operational support for a Supplier Diversity programme.

It is clear that the intrinsic and actual value of a SD program must be understood at all management levels and that a business case for a sustainable SD program should be developed which provides a measurable return on investment.

5 Conclusions and Suggestions

In summary it is concluded that the following actions should be undertaken:

Short Term:

1. Provide training for relevant staff on the importance and application of Supplier Diversity.
2. Define an "empowered supplier" and ensure ability to identify them in the supplier database.
3. Define and approve corporate SD strategy.
4. Define key outcomes & goals required from the strategy.
5. Develop a business case based on the economics, cost effectiveness and return on investment ensuring a structural and cultural fit within company structure.
6. Identify who are the key stakeholders and champions of the supplier diversity initiative and involve them in the process.
7. Link SD strategy to procurement process with an initial focus on the sub commodities that offer the quickest returns (low hanging fruit).

Medium Term:

1. Ensure the SD initiative is well documented in the form of a strategic plan/ budget and/or business case.
2. Map and analyse value chain with appropriate risk analysis.
3. Interface strategic intent for SD with the daily operations of procurement
4. Allocate and release funds to support the initiative.
5. Ensure communication is frequent and appropriate for internal and external stakeholders.
6. Measure historic purchasing and growth from empowered suppliers

Long Term:

1. Ensure SD initiative is backed by appropriate IT enablement.
2. IT enablement should include planning, operations, control and the development of a parallel Management Information System.
3. Monitor and evaluate SD initiative regularly.
4. Review processes from lessons learnt.

STUDY III

CORPORATE REPORT: BRITISH PETROLEUM SOUTHERN AFRICA

British Petroleum Southern Africa Supplier Diversity Assessment

SASDC analysis of British Petroleum Southern Africa (BPSA) readiness to engage in supplier diversity as a strategic process for identifying and making opportunities accessible to certified black suppliers.

Final Report on the analysis conducted

September 2012

For

ECI Africa on behalf of

SASDC

CONTRACT REF:

ECI Africa contract dated 3 July 2012

Final Report: 20 September 2012

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1 Executive summary

The procurement department at BPSA is a dedicated and competent group who were most cooperative and helpful in the assessment with a good understanding of the issues at hand. A positive intent to develop supplier diversity is evident mainly through an extensive preferential procurement program but the application of a wider supplier diversity initiative is lacking. There is a strong willingness to identify these shortcomings and improve on the overall supplier diversity programme.

BPSA maintains its Level 3 BBBEE contributor status. Considering the high percentage of purchases in the foreign hydro-carbon category (62%), BPSA has done exceptionally well and in achieving this status. BPSA has set up a separate JV to support their Enterprise Development Socio-economic Strategies where they achieved the full 15 and 5 points respectively. These projects make a valuable contribution to their BEE programme and their implications and impacts should be showcased as examples for other SASDC members.

On completion of the assessment, BPSA is classified as a Level 2 supplier diversity program where there is a good awareness and comprehension of the concept. Strategy development, alignment and application of a Supplier Diversity program need attention. Currently the main focus is on BEE compliance. Supplier diversity is not regarded as an asset and managed accordingly. Senior management is involved in the BEE compliance programs and this should be extrapolated into the SD program so that their involvement forms an integral part of the process. A position of Supplier Diversity Manager exists which should be carried forward through incorporation of key performance areas of other job description. The primary purpose for embarking on this process locally was to comply with government requirements and satisfy corporate clients; however BP embraces supplier diversity internationally.

With very little effort BPSA could progress from being a Compliance Level 2 to a Price Competitive Level 3 program through a few short term support interventions, such as an exercise of building executive awareness of SD and a process of defining and clarifying a bottom line business case incorporating and then aligning this with the overall corporate strategy. Aligning and developing existing partnerships, increasing budget allocations, would expedite the progress.

2 Introduction

ECI Africa on behalf of SASDC appointed two consultants to carry out an analysis of identified SASDC members' readiness to engage in supplier diversity as a strategic process for identifying and making opportunities accessible to certified black suppliers on behalf of the South African International Business Linkages (SAIBL), a programme managed by ECI Africa.

This is one of the areas identified as requiring support from the SAIBL programme in terms of the agreement signed between SASDC and SAIBL.

The Consultant's main tasks include the following:

- Preparation & Review of company information
- Selection of companies and collection of base data from the company
- Research finalization and preparation for interviews
- Conduct Site Interviews with identified individuals
- Analysis of data and Reporting

3 Acknowledgements

We would like to thank the following persons for their valuable time and inputs into the Supplier Diversity assessment:

- Ravi Pillay - Head of Procurement;
- Geoffrey Matjiu – Supplier Diversity Manager;
- Vishal Devan - Commodity Manager, Logistics;
- Sumaya Essop - Commodity Manager, Professional Services and
- Mthunzi Nkambule - Commodity Manager, Engineering & Projects

4 BP Southern Africa (BPSA): Relevant company information

4.1 Introduction to BPSA

BP is one of the world's leading international oil and gas companies, active in 30 countries with 83400 employees and 21800 retail stores, providing its customers with fuel, energy, retail services and petrochemicals products. The main activities include: finding, extracting and making oil and gas; making and selling fuel products; and generating low carbon energy. BP Alternative Energy are investing in new ways of providing energy – from innovative new solar and wind businesses to advanced biofuels and clean energy technologies such as the capture and storage of carbon dioxide from traditional fossil fuels.

With more 600 BP branded service stations nationwide, BP Southern Africa is one of the largest oil companies in South Africa with a history that reaches back to the early 1920's. At the Sapref refinery south of Durban BP processes crude oil manufacture lubricants at an oil blending plant. In addition to a national network of BP branded service stations, they operate a number of owned depots and coastal installations.

4.2 BPSAs Black Economic Empowerment and Supplier Diversity Position

Strengths: BPSA maintains its Level 3 BBBEE contributor status. This is achieved through a comprehensive and well managed BEE program but also through Masana is a new fully black owned, managed and controlled company that will market and sell BP branded oils and fuels to the business-to-business commercial, industrial and mining sector. In 2005 BPSA sold its commercial and industrial fuels marketing business to a new black empowerment joint venture company in which BP retained a minority 45% stake and four empowerment partners a majority of 55%. This was the first time a major oil company had taken a minority share in an empowerment venture.

In 2001, the Mineworkers' Investment Company (MIC) and WDB Investment Holdings (Pty) Ltd (WDBIH) accepted an equity stake in BP's South African operations, giving them an immediate three seats on the board of BP Southern Africa (Pty) Limited and 25% shareholder voting rights. As part of the transaction, MIC and the WDBIH also secured an initial 25% shareholding in a new BP marketing joint venture Masana.

Woman's Development Banking (WDB) Group's mission and vision is to uplift the economic status of women and empower them to start successful businesses. The

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WDB is a non-profit organisation with the key focus on providing small business loans and business training to rural women. So far they have given a major boost to economic activity in a previously disadvantaged market sector.

The Mineworkers Investment Corporation's (MIC) sets the pace for the transformation process of large and multi-national corporations in South Africa. MIC has established itself as one of the most successful proponents of black empowerment and wealth creation.

Transformation in BPSA is not seen as a compliance requirement but rather an integral part of their international business model, processes and cultural values. There is a strong focus on BEE compliant suppliers, EME/QSE's, Black Owned and Black Women Owned suppliers.

In the past financial year BPSAs total procurement spend with BEE compliant suppliers represented 76% of the total 3rd party local spend which represents only 11% of the total local spend. The balance is made up by local hydro-carbon spend. Of the 3rd party local spend, BEE Procurement spend with Qualifying Small Enterprises or Exempted Micro Enterprises represented 35% of total. BEE Procurement spend with Suppliers that are 50% Black Owned represented 35% of spend and BEE Procurement spend with Suppliers that are 30% Black Women Owned represented 5% of spend.

BPSA subscribes to equal opportunity and strives for a composition that reflects the demographics of South Africa. Their employment equity strategy forms part of the annual strategic planning process and is reported and reviewed at executive management meetings. BPSAs BEE procurement policy is a pro-active, preferential procurement initiative that ensures constructive participation by South African black people at all levels of business in the South African economy. They subscribe to the principles of accountability, collaboration and transparency and strive to implement best procurement practices.

Weaknesses: The Supplier Diversity strategy is not developed or formalised at this stage but has a strong **alignment with the company's value and vision** and processes. The overwhelming dependence on hydro-carbon purchases makes the compliance with national BEE imperatives difficult. The sector is currently revisiting the codes and charter to come up with a more achievable and sensible charter for the industry. The channels of communication with stakeholders are not formalised on all levels, especially external stakeholders, but is handled on an ad-hoc basis, thereby limiting

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the alignment between strategy and operations. The broader concept of supplier diversity needs to be understood and integrated into the procurement process.

5 Company Review Summary

5.1 Introduction & methodology

To ensure the successful integration of Supplier Diversity into the fibre of an organisation it must be "owned" by all levels of the organisation. Success is achieved once a plan, founded on and supported by a sound business case and rationale, is put in place to guide and drive the Supplier Diversity process.

The Supplier Diversity Plan is required to ensure corporate-wide commitment including strategy, sourcing and development process, communication, education and training to establish actions that will enable the identification, inclusion and development of competitive black enterprises.

An organisation is reviewed using the SASDC Supplier Diversity Levels Assessment Tool, assessing the policies, strategies and procedures with respect to supply chain set up, the supplier application process, supplier master data management, commodity management, procurement management, demand management, materials management and supplier performance. The assessment delivers a report identifying the maturity levels of the strategic, organisational and operational capacities of a Supplier Diversity program. The organisation would be in a position to identify areas where it can make significant progress and gains in the implementation of a supplier diversity program and where there are organizational and operational level capacity constraints.

An organisation can be categorised as falling into one of the following levels based on the assessment of Supplier Diversity practices:

Level 1: ***A Token Program*** where the concept of Supplier Diversity is managed by a manager with little or no approval or involvement from senior management

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Level 2: **A BEE Compliance Programme;** Typically, the development and implementation of a Supplier Diversity strategy are seen as an expense, rather than an asset. Senior management is not integrally involved in the process.

Level 3: **A Price Competitive Supply Chain Programme;** Organisations have already started to work more closely with black suppliers, but the emphasis is on getting the lowest price. Black enterprises supply mainly non-essential goods and services. Existing partnerships are not expanded and only a limited, fixed budget is made available for black supplier development. A very loosely structured 2nd tier process is available with a limited connection to strategic sourcing.

Level 4: **Corporate Competitiveness;** Supplier Diversity is no longer a programme, but is now a process that is driven and managed from top management. The CEO and directors are involved and firmly believe in the value of the process. A steering committee existing of key executives is in place which is driving the process.

Level 5: **Corporate Sustainability;** The SD process is driven by senior management and is viewed by management as a key resource within the organisation. Supplier Diversity is seen on equal ground with processes such as workforce diversity.

Performance attributes are used to measure the application of Supplier Diversity within **an organisation's strategy, organisation and operations. These attributes are** awareness, comprehension, alignment, application and control. The extent to which these all of these attributes are demonstrated will determine supplier diversity performance and the associated level of maturity. **Awareness** refers to the knowledge and understanding of an organisation with relation to Supplier Diversity and related concepts. **Comprehension** refers to the ability of organisations to understand the value of embarking on Supplier Diversity awareness of role players with regards to the relevant legislation and the extent to which Supplier Diversity can improve/enhance output, productivity and sales. **Alignment** refers to the inclusion of Supplier Diversity into the business strategy. **Application** refers to the process and/or methods followed to ensure that Supplier Diversity is implemented at various levels of the organisation. **Control** refers to the methods used to measure, report and refine the implementation of Supplier Diversity.

5.2 Review Summary

A clear distinction should be drawn between a BBEE and a Supplier Diversity programme. BPSA is classified as a Level 2 program where in general the concept, development and implementation of *Supplier Diversity* is seen as an expense that should be controlled to ensure the lowest price for the client. It is not regarded as an asset.

Strategy development, alignment and application of a Supplier Diversity program need attention. Currently the main focus is on BEE compliance. Supplier diversity is not regarded as an asset and managed accordingly. Senior management is involved in the BEE compliance programs and this should be extrapolated into the SD program so that their involvement forms an integral part of the process. A position of Supplier Diversity Manager exists which should be carried forward through incorporation of key performance areas of other job description. The primary purpose for embarking on this process locally was to comply with government requirements and satisfy corporate clients; however BP embraces supplier diversity internationally.

With a small amount of structure and effort, BPSA could quite easily progress to the next level.



5.2.1 Strategy: Overall score of 60%

5.2.1.1 Context & Purpose: Score = 63%

Although the broader BEE strategy is entrenched in the company it is limited in its application and incorporation of Supplier Diversity. It is understood that the need exists and this is acknowledged. Preferential procurement is rooted

British Petroleum Southern Africa Supplier Diversity Assessment

in the procurement processes but a clear SD strategy is not defined nor approved at senior level. Executive managers are not taking leadership in the implementation of Supplier Diversity and subsequently it is not part of **the organisation's strategy.**

5.2.1.2 Alignment: Score = 62%

Organisational support for a Supplier Diversity programme is present but operationally it is absent. Supplier Diversity per se is not reflected in business plans of the organisation although most aspects are covered in the preferential procurement process. Measurements to determine the effective use of black suppliers is evident with regular tracking and reporting but the detail of the reporting has space for improvement. Black suppliers are an integral part of the service delivery process. Identification and control of potential new suppliers is not aligned with strategic sourcing.

5.2.1.3 Business Case: Score = 55%

Alignment between strategy, structure and culture is evident but the business case for a sustainable Supplier Diversity program which provides suitable a return on investment is has not been made.

Strategy	Awareness	Comprehension	Alignment	Application	Control	Total
Context and Purpose	81%	86%	61%	49%	39%	63%
Alignment	83%	87%	60%	41%	38%	62%
Business case	92%	92%	44%	31%	16%	55%
Total	86%	89%	54%	40%	29%	60%

5.2.2 Organisation: Overall score of 60%

5.2.2.1 HR Capacity: Score = 69%

Staff members have received training on an ad-hoc basis on the most critical issues (including risk management) but would benefit from additional training on Supplier Diversity processes and procedures. Key performance indicators and incentives are linked to performance in this area but do not specifically include diversification of suppliers.

5.2.2.2 Resources: Capability: Score = 60%

A SD manager is present in the structure but he is dependent on the balance of the procurement team for support. There is a lack of a strong team of

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Supplier Diversity specialists to manage such a program and what is done is accomplished with resources available.

5.2.2.3 Process: Control: Score = 52%

Accountability is limited to few individuals in the procurement department and is evident on higher levels of the organization including at senior executive level but is not integrated in the process.

Organisation	Awareness	Comprehension	Alignment	Application	Control	Total
HR Capacity	100%	92%	71%	47%	33%	69%
Resource (capability)	100%	84%	61%	41%	15%	60%
Process (control)	78%	73%	43%	41%	26%	52%
Total	93%	83%	58%	43%	25%	60%

5.2.3 Operations: Overall score of 70%

5.2.3.1 Supply & Demand Analysis: Score = 73%

BPSA is limited on the supply side, especially on the hydro-carbon sector but have progressed well in other sectors. They are continually exploring new opportunities for BEE companies. A specific Supplier Diversity strategy, outreach and marketing plan is absent.

5.2.3.2 Acquisition Process: Score = 72%

The acquisition process is well defined and programme tools are used within the organisation but are not integrated. They are currently redesigning the systems through the international operations and would benefit from a review of the SD requirements and specifications to incorporate the new system.

5.2.3.3 Supplier Management: Score = 65%

Training and support is provided to develop black supplier capacity and capabilities but is mainly of a non-financial nature and in the form of information. Safety compliance is an important and necessary requirement and receives the required attention. A formal program to define the status, evaluate the current position, design a development program and monitor the progress on other functions in the suppliers companies would add value.

British Petroleum Southern Africa Supplier Diversity Assessment

Operations	Awareness	Comprehension	Alignment	Application	Control	Total
Supply & Demand Analysis	97%	92%	73%	62%	40%	73%
Acquisition Process	94%	94%	67%	61%	44%	72%
Supplier Management	94%	94%	51%	47%	36%	65%
Total	95%	94%	63%	56%	40%	70%

5.3 Opportunity Assessment

Identification of opportunities for Supplier Diversity for potential matches with SASDC certified suppliers

The opportunity assessment was conducted through an interview process, reviewing the current high level spend analysis and existing procurement and/or strategic sourcing strategies. This was accomplished in collaboration with relevant Commodity Managers.

The approach and methodology adopted was to identify tangible opportunities for Supplier diversity initiatives, which could be matched and potentially lead to opportunities with current SASDC certified suppliers.

The high-level spend, categorized in various commodities rank by bi-annual spend value and latest BBBEE report, was discussed to determine the level supplier diversity, constraints, supply risk and current sourcing initiatives associated with these commodities. The outcome hereof resulted in the identification of potential opportunities in support of supplier diversity.

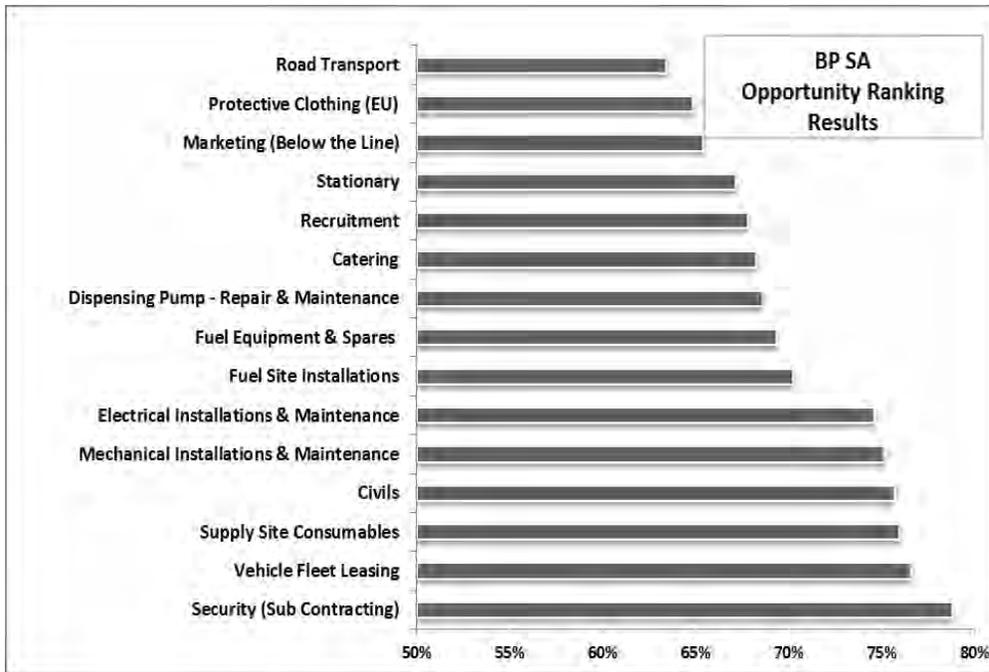
Thereafter a quantitative analysis was performed on all the identified opportunities to rank and evaluate them against the organisations opportunity, support, capacity and supply risk.

British Petroleum Southern Africa Supplier Diversity Assessment

The table below highlights the criteria and scoring methodology used in the quantitative analysis.

Criteria	Weighting	Sub Criteria
Opportunity	40.00%	Relevant Technical, Economic and Developmental considerations
Support	25.00%	
Capacity	20.00%	
Risk	15.00%	

Results and the Quantitative Analysis illustrated below:



BPSA has the opportunity to develop a number of suppliers in the identified sectors. The obvious choice would be to start with the opportunities which offer the highest potential. It is recommended that the SASDC match these identified opportunities with certified supplier offerings and to facilitate potential linkages with BPSA. SASDC suppliers should be included in current and future DSFM sourcing strategies and it is suggested that the gaps in suitable suppliers be identified and highlighted for active recruitment of suitable suppliers. Continuous communication is encouraged between all parties to ensure that these opportunities are effectively utilised.

The number of current global corporate agreements limits and restricts potential opportunities for supplier diversity.

5.4 Main Outcomes

BPSA would be classified at the higher end of a BEE Compliance programme (level 2) programme where the Supplier Diversity is an integral part of the process that is driven and managed from top management. It should however be clear that the supplier diversity status is a reflection of the preferential procurement policy and process in the organisation and that SD as such is not yet entrenched.

The senior managers are involved and firmly believe in the value of the PP process which should be broadened to incorporate SD. The steering committee, existing of key executives, driving the BEE process should also be tasked with the integration of a supplier diversity program. BPSA have set aside limited resources and a strong team of procurement professionals which are driving the BEE process well. Incorporating a Supplier Diversity strategy and process which aligns with the current procurement process would lift the company to the next level.

Attention to the 2nd tier process will open up further opportunities to contract black suppliers. On this level the Supplier Diversity process will provide excellent return on investment.

Solid strategies and structures which will support a Supplier Diversity program exists within the company but culturally, the organisation has not yet fully embraced Supplier Diversity. Key criteria for a Supplier Diversity process to be on an advanced level include:

- Executive programme leadership and senior management involvement;
- Programme has sufficient resources;
- Strong team of Supplier Diversity specialists;
- Second tier programme is integrated into sourcing strategy and outcomes; and
- Innovative Supplier Diversity development initiatives are available

BPSA subscribes to a broader BEE strategy but its application does not incorporate a well-defined Supplier Diversity initiative which is approved at executive level. Training in the theory, application and subsequent value of such a program should be sought on an executive and operations level. Once this has been concluded it would be possible to engage in a strategic planning session to develop an integrated programme. Alignment between strategy, structure and culture will be followed by organisational & operational support for a Supplier Diversity programme.

British Petroleum Southern Africa Supplier Diversity Assessment

It is clear that the intrinsic and actual value of a SD program must be understood at all management levels and that a business case for a sustainable SD program should be developed which provides a measurable return on investment.

6 Conclusions and Suggestions

In summary it is concluded that the following actions should be undertaken:

Short Term:

1. Provide training for relevant staff on the importance and application of a Supplier Diversity program.
2. Define and approve a corporate Supplier Diversity strategy.
3. Define key outcomes & goals required from this strategy.
4. Develop a business case based on the economics, cost effectiveness and return on investment ensuring a structural and cultural fit within company structure.
5. Identify who are the key stakeholders and champions of the supplier diversity initiative and involve them in the process.
6. Link the SD strategy to the procurement process with an initial focus on the commodities that offer the quickest returns (low hanging fruit).

Medium Term:

1. Ensure the SD initiative is well documented in the form of a strategic plan/ budget and/or business case.
2. Map and analyse value chain with appropriate risk analysis.
3. Interface strategic intent for SD with the daily operations of procurement
4. Allocate and release funds to support the initiative.
5. Ensure communication is frequent and appropriate for internal and external stakeholders.

Long Term:

1. Ensure SD initiative is backed by appropriate IT enablement.
2. IT enablement should include planning, operations, control and the development of a parallel Management Information System.
3. Monitor and evaluate SD initiative regularly.
4. Review processes from lessons learnt.

STUDY IV

CONSTRUCTION VALUE CHAIN REPORT



South African International Business Linkages II

VALUE CHAIN ANALYSIS of the CONSTRUCTION SUB-SECTOR May 2009

Commissioned by:

SAIBL

Made possible by:



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Acronyms

Bn	Billion
CIDB	Construction Industry Development Board
BBBEE	Broad Based Black Economic Empowerment
SME	Small and Medium Enterprise
BEE	Black Economic Empowerment
SABS	South African Bureau of Standards
SAIBL	South African International Business Linkages programme
SANS	South African National Standards
NBI	National Business Initiative
NHBRC	National Homebuilders Registration Council
M&R	Murray and Roberts

1. Executive Summary

The purpose of this project was to identify the opportunities and constraints for increasing black SME involvement in the construction industry. Through a value chain analysis, the 'construction industry' was defined to include construction-specific services and the secondary manufacturing and supply of some building elements.

Within construction companies there is a high level of vertical differentiation, with over 60% of the value of construction projects typically being outsourced to subcontractors. This provides opportunities for BBEE and supplier development.

Government preferential procurement, the Codes of Good Practice and sector-specific charters such as the mining and construction charters have resulted in a marked transformation in the BEE profile of SMEs in the construction industry since 1994. Currently, as illustrated by Table 3, over 80% of contractors registered between grades 1- 4 with the Construction Industry Development Board (CIDB) are black. However there is considerable variation in BEE status between sub-sectors. As illustrated in Table 4, in the general building and civil engineering sub-sectors, more than 80% of contractors registered between grades 1-5 are black. However, for the mechanical, electrical (building), electrical (infrastructure) and special works sub-sectors, only at grade 1 are more than 80% of the registered contractors black.

The report uses a set of criteria to identify the following construction industry sub-sectors in which the constraints or barriers to entry are relatively low and in which there are opportunities for black SME development:

- Consulting;
- Construction contracting;
- Building materials supply;
- Secondary manufacturing of certain construction components.

Some sub-sectors which might intuitively be thought to offer potential, such as general building, do not offer potential for increasing the involvement of black SMEs because SME involvement in these sectors is already very high (in fact there is already an oversupply of SME contractors in the lower grades of general building and civil engineering, relative to the demand for their services). If the aim of transformation is to change the industry so that it is broadly representative of the population, then the key transformation challenge in the general building and civil engineering sub-sectors is to develop medium-sized and large black contractors rather than small black contractors. In other sectors, such as mechanical and electrical contracting, the transformation challenge is the development of more small and medium-sized black SMEs.

Lack of business and managerial skills is the key challenge to increasing transformation in the industry. Other challenges include lack of other skills (basic, administrative, and technical), experience and access to finance. The best way of addressing these challenges is to increase relationships between black SME contractors and established contractors, through sub-contracting, joint ventures, or managing contractor contractual arrangements. In this regard there is potential for NBI and SAIBL II member companies to play a key role in entering into relationships with black SME contractors with the aim of assisting them to attain a higher CIDB grading. These efforts should be strategically designed to address the transformation gaps which can be identified in the CIDB's BEE statistics. While addressing

transformation issues, this approach would also result in increased competition in those areas of the construction value chain where the numbers of competing companies are relatively low.

2. Introduction

2.1 THE SERVICE PROVIDERS

ECIAfrica Consulting, in partnership with Global Sustainable Development, were appointed by the National Business Initiative to carry out a value chain analysis of the construction sector of the South African economy with a focus on the Gauteng province. ECIAfrica decided to utilize two external associate researchers who have experience in the construction sector in South Africa. Additionally, they have extensive research experience, both of them holding advanced post-graduate qualifications in the construction field. An internal ECIAfrica staff member with value chain analysis experience was the team leader on the assignment.

2.2 THE SAIBL II PROGRAMME

The assignment forms part of the South African International Business Linkages (SAIBL II) programme, which involves building the competitiveness of black enterprises through improvements in management, use of modern technology, productivity and quality, and linking them to domestic and international markets in sustainable business relationships.

2.3 PURPOSE OF THE PROJECT

The purpose of the project was to reveal:

- a) where in the construction value chain there is a strong market opportunity for black SMEs and good prospects for reaching a significant number of black SMEs;
- b) how best to intervene in the value chain to promote black SME competitiveness and growth in business transactions, given SAIBL's area of influence.

2.4 METHODOLOGY

The methodology was based mainly on primary research in the field, supplemented by secondary information obtained through literature. A sub-sector analysis approach was followed in order to collect relevant primary information necessary for the study.

The project study started with a meeting between the NBI and ECIAfrica to ensure that there were common expectations of the study. This inception meeting agreed that a project charter would be developed which would outline the demarcation of study boundaries i.e. a definition of the construction sector. The project charter would also identify particular sub-sectors within the construction sector that presented opportunities for black SMEs. The charter was to be developed from a literature review and desk study with a view to confirming the findings of the project charter during the fieldwork phase. Members of the team then gathered information through consultation, using the internet, and from various reports and documents.

2.4.1 SUB-SECTOR ANALYSIS APPROACH

This study made use of the sub-sector analysis approach to understand the different role players in the construction sector. The sub-sector analysis is defined as a systematic

analysis that works from the perspective of the enterprise. It analyses the relationships between different actors within a sub-sector, for example it answers questions such as who carries out the different functions within the value chain. It organises these different elements into a sub-sector map, which comprises various channels that demonstrate these relationships. These maps further provide a good framework from which to analyse the dynamics of the sub-sector, how it is changing and why.

After preliminary consultations with the NBI and after reviewing the literature the following sub-sectors within the broader construction sector were identified as the main potential areas of opportunity for black SMEs:

- Consulting;
- Construction contracting:
 - General Building contracting
 - Civil Engineering contracting
 - Mechanical Engineering contracting
 - Electrical Engineering contracting
- Building materials supply;
- Secondary manufacturing of certain construction components (like simple precast concrete elements, steel window frames, simple structural steel components).

The process of identifying these sub-sectors is described in detail in Section 7.1 below.

2.4.2 RESEARCH TOOLS AND DATA COLLECTION

Interviews with various participants within the value chain were conducted to ascertain the validity of the findings of the project charter within these subsectors. The researchers attempted to interview representatives from each of the identified sub-sectors, based on a list of interviewees provided by the NBI. Due to the study timeframe being limited, it was not possible to obtain appointments with all the identified stakeholders, especially some of the larger corporate companies such as Group 5 and Aveng whose availability fell outside the timeframe of this study. The National Black Contractors and Allied Trades (NABCAT) refused a request for an interview. They expressed a preference for engaging directly with the large companies involved in SAIBL rather than with consultants.

The purpose of the interviews was to:

- a) test the results of the initial desk-top review;
- b) determine the main constraints to increasing involvement of black SMEs in the focus subsectors;
- c) identify and describe potential interventions to address the constraints.

A research instrument in the form of a question guide was developed for use by the field researchers. The research instrument is attached as Appendix 1. A list of the interviewees is attached as Appendix 2.

3. Overview of the Sector

3.1 DEMAND SIDE

According to Statistics South Africa, in 2007 the total income for the construction industry was R174.5 bn. The largest contributor to the total income was 'construction of buildings' (R60 bn or 34,5%), followed by 'construction of civil engineering structures' (R51.7 bn or 29,6%) and 'other building completion' (R15.9 bn or 9,1%)¹. A summary of the key industry statistics is provided in Table 1 below.

Table 1: Principal statistics in the construction industry, 2007 (R million)

TYPE OF SERVICE	TOTAL INCOME
Site preparation	3 130
Construction of buildings	60 156
Construction of civil engineering structures	51 651
Construction of other structures	3 079
Construction by specialist trade contractors	8 294
Plumbing	3 055
Electrical contractors	10 252
Shop-fitting	1 290
Other building installation	12 010
Painting and decorating	1 937
Other building completion	15 943
Renting of construction or demolition equipment with operators	3 674
Total	174 471

Source: Statistics South Africa: Statistical Release P5002: Construction industry 2007: pg 6

On the demand-side, both public and private sector investors play an important role. However, private sector investment in buildings and infrastructure has been cut back sharply since the start of the current economic downturn. Private sector investment will pick up again once the global economy recovers from the current down-turn, but it is difficult to predict when this will occur.

Fortunately public sector investment is keeping the construction industry buoyant. Public sector investment is likely to be sustained for the foreseeable future, driven primarily by investment in power and transport infrastructure by Eskom (R343 bn over the next five years alone) and Transnet (R80 bn five year investment programme) respectively, with additional investment flowing from initiatives and facilities linked to the 2010 World Cup (such as the R19 bn planned to be spent on airport infrastructure and R13.6 bn to be spent on other transport infrastructure).

¹ Statistics South Africa: Statistical Release P5002: Construction industry 2007: pg 3

Public sector infrastructure expenditure will remain high after the World Cup, with ongoing investment in roads and commuter rail (R70 bn and R16 bn respectively planned by the national Department of Transport), housing, water, sanitation and health and education infrastructure by government to meet 2014 service delivery targets. Although Eskom has only released five year investment figures, it will be investing heavily in infrastructure for the next twenty years (Eskom officials have been quoted as estimating as much as R1000 bn over the next twenty years). While only part of the Eskom expenditure will be spent on construction (most of it will be spent on machinery and equipment such as turbines and boilers), the combination of Eskom and other general government expenditure is likely to provide a steady base level of demand in the construction industry for the foreseeable future.

There are opportunities for black SMEs resulting from both public and private sector construction expenditure. As demonstrated by Construction Industry Development Board statistics (discussed in Section 6 below), black SMEs have benefited strongly from public sector investment in particular and will continue to do so. This is driven by the application of BEE policies and the Preferential Procurement Policy Framework Act in the public sector. However, as will also be discussed further in Section 6 below, many opportunities for black SMEs are also being provided by the private sector, driven partly by the Codes of Good Practice and the Construction Charter, but also by the high level of subcontracting in the sector.

3.2 SUPPLY SIDE

On the supply side, 'construction industry' value chains are inextricably linked with the value chains of other industries. Although construction is part of the services sector, many of the components in the construction value chain are produced by other sectors. For example, plant and equipment form part of the construction value chain, but are produced by the secondary manufacturing sector. Similarly, steel and stone are important components of the construction value chain, but are produced by the resource extraction and primary manufacturing sectors. In addition, project financing forms part of the value chain of private sector construction and building projects, but this is part of the financial sector. The boundaries of the 'construction industry' on the supply-side are delineated in the next section.

Statistics SA's breakdown of income by enterprise size in the construction industry indicates that large enterprises (those with turnover greater than R26 million) accounted for 58.2% (R101 473 million) of the total income reported by the industry in 2007 (Statistics SA, 2007:2). This indicates that more than 40% (or R70 bn) of the income in the industry accrues to SMEs. The construction industry is therefore already playing a major role in the development of SMEs in South Africa.

Expenditure in the construction industry was primarily made up of purchases (R81 456 million or 48.7%), payments to construction subcontractors (R27 555 million or 16.5%) and salaries and wages (R27 479 million or 16.4% (Statistics SA, 2007:3).

The industry is highly competitive, as illustrated by its relatively low profit margins. According to Statistics SA (2007: 4), the profit margin (net profit before tax as a percentage of turnover) for the construction industry was 4.2%. 'Renting of construction or demolition equipment with operator' had the highest profit margin at 9.4%, followed by 'Painting and decorating' at 7.7%, and 'Shop-fitting' and 'Other building installation' both at 5.9%.

4. Value Chain Map

4.1 FUNCTIONS AND PARTICIPANTS

There is no standard definition of the boundaries of the 'construction industry', and there is debate within the industry as to where the boundaries should be. For example, for the purposes of its work, the CIDB decided to define the construction industry to exclude materials and plant and equipment suppliers. However, the construction sector BBBEE charter includes these suppliers.

As summarised in Figure 1 below, for the purpose of this study, the 'construction industry' was defined to include:

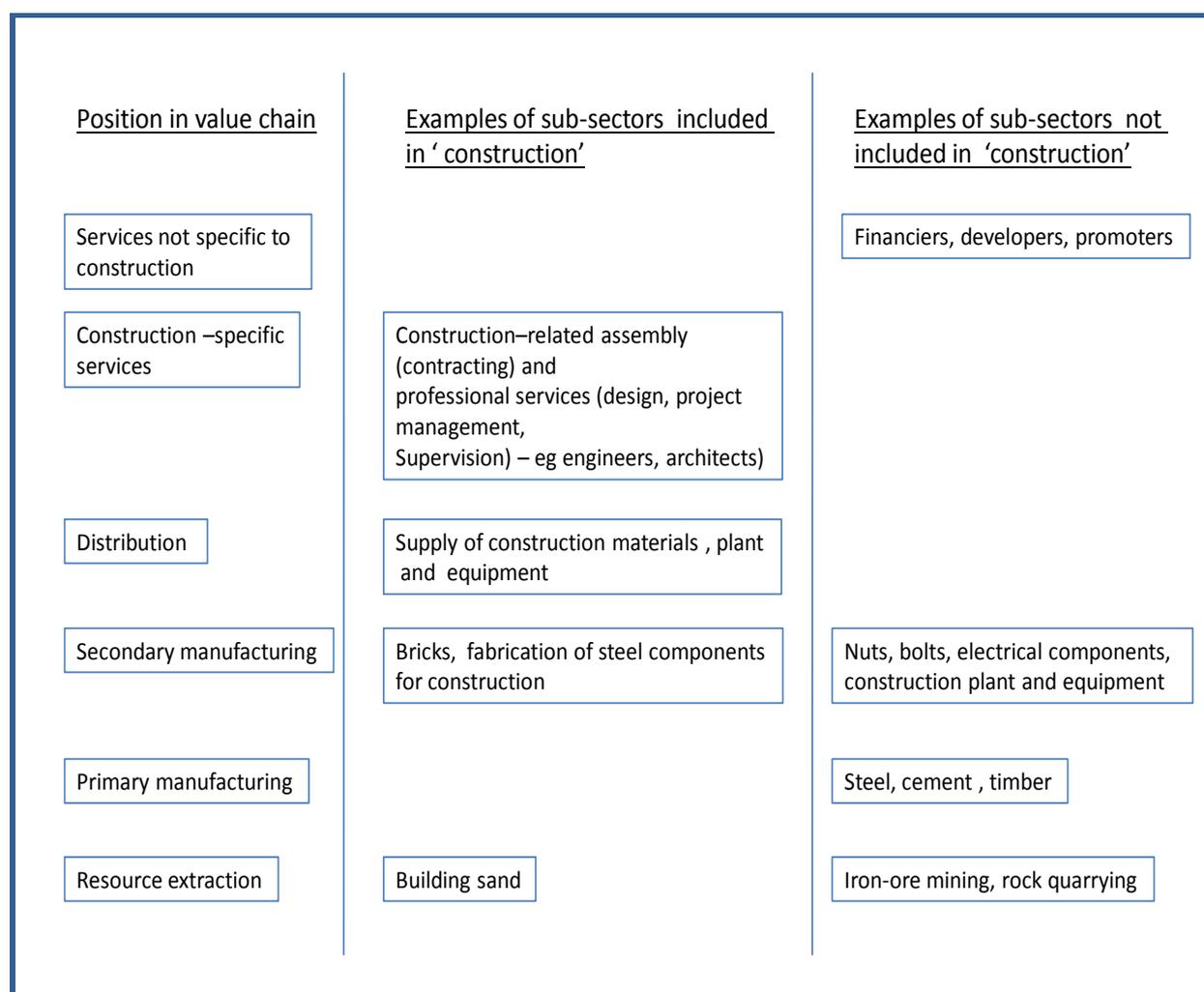
- construction-specific services (construction-related assembly, e.g. building; materials and equipment supply; and design); and
- secondary manufacturing and supply of building elements for which South African supply can clearly be competitive (e.g. sand, bricks, steel fabrication).

The following areas of the construction value chain were excluded on the grounds that they are clearly part of other sectors:

- components involving resource extraction (e.g. mining and forestry), excluding project-specific borrow-pits;
- primary manufacturing of components (e.g. steel, cement, timber);
- secondary manufacturing of components in the construction value chain for which competitive local supply is difficult (e.g. light switches, nails, nuts and bolts);
- services which are not specific to construction (e.g. financiers, developers, promoters, concessionaries, operators).

Because the construction sector has been delineated in this way for the purpose of this study, data on the size of each of these specific subsectors is not readily available. It has only been possible to provide statistics for the broader construction industry and the subsectors as defined by Statistics SA which were summarised in section 3.1 above.

Figure 1: Delineating the construction industry for the purposes of this study



4.2 CHANNELS

For both public and private sector clients, construction-specific services are largely provided by private sector companies. In the past, construction-specific services were often vertically integrated into government bodies. For example, provincial roads departments used to have road construction units which would construct provincial roads, but this is now largely outsourced.

The private sector companies are generally divided into 'construction' companies and 'consulting' companies. Construction companies (contractors) provide construction-related assembly services (in fields such as building and civil, electrical and mechanical engineering). They are usually contracted by private or public sector client bodies and provide the services partly by their own efforts and partly by sub-contracting some of the work. Consulting companies provide professional services including feasibility studies, design and costing, procurement (compilation of tender documentation and management of the process of procuring the services of construction companies), project management and contract management. However, there is a growing trend for both private and public sector major clients to appoint firms to provide a turnkey "all-in" design and build service, for which 'construction' companies are usually the prime contractor.

Within construction companies there is a high level of vertical differentiation, with over 60% of the value of construction projects typically being outsourced to subcontractors, as supported by the statistics on payments to construction subcontractors mentioned in section 3.2 above. A further indication of the high level of subcontracting is the statistic that large enterprises only employed 35.6% (193 786) of the 543 686 workers in the construction industry in 2007, despite accounting for 58.2% of total income in the industry (Statistics South Africa, 2007: 5).

Coupled to this, there has also been a marked shift away from permanent employment in the industry in recent years, along with a sharp increase in the use of labour-only subcontractors. There could be a number of reasons for this change, one of which might be a need for companies to be able to increase or decrease the size of their workforce rapidly, given the boom and bust nature of the industry. However, as will be discussed further below, the high level of vertical differentiation in the construction sub-sector provides opportunities for BBBEE and supplier development.

Consulting companies are usually more vertically integrated, although firms often form consortia or joint ventures. There is a certain amount of subcontracting, often for specialist advice, but much less than amongst construction companies.

The secondary manufacturing industry supplying components such as bricks, precast concrete building units and fabricated steel is dominated by a number of large and medium-sized established companies. Due to the economies of scale of manufacturing, it is difficult for small companies to enter this market and compete with the established companies in terms of price.

In addition, quality standards specified by client bodies (such as meeting SABS or SANS quality standards) can affect the ease of entry by SMEs. Generally, the higher the specified standards, the more capital investment is required to manufacture to the required standards. This means that SME manufacturers are making more progress in breaking into less-highly specified types of work, such as informal building work. In this regard, client bodies wishing to increase the involvement of SMEs in this subsector could review their standard setting to ensure that it is appropriate and that quality specifications for these types of items are not unnecessarily over-specified.

However, there are certain types of material supply, such as the supply of sand, where small local companies can be competitive, due to the low capital intensity and high transport component of the cost of supplying such materials.

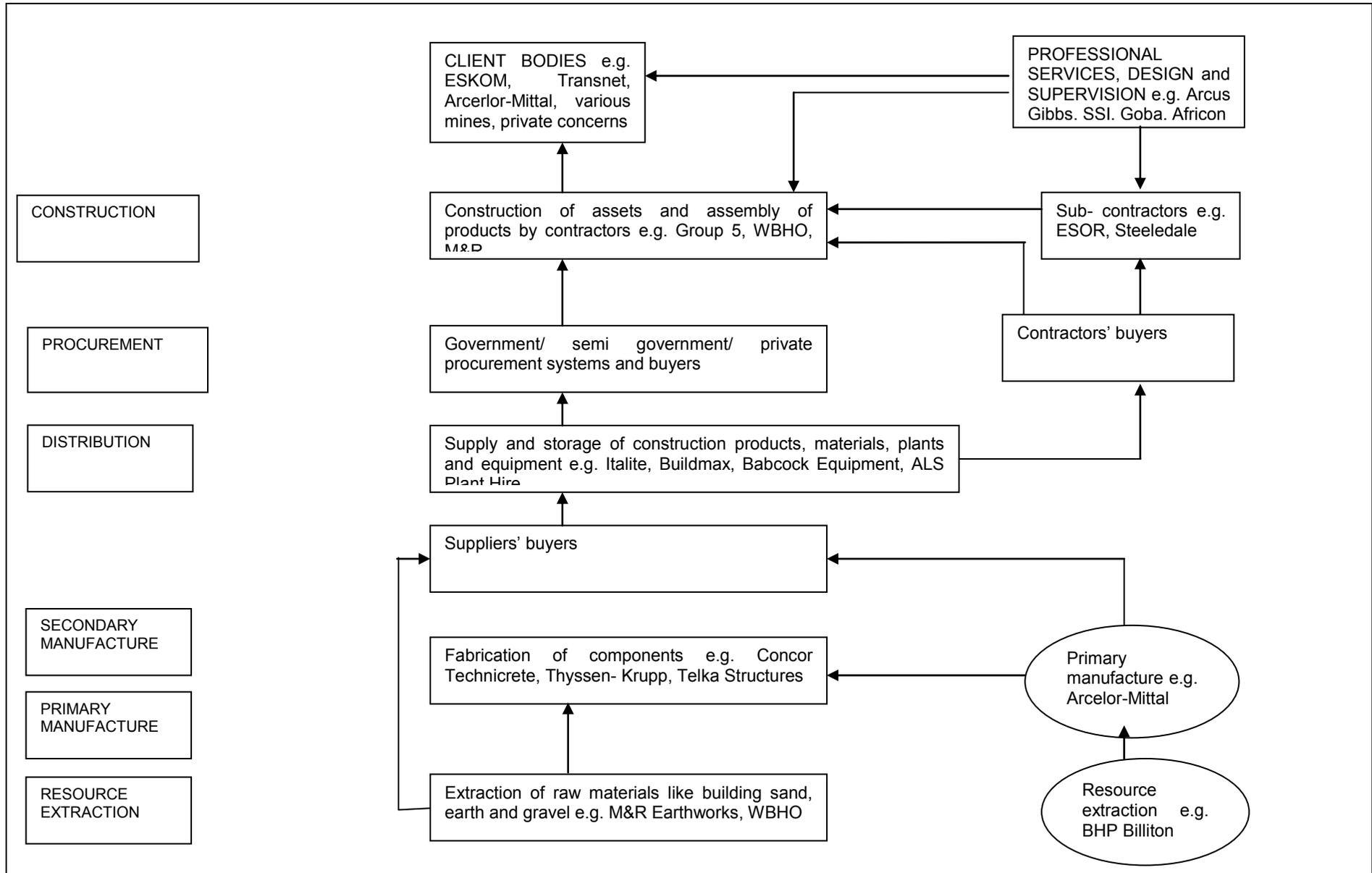


Figure 2: Construction Sector Value Chain Map

5. Institutional and Regulatory Framework

On the demand-side, public sector infrastructure bodies are regulated by the Construction Industry Development Board (CIDB) Act. As will be discussed further below, the CIDB plays a key role in regulating the construction sub-sector and in promoting contractor development. Because the same contractors supply both the public and private sectors, the CIDB has a strong impact on the whole industry, particularly as far as SME development is concerned. The construction of houses is regulated by the Housing Consumer Protection Measures Act under which the National Homebuilders Registration Council (NHBR) has been established.

6. Driving Forces for Black SME Development in the sector

6.1 THE PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT (PPPFA) AND BEE POLICIES IN THE PUBLIC SECTOR

There has been a marked transformation in the BEE profile of SMEs in the construction industry since 1994. This has largely been driven by massive investment in small-scale infrastructure projects by provincial and local government, coupled with preferential procurement legislation (the PPPFA and other BEE policies adopted by public sector bodies such as Eskom and Transnet). A report by the Business Trust EPWP support programme indicated that the average size of provincial and municipal infrastructure projects is less than R3 million. Given the massive increase in expenditure on infrastructure by provinces and municipalities since 1994, this has resulted in an explosion in the numbers of black SMEs in the sector (discussed in more detail in section 6.3 below).

6.2 THE BROAD BASED BLACK ECONOMIC EMPOWERMENT ACT (BBBEE) ACT, THE CODES OF GOOD PRACTICE AND SECTOR-SPECIFIC TRANSFORMATION CHARTERS

The Codes of Good Practice for BBBEE and sector-specific charters such as the mining and construction charters are the main drivers of transformation and black SME development in the private sector.

The BBBEE Act requires public sector institutions to take an entity's BBBEE status into account when carrying out procurement (Section 10 of the Act). Companies which supply to the state therefore have an incentive to improve their BBBEE status. The measurement systems in the Code of Good Practice are such that companies which supply to the state also have an incentive to take BBBEE status into account in their own procurement practices. Their own BBBEE ratings will improve if they use suppliers with high BBBEE ratings. Given that most large construction companies supply to both the state and the private sector, the BBBEE Act and the Codes are powerful instruments for promoting black SMEs in the construction industry.

Some of the interviewees raised a concern about confusion created by the dual existence of the Codes and the sector charters (this problem is not unique to the construction sector).

6.3 BEE STATISTICS FOR THE SECTOR

The CIDB is able to provide detailed statistics of the BEE status of its 75 000 registered contractors. These statistics are broken down per sector of the construction industry, excluding secondary manufacturers and building materials suppliers. The limitation of this source of data is that registration with the CIDB is only compulsory for construction

companies wishing to do business with the public sector. However, given the strong role played by the public sector in construction, the CIDB statistics should give a fairly accurate picture of the construction industry. The CIDB Register is used on a daily basis by the whole public sector (public sector bodies may not appoint contractors unless they are registered with the CIDB), and public sector infrastructure expenditure levels are high. The CIDB Register is therefore working. The CIDB does carry out sample audits of the accuracy of submitted information and has taken action against contracts found to have submitted fraudulent information. The CIDB Register is the best available database from which BEE statistics on the construction industry can be drawn.

The National Homebuilders Registration Council (NHBC) maintains a register of home-building contractors. However, they were not able to provide detailed BEE statistics similar to those provided by the CIDB. In addition, although the Cement and Concrete Institute has a database of suppliers, they do not keep data on the BEE status of the suppliers.

Tables 2, 3, 4, 5 and 6 below provide an indication of the BEE status of CIDB registered contractors as at March 2009. As illustrated by Table 3, over 80% of contractors registered between grades 1- 4 with the Construction Industry Development Board (CIDB) are black. However there is considerable variation in BEE status between sub-sectors (see Table 5 for a description of the sub-sectors or classes of works). As illustrated in Table 4, in the general building and civil engineering sub-sectors, more than 80% of contractors registered between grades 1-5 are black. However, for the mechanical, electrical (building), electrical (infrastructure) and special works sub-sectors, only at grade 1 are more than 80% of the registered contracts black. This is probably due mostly to the higher level of technical knowledge required for mechanical and electrical work. In other words, the technological barriers to entry are lower for building and civil work than for mechanical and electrical work.

The absolute numbers of registered contractors per class of works and grading are provided in Table 6. As can be seen from Table 6, there are very large numbers of Grade 1 General Building contractors and there are also large numbers of Grade 1 Civil Engineering contractors. This correlates with the statistics of the construction industry provided in Section 3.1 above, which indicate that general building and civil construction are the largest sub-sectors.

Ninety eight percent of the Grade 1 contractors in these two sub-sectors are black. As mentioned in section 6.1 above, the explosion in the numbers of registered contractors in these two categories has been driven by provincial and local government expenditure on infrastructure such as school classroom blocks and low-volume roads. These types of infrastructure are relatively technologically simple and provincial and local governments have tendered large numbers of small projects, such as the construction of a single block of four classrooms or a few kilometres of road upgrading. Such projects are too small to be worthwhile for larger contractors. There are two reasons why provincial and local governments have tendered large numbers of small projects: firstly, to promote access to SMEs, and secondly, to spread limited budgets over as many constituencies as possible.

Because the barriers to entry are relatively low for general building, particularly at Grade 1, unemployed people with few other opportunities are attracted to register. However, although provincial and local government infrastructure expenditure has increased markedly since 1994 and continues to increase, there is not enough work to keep all the registered Grade 1 contractors busy. Most Grade 1 contractors do not obtain sufficient work to grow and graduate into the higher grades (movement up the grades is based on turnover of completed projects and adequate financial standing), and remain at Grade 1. As a result, the ratio of the number of contractors in Grade 1 to the number of contractors in the other grades is increasing. In addition, as illustrated by Tables 3 and 4, the industry is becoming increasingly characterised by mostly-black SME contractors and mostly-white large contractors.

Table 2: CIDB contractor grading

Designation	Upper limit, (R) of tender value range	
	2004 Regulations	2008 Regulations
1	R 200 000	200,000
2	R 500 000	650,000
3	R 1 500 000	2,000,000
4	R 3 000 000	4,000,000
5	R 5 000 000	6,500,000
6	R 10 000 000	13,000,000
7	R 30 000 000	40,000,000
8	R 100 000 000	130,000,000
9	No limit	No Limit

Table 3: BEE status of contractors registered on the CIDB contractors' register²

Black owned by Grade only

Grade	Total	% of the Total	Black Owned
1	64646	62953	97%
2	4686	4207	90%
3	1267	1120	88%
4	1672	1356	81%
5	1050	792	75%
6	846	587	69%
7	427	219	51%
8	120	33	28%
9	118	4	3%
Total	74832	71271	95%

Medium sized contractors = 80% black ownership



GB: General Building CE: Civil Engineering ME: Mechanical Engineering EP:Electrical Engineering (Infrastructure) EB: Electrical Engineering (Building) SW:Specialist Works

Table 4: Classes of construction works

Description	Designation	Definition	Basic works types	Examples
Civil Engineering	CE	Construction works that are primarily concerned with the materials such as steel, concrete, earth and rock and their application in the construction, operation, maintenance and management of hydraulic, structural, environmental and systems aspects of infrastructure works and services.	Water, sewage, transport, urban development and municipal services	Railways, water and sewage reticulation and pump stations, roads, bridges, dams
Electrical Engineering	EE	Construction works that are primarily concerned with installation, testing, operation and maintenance of equipment, plant and systems within the electrical, electronic, communications and electrical systems areas	Electrical power generation, transmission, distribution and utilisation, communications networks, electronic plant and equipment and systems	Electrical distribution systems and reticulations, electrical installations in buildings, power generation, street lighting

² The numbers under the column heading “% of total” refer to absolute numbers and not percentages. Changes could not be effected on this Table as it is an original Table from the CIDB.

Description	Designation	Definition	Basic works types	Examples
General building	GB	Construction works that are primarily concerned with the provision of permanent shelter for its occupants or contents	Buildings and ancillary works	Buildings
Mechanical engineering	ME	Construction works that are primarily concerned with the installation, testing, operation and maintenance of machines, machine and thermodynamic processes and manufacturing, materials handling plants and systems	Machine systems relating to the environments of building interiors	Air conditioning, boilers, central heating, lifts, pumping installations, refrigeration systems
Specialist works	SW, with various sub-categories	Construction works that involve specialist capabilities	Alarms and security; asphalt works, building excavations, corrosion protection, demolition and blasting, fire prevention and protection systems, landscaping, glazing, lifts and escalators, piling and specialised foundations, road markings and signage, structural steelwork fabrication and erection, timber buildings and structures, waterproofing, water supply and drainage for buildings	

Source: Construction Industry Development Regulations: 2004: Schedule 3

Table 5: Numbers of registered contractors per class of works and grading

Class of Works by grading

Grade	Class of works						
	GB	CE	ME	EP	EB	SW	TOTAL
1	42907	13128	1773	552	651	5632	64646
2	2212	1480	245	39	207	503	4686
3	546	444	67	19	116	75	1267
4	632	660	92	41	170	77	1672
5	320	413	78	31	126	82	1050
6	323	384	52	12	50	25	846
7	144	189	31	21	21	21	427
8	37	56	11	9	2	5	120
9	25	45	25	12	1	10	118
Total	47146	16799	2374	736	1344	6430	74832

GB: General Building CE: Civil Engineering ME: Mechanical Engineering
EP: Electrical Engineering (Infrastructure) EB: Electrical Engineering (Building) SW: Specialist Works

There have been 4436 upgrades on the Register to date.
Black owned enterprises constitute 87 % of all upgrades.



7. Constraints and Opportunities

7.1 INITIAL IDENTIFICATION OF AREAS OF OPPORTUNITY

The following criteria were used to identify focus sub-sectors in which the constraints or barriers to entry are relatively low and in which there are opportunities for black SME development:

- Low (irreversible³) barriers to entry;
 - Not highly capital-intensive (e.g. exclude piling, high traffic volume roads, large dams which are all highly capital intensive)
 - Not highly expertise-intensive / not high-level technology driven (e.g. pre-stressed concrete, geotechnical work)
- Level of demand and potential growth of the sub-sector are high;
- Sub-sectors in which there is not already a high level of penetration by black SMEs (based on the CIDB statistics);
- Sub-sectors in which buyers have an incentive to procure from black SMEs (i.e. sub-sectors where the public sector plays a major role, and therefore where the Codes of Good Practice for BBBEE coupled with government procurement adjudication criteria provide an incentive for procurement from black SME suppliers);
- Maturity of the sub-sector (sub-sectors which have established technology and support structures);
- Sectors in which there are strong linkages to other sub-sectors to enable horizontal movement of black SMEs into other sectors.

These criteria were applied to the following construction industry subsectors:

- Consulting (excluding niche specialist consulting)
- Contracting (excluding specialist high technology work such as piling, pre-stressed concrete etc)
 - Civil engineering (CE) contracting
 - General Building (GB) contracting
 - Mechanical Engineering (ME) contracting
 - Electrical Engineering (EE) contracting (EP and EB combined)
 - Specialist Works (SW) contracting
- Building materials supply
- Plant and equipment supply

³ Reversible barriers are barriers that can potentially be addressed through interventions. Irreversible barriers are barriers that are intrinsic to the sub-sector, such as the nature of the technology.

- Secondary manufacturing (excluding capital-intensive or high technology manufacturing)

A simple scoring procedure was used to identify an initial list of focus sub-sectors. As mentioned in Section 2.4 above, interviews with various participants within the value chain were then conducted to validate and further develop this initial list.

Each subsector was given a score on a scale of 1-3 for each criterion (see Table 7 below). For the criteria of capital intensity, technology / expertise intensity, and level of penetration, a low score corresponds with a high level for the criterion. For the criteria of level of demand, procurement incentives, sub-sector maturity, and linkages to other industries, a high score corresponds with a high level for the criterion.

Sub-sectors that scored more than 16 were considered to offer opportunities for black SMEs and were included in the initial list of focus areas. The results of this analysis are provided in Table 7 below.

7.2 VERIFICATION AND FURTHER DEVELOPMENT OF FOCUS AREAS

Some sub-sectors which might intuitively be thought to offer potential for black SME involvement, such as general building and civil engineering, do not actually offer potential for increasing small black contractor involvement because small black contractor involvement in these sub-sectors is already very high, and because there is an oversupply of small contractors in the lower grades of general building in particular. There is a need to focus on sub-sectors in which black SME penetration is currently low and in which there is potential for increasing black SME involvement.

In the general building and civil engineering sub-sectors the key challenge and priority is therefore to develop more medium-sized black contractors at CIDB grades 6 and 7, as well as to develop large black contractors in grades 8 and 9. In other sectors, such as mechanical and electrical contracting, the key challenge is to develop more small and medium-sized black SMEs, between grades 2 and 7.

Table 6: Application of criteria

	Capital intensity	High = low score		High = high score				Total	Priority focus
		Technology/ expertise intensity	Level of penetration	Level of demand &/or potential growth	Procurement incentives	Sub-sector maturity	Linkages to other industries		
Sub-sector									
Consulting	3	2	2	3	2	3	1	16	3
CE contracting	2	2	2	3	3	3	2	17	2
GB contracting	3	3	1	3	2	3	1	16	3
ME contracting	1	1	3	3	2	3	3	16	3
EE contracting	2	1	3	3	2	3	3	17	2
'Simple' SW contracting	3	3	2	3	2	3	1	17	2
'Complex' SW contracting	1	1	3	3	2	2	2	14	5
Housing contractors	3	3	1	3	2	3	1	16	3
Building materials supply	2	3	3	3	2	3	2	18	1
Plant and equipment supply	1	1	3	3	2	3	2	15	4
Secondary manufacturing	2	2	3	3	2	3	2	17	2

Legend

High 1
 Medium 2
 Low 3

7.3 CONSTRAINTS

The major challenge to increasing black SME involvement in the construction industry is to develop the business and management skills of black SMEs. For medium-sized SME's, technical skills can be procured in the labour market and technical requirements should not be a major barrier to advancement through the grades.

There have been calls for a reduction in the technical barriers to entry to the higher grading levels. However, this is not recommended as this would result in excessive risk to clients. The CIDB indicates that it is in the process of changing its technical skills entry requirements at the higher levels to enable entry by companies which hire in the required skills.

Lack of access to finance (such as bridging finance until the client pays, credit to purchase building materials, and contract surety required by most clients) have also been cited as barriers. However, access to finance is linked to business and management skills. A well-managed SME with a solid balance sheet and financial track record should be able to obtain access to finance.

Lack of experience has also been cited as a constraint. This is an area in which SAIBL members can play a key role, as will be discussed in the concluding section.

Finally, black SMEs may experience a challenge of breaking into large contractors' existing subcontracting networks. This is another area in which SAIBL members can play a key role.

7.4 IMPLICATIONS AND OPTIONS FOR ASSISTANCE

Government contractor development programmes (such as Vuk'uphile and Vuk'uzakhe) have struggled to use consultants, mentors and training providers to successfully develop the managerial skills of SME contractors to enable them to move up the CIDB contractor grading levels. In this regard, large construction companies can play a more effective role in developing the business and contracting skills of SME contractors. This would involve utilising subcontracting, joint ventures, or a 'managing agent' or 'managing contractor' approach. However, there is a danger that some large companies may abuse joint ventures as fronts to claim BBBEE points.

8. Conclusions and Recommendations

As described in Section 2 above, the objectives of this project were to reveal:

1. where in the construction value chain there is a strong market opportunity for black SMEs and good prospects for reaching a significant number of black SMEs;
2. how best to intervene in the value chain to promote black SME competitiveness and growth in business transactions, given SAIBL's area of influence.

With regard to the first objective, the analysis above indicated that there are opportunities for increasing black SME involvement in:

- Supply of building materials (influenced by the current low level of penetration in the sector) such as sand, where small local companies can be competitive, due to the low capital intensity and high transport component of the cost of supplying such materials)

- Secondary manufacturing of certain construction components (such as simple precast concrete elements, steel window frames, simple structural steel components)
- Consulting
- 'Simple' specialist works (specialist works which have low technology / expertise intensity and low capital intensity, such as plumbing, landscaping, and road marking)
- Construction contracting:
 - General Building and Civil Engineering contracting for medium sized contractors (Grades 6 and 7)
 - Mechanical Engineering and Electrical Engineering contracting for small and medium-sized contractors (Grades 2 - 7)
 - Housing contracting

With regard to the second objective, the study revealed several interventions which could be taken to promote black SME involvement in the sector, given SAIBL's area of influence. In the secondary manufacturing sub-sector, large companies and their client bodies wishing to increase the involvement of SMEs should review their standard setting to ensure that it is appropriate and that quality specifications for these types of items are not unnecessarily over-specified.

Given the high level of vertical differentiation in the construction industry, there are clearly major opportunities for large contractors to play a key role in increasing SME involvement in this sub-sector in particular. In this regard, the key recommendation from this study is that the NBI should work with large construction companies to develop a common strategic approach to black SME development in the industry. This strategic approach would involve the following:

- Adopting a deliberate focus on the development of black SMEs in classes of works and grades on the CIDB register for which BEE levels are relatively low;
- Avoiding developing more black SMEs in sectors where there are already too many contractors compared to the level of demand, and where the level of black SME participation is already very high (such as General Building and Civil Engineering Grades 1 and 2);
- Structuring sub-contracts and entering into relationships with black SME contractors in the target classes of work and grades, with the aim of providing black SME contractors with the necessary management skills and experience to be able to successfully move up to higher grades on the CIDB register;
- Providing sub-contracted black SME contractors with mentoring to assist them to develop their business and management skills and to complete projects successfully and hence qualify to move to higher grading levels.

The strategic approach recommended above has also been adopted by government in the form of the National Contractor Development Programme (NCDP), which is being co-ordinated by the CIDB. However, the focus of the NCDP is on mobilising public sector client bodies to take the strategic approach described above when they structure their contracts. There is therefore a need for this to be complemented by a similar strategic approach by large construction companies and major private sector clients of the construction industry.

4. What do you think can or should be done, by whom, to overcome these constraints?

- What could be done to get these things to happen?

5. Are you aware of any initiatives under way to address the identified constraints?

- What are the initiatives?
- What in your view are the strengths and weaknesses of these initiatives?

Appendix 2: List of interviewees⁴

- 1 large private construction company (Murray & Roberts)
- 1 former large contractor (former Chairman of Grinaker LTA)
- Secretary General of the National African Federated Chamber of Commerce & Industry (NAFCOC), who is also a black SME contractor
- Eskom
- 1 construction black SME (Hlamalane Projects)
- Construction Industry Development Board (CIDB)
- Cement and Concrete Institute (C&CI)
- 2 academics doing research in the area (Cronje Bruwer from the University of Johannesburg and Chris Reynders of the University of the Witwatersrand)
- 1 SME mentoring / training provider (Misha Consulting)
- 2 large materials suppliers (PPC and AFRISAM)
- 1 small civil engineering consultancy (interviewee has also done research on supplier development in the sector) (Rankine Engineering).

⁴ WBHO and Group 5 were only available after the completion date of this assignment and were not interviewed.



Value Chain Analysis of the Construction Sub- sector



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