



Development Planning Division  
Working Paper Series No. 18

# Enterprise development unpacked: A tool for prosperity

---

### **Acknowledgements**

In consultation with Jayshree Naidoo (DBSA) and Barbara Walsh (Metaco)

Internal edit: Lucky Madikiza: (DBSA)

### **Published by**

Development Planning Division  
Development Bank of Southern Africa  
PO Box 1234  
Halfway House 1685  
South Africa

Telephone: +27 11 313 3048

Telefax: +27 11 206 3048

Email: [lyns@dbsa.org](mailto:lyns@dbsa.org)

### **Intellectual Property and Copyright**

© Development Bank of Southern Africa Limited

This document is part of the knowledge products and services of the Development Bank of Southern Africa Limited and is therefore the intellectual property of the Development Bank of Southern Africa. All rights are reserved.

This document may be reproduced for non-profit and teaching purposes. Whether this document is used or cited in part or in its entirety, users are requested to acknowledge this source. Please use the suggested citation given above.

### **Legal Disclaimer**

The findings, interpretations and conclusions expressed in this report are those of the authors. They do not necessarily reflect the views or policies of the Development Bank of Southern Africa. Nor do they indicate that the DBSA endorses the views of the authors.

In quoting from this document, users are advised to attribute the source of this information to the author(s) concerned and not to the DBSA.

In the preparation of this document, every effort was made to offer the most current, correct and clearly expressed information possible. Nonetheless, inadvertent errors can occur, and applicable laws, rules and regulations may change. The Development Bank of Southern Africa makes its documentation available without warranty of any kind and accepts no responsibility for its accuracy or for any consequences of its use.

## Contents

Enterprise development: A tool for poverty alleviation .....	4
Enterprise development: An inexpensive way to achieve BBBEE .....	4
Understanding what else constitutes enterprise development .....	5
Benefits to the ED contributor (Neda 2010) .....	6
Enterprise development beneficiaries .....	7
BBBEE points .....	7
BEE scorecard .....	8
What is DBSA doing about it? .....	8
References .....	8

Unemployment having risen in the first quarter of 2010 with 0,9 of a percentage point to 25.2% according to Statistics South Africa (STATSSA) in SAPA (2010) is a wake-up call to all in South Africa. The fact is that all companies and organisations have within their structures a tool to make a difference and if all take up the challenge and use their resources the picture will look different. This tool is enterprise development.

## **Enterprise development: A tool for poverty alleviation**

Economic growth is key to addressing unemployment, gender equality, health and other poverty-related issues worldwide. Enterprise development (ED) is an important tool and essential element to economic growth. Raizcorp in an article entitled Enterprise Development Made Easy, defines enterprise development as investing time, knowledge and capital to help Small and Medium Enterprises establish, expand or improve businesses including empowering modest income-generating informal activities to grow and contribute to the local economy.

According to the Tourism Empowerment Council of South Africa (TECSA), a company enterprise development policy should be developed with outcomes in mind such as:

- steering the economy towards a stable environment that nurtures growth and increases the country's economic competitiveness
- fostering a synergistic relationship between private and public sector to embrace social investment as a common vision
- fostering an entrepreneurship culture amongst previously disadvantaged groups

Through enterprise development people can earn a living and rise out of poverty. In turn over time they create jobs as well as empower other individuals and the communities in which they live. Market development, commercial business services and social enterprise are part and parcel of Enterprise Development. Moreover it encompasses finance, entrepreneurship development, investment and growth in Small Medium and Micro Enterprises (SMMEs), including initiatives that range from enabling the start-up of small businesses to providing business skills development through training, mentoring, coaching.

## **Enterprise development: An inexpensive way to achieve BBEE**

With large enterprises having restructured and downsized, SMMEs have come to play an increasingly important role in South Africa's economy and development. According to the Department of Trade and Industry (DTI) small businesses represent 98% of the total number of firms and employ 55% of the country's labour force, contributing approximately 24% of the total wage-bill. Small firms account for 35% of GDP overall (SEAF 2009).

Enterprise development is an inexpensive way to implement broad based black economic empowerment (BBBEE) but SEAF 2009 reports that it is not often seen as an option. Claasen 2006 states that Enterprise Development (ED) where big companies offer operational assistance to small, black-owned enterprises, is also a core component of the SA Government's BBBEE strategy and globally recognised as an effective way of reducing poverty.

It is not that companies and organisations are not interested in enterprise development, but the problem is that few have an understanding of it. Many companies are not sure how to integrate enterprise development into their transformation strategy. According to Empowerdex researcher Mrinal Patel, this is a pity, because developing black-owned and black-run businesses can be an inexpensive way for a company to implement an aspect of its transformation agenda. Often those companies that are engaging in BBBEE and ED do not realise that it is a contribution to empowerment. So in general, enterprise development often is a missed opportunity for organisations and companies.

## Understanding what else constitutes enterprise development

What else counts as enterprise development? Support such as preferential credit terms, preferential pricing structures, mentorship and business skills training given by large companies to emerging black-owned businesses can be seen as enterprise development. Compared with other forms of empowerment, such as bringing in a black shareholder, enterprise development is more easily achieved and relatively inexpensive. It also has the advantage of building the capacity of smaller suppliers, giving them the ability to do larger deals, gain valuable experience and improve their profitability and sustainability.

According to the South African Enterprises Agency Forum other examples of enterprise development initiatives included are grants and loans, investment in beneficiary entities, guarantees/security, providing seed capital, access to capital through provision of collateral/relaxed security requirements, early and/or timely payments for goods supplied, extended credit terms for procurement amounts owed by the beneficiary entity, infrastructure support to suppliers and other entities in the same area or community, labour-intensive production and construction methods and investment and support to enterprises operating in rural communities.

Enterprise development should not be confused with procurement. Buying goods from empowered companies is a continuous activity, while enterprise development can be a one-off event. There are cases where enterprise development and procurement can work hand in hand. For example, if a company offers its truck drivers the opportunity to become subcontractors instead of remaining employees, it is empowering them. By giving them business skills training and providing terms for them to pay for the trucks, the company earns points for enterprise development.

If the company goes on to lock these drivers into a long-term contract, it then also gets points for procurement. Some companies are providing more hands-on assistance through a percentage share holding and providing financial support, operational guidance and infrastructure. Claasen in his article in the Financial Times in 2006 quotes as good example is the construction and engineering company Group Five that has committed itself to mentoring, coaching and training its empowerment partner iLima's staff.

The structure of an Enterprise Development strategy will depend on a number of variables such as the size of the ED budget and whether the aim is to invest in building businesses in your company or organisation's value chain, or take an 'arms length' view and invest in businesses outside of the value chain. In the view of Nedbank it will also depend on whether there is the desire to invest in a long term or short term programme.

If the size of the ED budget is large enough it may be beneficial to invest in designing a strategy that will ensure that the funds are structured in such a way as to provide real benefits to the sponsor and society. This will involve developing a strategy aligned with mandate and getting buy-in from key players in terms of the objectives and BBBEE philosophy. Determining the high level targets, budgets, timelines, forms of financing and contributions required from operations, other partners and knowledge resources, is an important next step.

Opportunity ranking follows honing in on investigating and prioritising ED opportunities available to the company or organisation; assessing the impact of each on the BBBEE and SME outcomes, the business at large and society. An implementation programme should be outlined; designing the structure for delivering on the strategy; the required activities, responsibilities, sponsors, budget and then lastly to have a monitoring and evaluation plan in place.

## **Benefits to the ED contributor (Neda 2010)**

- *BBBEE Score Card:* Contributions towards ED are recognised for point towards your B-BBEE scorecard. In the case of NEDA, 100% of the contribution value is recognised for ED points.
- *Accountability for sustainable SME development, job creation and poverty alleviation:* Through enterprise development companies can demonstrate a conscious responsibility towards fellow citizens helping to create a sustainable business for fellow South Africans by giving them the necessary tools, knowledge and finance to do so. Through this, one can reduce the dependence on Government and businesses for grants and subsidies. When ED Funds are applied responsibly the impact will be felt on a national level and the economy will experience growth through an increase in the number of self sustained individuals.
- *Return on Investment:* Companies can earn a return on investment through the strategic application of Enterprise Development Funds (EDF) which would result in growth in turnover and profits. This allows the contributor to not only recover the funds spent, but exceed the minimum contribution value in many cases

## Enterprise development beneficiaries

Enterprise development beneficiaries are SMMEs from a broad range of firms, from traditional family businesses to survivalist self-employed individuals. The National Small Business Act (Government of South Africa 1996b) defines and categorises SMMEs. There are survivalist enterprises that include hawkers, vendors and subsistence farmers. Micro enterprises include spaza shops, café's, home-based businesses, mini-taxis and small scale construction and textile manufacturing. The line between the smallest micro-enterprises and survivalist enterprises are often blurred. The very small enterprises include self-employed artisans (electricians, plumbers) and professionals.

## BBBEE points

Investments in BBBEE enterprises must result in real economic benefit flowing to the recipients, enabling them to run on a sustainable basis and have active participation by black people.

To score enterprise development points, businesses need to help firms that are 50% or more black owned, or, in the case of those with an annual turnover of less than R35 million, that are 25% or more black-owned. Earning points on the scorecards requires each company to measure their contributions as a percentage of their net profits per annum.

Enterprise development makes up one element of the BBBEE scorecard which illustrates the elements that may glean points towards BBBEE Compliance. Enterprises that have an annual turnover of more than R35 million may glean a maximum of 15 points plus five bonus points. QSEs (Qualifying Small Enterprises) that have an annual turnover of between R5 million and R35 million, may glean 20 points from this element. According to Raizcorp QSEs can choose to comply with any four of the seven BEE elements .

BEE Scorecard: Points to level rating table	
Contribution level	Qualification
Level 1 contributor	≥ 100 points
Level 2 contributor	≥ 85 points but < 100 points
Level 3 contributor	≥ 75 points but < 85 points
Level 4 contributor	≥ 65 points but < 75 points
Level 5 contributor	≥ 55 points but < 65 points
Level 6 contributor	≥ 45 points but < 55 points
Level 7 contributor	≥ 40 points but < 45 points
Level 8 contributor	≥ 30 points but < 40 points
Non-compliant contributor	< 30 points

## **BEE scorecard**

BEE compliance is measured by means of a scorecard. The scorecard is based on various elements and your company is measured out of a maximum of 100 points. The BEE scorecard focuses on seven main elements within the South African workplace. These seven elements look at Ownership, Management Control, Employment Equity, Skills Development, Preferential Procurement, Enterprise Development and Socio-Economic Development and Sector specific contributions.

## **What is DBSA doing about it?**

A strategy has been presented at the various management forums, following the five pronged approach of financier, partner, advisor, implementer and integrator to build human capital and institutional capacity as per the DBSA mandate. The DBSA favours a 10-step strategy starting with identifying opportunities for Enterprise Development within its project pipeline aligned with the key focus areas, linked to sectoral value chains and BBBEE transformation charters, opportunity and needs based, identifying criteria and partners, structuring alliances, using tested models or develop it where it does not exist, benchmarking, agreeing on an exit strategy and incorporating monitoring and evaluation. A mentoring and coaching programme will be rolled out for DBSA interested staff and for the project beneficiaries. The intention is to start learning from pilot initiatives. We are counting on your support as development activists to help DBSA do its share of reducing the unemployment rate and boosting economic growth in southern Africa.

## **References**

- Claasen L, 2006. Article: Enterprise Development. Doing your bit was never easier.  
[www.free.financialmail.co.za](http://www.free.financialmail.co.za)
- Edge, 2008. Edge Investor Services on Enterprise Development. [www.edgegrowth.com](http://www.edgegrowth.com)
- NEDA, 2010. Neda Services: How do organizations benefit from Enterprise Development?  
[www.nedadmin.co.za](http://www.nedadmin.co.za)
- Raizcorp, 2010. Enterprise Development Made Easy [www.raizcorp.co.za](http://www.raizcorp.co.za)
- SAPA, 2010. Story ID 3071272 Unemployment rate increases: STATS SA. Pretoria May 4, 2010.  
[www.sapa.org.za](http://www.sapa.org.za)
- SEAF, 2009. Small Enterprise Agencies Forum Document enterprise.FH11: Enterprise Development.  
[www.docs.google.com](http://www.docs.google.com)
- TECSA, 2010: Enterprise Development Template [www.tourismbeecharter.co.za](http://www.tourismbeecharter.co.za)