Enterprise Development

Beyond The Tick-Box

A call for change in South Africa's SME Development Spend

October 2025

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Executive Summary

Enterprise Supplier Development (ESD), a pillar of the Black Economic Empowerment Codes in South Africa, was designed to build suppliergrade, blackowned SMEs and to widen their access to South Africa's corporate supply chains.

The spend is substantial, exceeding R150 billion over the past five years, but too much of it still prioritises activity over results. Money moves, workshops are counted, vendors are registered, yet the real markers of progress - capability, contracts, repeat spend and retention - remain patchily measured and weakly incentivised. This report argues for a simple pivot: keep verification rigorous but point it squarely at outcomes that matter to firms and to the economy.

What, concretely, is going wrong? Programme design tends to default to what is easy to verify. Grant disbursements tend to bunch at year'send, often chasing paperwork rather than identifying capability gaps. Lending is frequently soft at the front and soft at the back: origination standards are thin, repayment discipline is inconsistent, and, in some portfolios, defaults are quietly relabelled as grants. Equity, the most patient form of capital for volatile SME cashflows, has withered as transaction costs rose and verification treatment remained uncertain. Business development support (BDS) is often delivered through brief workshops and light mentorship, which seldom drive significant growth in key areas for targeted businesses, including sales, operations, and financial control. And the procurement story is told through a first purchase order, rather than through the value and durability of the relationship that is supposed to follow - a relationship that is essential for any sustainable impact.

Why does this matter? Because SMEs only become resilient when two things happen at the same time: their internal capability steps up, and they win customers who come back. Without both, ESD spending will not translate into stronger firms, better jobs, diversified supplier bases and a more inclusive economy to support our nation's tax budgets. South Africa cannot afford to miss that. The good news is that the key problems can be fixed, and the fixes are practical and compatible with today's policy framework. And can be implemented in the short term.

We propose a set of shifts that regulators, verification bodies and corporates can implement within a year:

GRANTS	LOANS	BDS	PROCUREMENT
Grants should be tied to specific assets or skills and paid to suppliers against approved quotes, with proof of deployment for verification. Where possible, digitisation should be supported as it is a precondition for productivity, compliance and growth.	Lending should be professionalised from origination to collections, and equity should be brought back practically into the ESD framework via adjusted verification rules and intermediary holding entities.	Business development support should shift from short to medium-term, focused on building sales systems, delivery reliability and financial sustainability.	Procurement should be measured for what it is meant to achieve—sustained market access—by tracking and verifying contract values, repeat spend and supplier retention with ESD beneficiaries.

Aurik's contribution sits in the "how". Since 2013, across sectors and provinces, our programmes have been built to strengthen the commercial muscle that keeps an SME in the game: systems that run, sales that convert, reliable delivery, pricing that protects margin and a diversified client base. The performance section of this report documents those capability milestones and links them to market outcomes. We believe this is the standard ESD should set for itself - measurable, repeatable and worth the spend.

Success will be obvious and verifiable. We will see SMEs completing defined capability milestones; corporates reporting the value of contracts placed with programme beneficiaries; buyers returning with repeat orders; firms growing revenue, protecting profitability and widening their client mix; and finance flowing on terms that match risk because repayment performance is transparent. That is what an impact-oriented ESD system looks like, and it is within reach.

SECTION 1:

Don’t Call It Empowerment If It Doesn’t Empower

INTRODUCTION

Enterprise and Supplier Development (“ESD”) aims to enhance the competitiveness of black-owned SMEs, expand their access to corporate supply chains, and reduce structural barriers to entry, particularly those related to access to capital, while promoting their sustainable participation in the economy.

According to figures published by the Department of Trade, Industry and Competition (DTIC) in its Annual B-BBEE National Status and Trends Reports and supported by research from the B-BBEE Commission, South Africa’s collective spend on Enterprise and Supplier Development has exceeded R150 billion over the past five years. Due to information limitations, these official numbers are certainly understated.[1] As a result, the actual value of South Africa’s investment in black-owned SMEs is likely significantly higher, plausibly approaching R180–R200 billion over the same period.

Despite the scale of investment, serious questions arise regarding the socio-economic return on this spend. Is it genuinely supporting SMEs, or is poor and cynical implementation leading to compliance-driven, tick-box programmes that deliver little real value? Has it strengthened the SME sector by creating resilient, competitive SMEs that are integrated into markets, or is the structure and practice of ESD ultimately sowing the seeds of business weakness?

Aurik has been involved in the design and delivery of Enterprise & Supplier Development Programmes since 2013. Over this time, we have worked with 139 corporate clients across 10 sectors in all 9 provinces, driving ESD expenditure in excess of R700 million to benefit more than 1400 SMEs. The depth and range of our experience provide us with data-supported, unique insights into the good, bad, and ugly practices in the ESD space.

There are currently many discussions taking place in South Africa regarding the role, function and impact of ESD. The time is clearly ripe for change, and this document is submitted as a contribution to this policy debate from the perspective of an interested insider.

> ***“For every complex problem there is an answer that is clear, simple, and wrong.”*** — H. L. MENCKEN

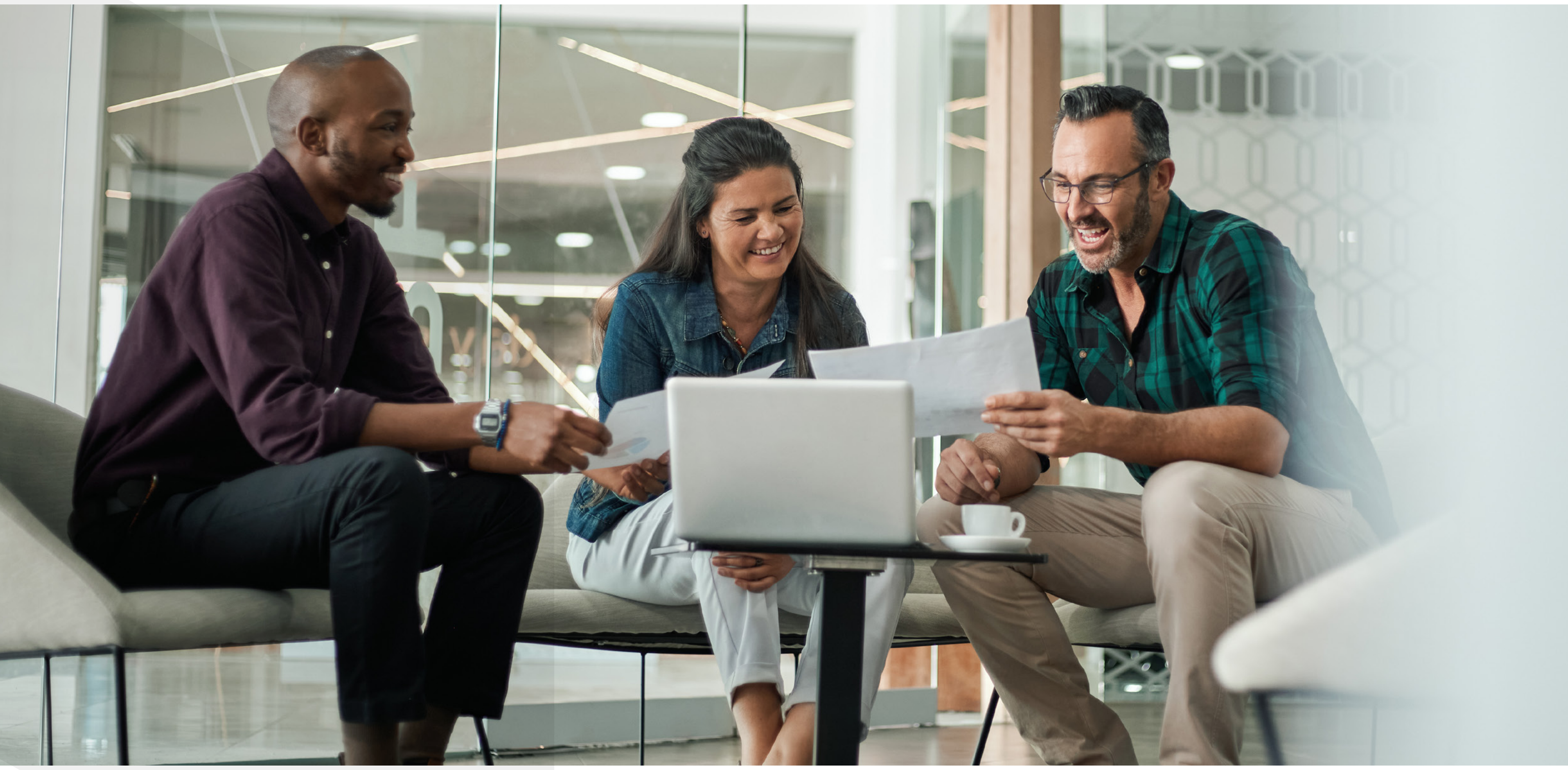
1 DTIC statistics are derived from information provided by only 35% of listed entities, despite all listed entities being required to submit their verified B-BBEE scorecards.

DOES ESD BENEFIT SMEs?

ESD is not free. Every Rand directed to "development" carries an economic and opportunity cost. Every Rand spent on ESD could have gone to CAPEX expansion, research and development, acquisitions, debt reduction or shareholder returns. That spend is only justified if SMEs realise a return: durable capability (systems that stick), access to demand (supply chain contracts), improved margins and cash discipline, and finance on terms they can actually service. If these outcomes aren't achieved, ESD becomes a transfer with no asset created — grants dissipate, loans silently convert to losses, and training hours don't move sales or delivery reliability.

Corporate entities are given considerable leeway in structuring their ESD programmes. They may choose to provide financial support, through grants, loans, guarantees, or equity investments, as well as non-financial support, including business development assistance, mentorship, training, and in-kind contributions such as infrastructure, equipment, and services. Corporate entities may also spread their contributions across a single or multi-year period. For example, a corporate entity may commit to a three-year loan facility or multi-year mentorship arrangement and claim points annually based on the portion delivered in that year. Alternatively, they may disburse a once-off grant or host a short training series within a single year to achieve immediate recognition.

The blending of these different forms of support allows corporate entities to structure their programmes to maximise B-BBEE scorecard recognition. The structure of these programmes may, however, be sub-optimal when evaluated from the perspective of SME impact. In the remainder of this document, we assess the various forms of ESD support provided from an SME impact perspective.



GRANTS

The B-BBEE Commission estimates that 60% of all Corporate Entities channel at least "some" of their spend into cash grants. The data on the extent of this spend is very weak, but is estimated at approximately R20 billion over the last 5 years. Let's put this into perspective:

- The Department of Small Business Development's entire 2024/2025 budget is just R2.4 billion. In other words, corporate South Africa's grant spend under ESD over five years matches the government's annual budget for small business support.
- By comparison, the Jobs Fund—a flagship government programme established in 2011 to co-finance job creation initiatives—has disbursed only around R11 billion over more than a decade. ESD grants dwarf this amount several times over.

At Aurik, we have observed a significant increase in the number and value of grant-only programmes over the last five years. It is somewhat astonishing that these flows have escaped regulatory oversight until now. But what is driving this trend?

Late ESD Budgeting Bedevils Implementation

Five years later, we are still grappling with the COVID-19 pandemic and the sluggish economy it has ushered in. These new realities have oriented corporate executives, particularly CFOs, towards greater cost optimisation and cash discipline. As a result, we have seen a significant tightening of financial controls around the timing and payment of ESD contributions. In practice, this means that ESD budgets are often finalised at an extremely late stage, sometimes less than a month (or even days) before the end of the measurement period, by which time payment is required.

The late approval of budgets creates enormous pressure on ESD implementation, as SMEs typically need to be contracted and funds disbursed before the end of the financial year. It is this pressure that mostly drives the use of ESD funds for grants, which are easy to contract and quick to disburse. No assessment of funding need, targeting of spend or reporting on impact is required. It is a simple, quick solution. So, what is the problem?

Although the precipitous dumping of grant funds may feel like manna from heaven for business owners, it does not necessarily translate to improved business capability. International research shows that effective SME development programmes nearly always combine finance with capability building, with stand-alone cash transfers rarely delivering sustained growth (OECD, "Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard").

Short turnaround times preclude the provision of any guidance to SMEs, resulting in a missed opportunity to ensure that grant funds are effectively applied to build business assets or strengthen business capabilities. To make matters worse, direct payment of grant funds to SMEs (rather than to the suppliers of goods or services) makes it impossible to track how the funds are applied.

By failing to link grants to explicit business needs, corporate entities create fertile ground for the diversion of funds for personal use. At its most benign, the leakage of ESD funds to non-ESD use constitutes a significant policy failure and brings ESD into disrepute.

The Increasing Problem Of Grant Corruption

The failure to look "under the hood" of grant-making practices to determine how the grant funds are allocated may, however, also be deliberate. Weak grant funding controls create fertile ground for unethical practices, corruption and bribery in the guise of ESD. This can play out in several ways:

Bribery: We have encountered situations where unconditional cash grants have been paid to SMEs owned by significant corporate stakeholders, including the children, spouses or relatives of tribal chiefs, union employees, and government officials. Upon the most cursory inspection, it is apparent that the business is not in fact in operation and that the grants are potentially being paid as a quid pro quo for "other" services rendered.

Nepotism: Close relationships between grant recipients and corporate employees are becoming an increasingly frequent occurrence. It is unclear to what extent these relationships are mandated by the corporate entity or operate beneath the surface. And whistleblowing is still the quickest way to lose a contract.

Grant Backhanders: We have encountered several instances where cash grants are "pushed" in circumstances that can only be described as dubious. We have reason to believe, although insufficient proof to directly accuse, that corporate employees may be cutting a share of the grant with selected SMEs.

ESD Subsidised Pricing: We have become aware of practices where SME suppliers are pressured to reduce their prices whilst being "reimbursed" indirectly through ESD Grants. This seems to occur most frequently where the service provided by the SME is itself underpriced. The impact of this practice is that unsustainable commercial relationships are sustained primarily through the payment of ESD grants or in-kind contributions. In effect, the cost of the service to the corporate entity is discounted by the value of the grants.

The extent of irregularities in grant-making is unknown, but it has been occurring over a long period of time, and like all unethical practices, the rot tends to spread. This is reason enough to consider urgent changes.

RECOMMENDATIONS

What Should Be Fixed?

Grants are an essential part of the ESD mix, but the effectiveness of grant programmes is dependent on their design. Greater care must be taken to ensure that grants build capability. Here are 4 areas for urgent improvement:

- **Better planning:** Corporate entities should identify SMEs well in advance of the financial year-end so that there is time to evaluate business needs and link grants to these needs.
- **Build Capability:** Corporate entities should prioritise the use of grants for CAPEX, for training, or to support digitisation, including the purchase of laptops, software, data, etc. This ensures that grants build business capability and do not create grant dependency.
- **Avoid Cash:** Corporate entities should avoid direct cash payments to SMEs where possible and instead pay suppliers directly to ensure that grants are used for the intended purpose.
- **Measure Impact:** Verification agencies should track not only the disbursement to the SME but also how the grant was applied. This would provide invaluable data on SME asset building, for instance.

SME LOANS AND EQUITY INVESTMENTS

The provision of loans to SMEs is an attractive option for corporate entities as the Codes provide for multi-year recognition of outstanding loan balances. In practice, the points per Rand generated through lending activities over extended periods serve as a powerful incentive for incorporating loans into the design of ESD Programmes.

According to the Banking Association of South Africa's Transformation in Banking Reports, the annual flow of new SME lending averaged between R45 billion and R55 billion per year over the past five years. Official DTIC statistics indicate that loans valued at approximately R12 billion to R15 billion have been provided to SMEs under ESD programmes over the same period. At Aurik, we have witnessed an increase in the number of ESD loan programmes over the last five years. It is therefore worthwhile to take a closer look at ESD lending practices.

> ***"Before borrowing money from a friend, decide which you need most."*** —PROVERB

Poor Lending Practices

ESD-linked SME lending by corporate entities is exceedingly "soft" when compared with commercial loans. Most loans often have extended repayment periods, and the vast majority are interest-free and unsecured. Most loan programmes are managed in-house or within ring-fenced entities linked to the corporate entity, although professional entities also manage a significant portion.

Corporate entities mostly have little experience in SME lending. Some in-house corporate lending operations are well-resourced, but in most cases, lending is undertaken by overstretched employees in corporate finance departments as an adjunct to their primary employment focus. With minimal background in the lending and compliance environment, this leads to several interrelated problems:

Corporate lending teams often lack awareness of compliance requirements. As a result, it is not unusual to find that loans have been provided to very small or start-up businesses without any regard to the affordability of the loan or their ability to repay. This is only one example of compliance gaps that frequently arise. In addition, corporate teams often lack the experience needed to assess risk. Access to credible financial information from SMEs is usually limited, and there are real challenges in accessing useful credit risk information from credit bureaus. In many cases, no consideration is given to how the capital will be applied. These origination practices set the stage for exceedingly high credit risk in the lending portfolio.

Many corporate loan products are designed to reduce administration costs. Payment holidays and balloon payments are common. Whilst these structures are very appealing to SMEs, they are known to increase the risks of non-payment significantly. To make matters worse, the management of loan repayment defaults is generally poor, with minimal follow-up beyond the arrears statement (if you are lucky) and emails. Corporate employees are not debt collectors.

Combined, these practices create an extraordinary level of risk in corporate lending programmes, which begs the question, "Why do they do it"? The answer lies in the multi-year nature of recognition given to loan transactions by verification agencies.

ESD "Loans" Are "Grants"

As long as a loan remains "alive", the corporate entity may claim points on the outstanding loan balance. There is, accordingly, every incentive for the corporate lender to stretch out the duration of the loan for as long as possible. Given that most loans are interest-free, this suits both the SME and the corporate entity.

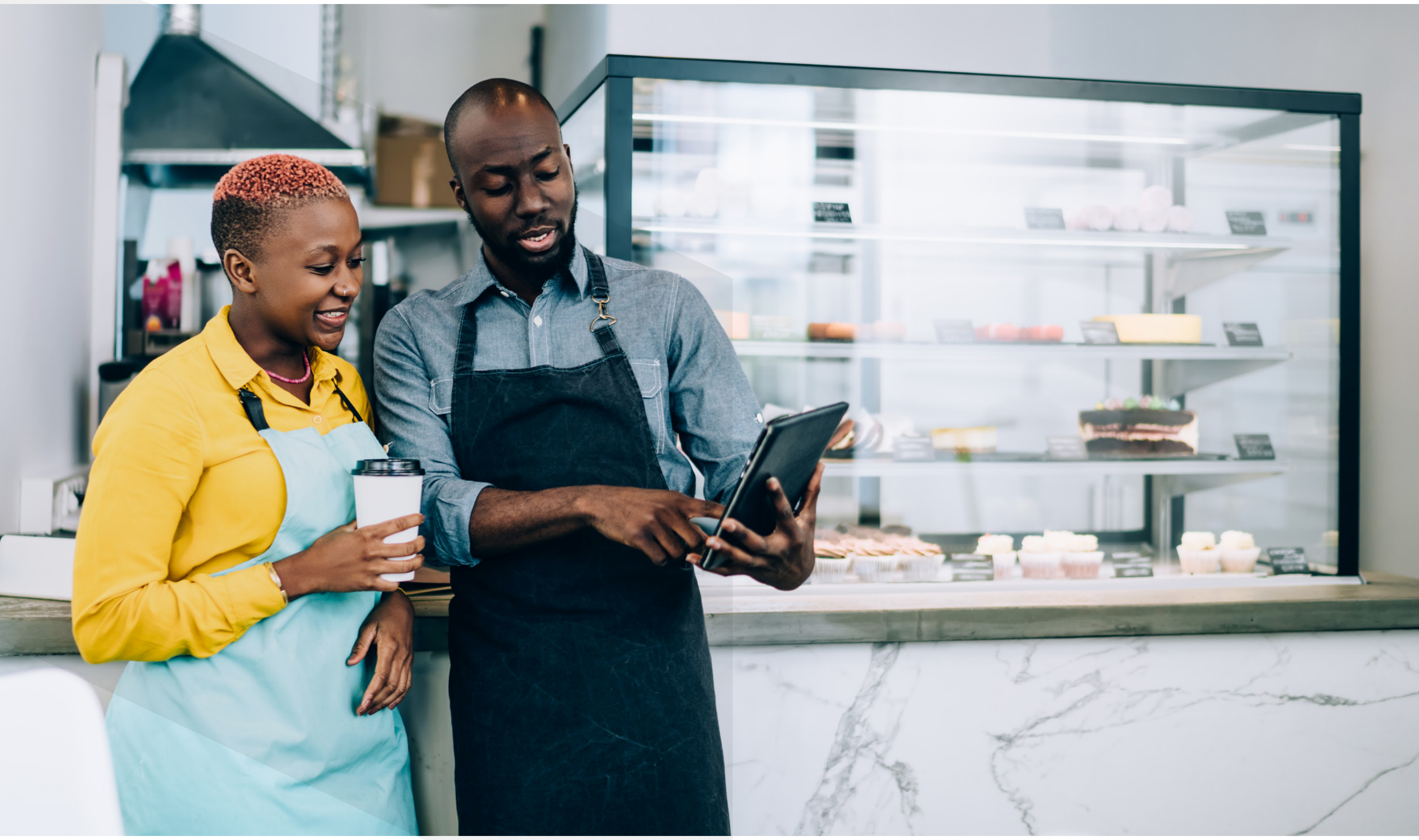
A similar logic supports delays, unending extensions and rescheduling of action for the non-payment of loans. Once a loan is cancelled for breach, it cannot be recognised for ESD purposes. Corporate entities, accordingly, also have an interest in ignoring a breach of loan repayment obligations by an SME to keep the loan "alive." This is reinforced by the reality that recovery costs may be prohibitive and often create reputation risks when steps are taken to recover funds.

Taken together, these factors lead to a situation where corporate loans are rarely recovered. When the recognition of default becomes unavoidable, the corporate lender typically writes off the outstanding loan as a grant, for which they receive full recognition by the verification agency, and the SME walks away. So where is the harm?

The nudge-nudge, wink-wink nature of corporate lending has the unintended consequence of rewarding the non-payment of loans by SMEs, doing nothing to foster a culture of responsible borrowing and repayment that could ultimately build credible credit histories. At a policy level, where loans are extended without the intention of recovering or enforcing repayment, we would argue that the true nature of the transaction is a grant and should be treated accordingly.

The Loss Of Equity As A Capital Tool

Equity investments are treated similarly to loans for verification purposes. There is accordingly a multi-year benefit linked to the outstanding value of the investment. Unfortunately, in practice, equity is seldom used as an ESD tool. The reason for this is that many corporate entities discourage equity investments in SMEs because these investments must appear on their Balance Sheet, which complicates shareholder reporting. This is particularly true in the context of multinational entities. To facilitate these types of transactions, the equity must be held in the name of an intermediary party, which can lead to various verification challenges.



Despite this, equity investment is an ideal support tool for SMEs that require funds but have unstable cash flows, as there is no pressure to make regular repayments, providing a highly effective vehicle for patient capital. The transaction costs and complexity are high, however. Due to corporate accounting practices, high transaction costs, and verification uncertainty, equity investments have largely disappeared from the ESD landscape.

RECOMMENDATIONS

What Needs To Change?

SME loans and equity funding are critical for SME growth and must be professionalised:

- **Loan Origination:** To improve lending practices and compliance, SME loan origination should only be permitted by entities with NCR Registration. To address high-risk levels, access to credit bureau information for SMEs is currently limited and incomplete. This should ideally be addressed through the proposed amendments to the National Credit Act, which were withdrawn earlier in 2025.
- **Loan Defaults:** Most corporate lenders do not take a tough stance on loan repayment defaults, and the system is clearly being gamed, with both verification agencies and government entities turning a blind eye. The lack of information on SME defaults on ESD loans creates an industry problem, as it is almost impossible to identify SMEs that repeatedly default on ESD loans. To address this, corporate lenders should, at the very least, be required to list the SME as a defaulter so that other providers are aware of the propensity for default. This should be checked by the verification agency before the write-off, as a grant is permitted.
- **Equity:** Given its potential to address the need for patient capital, equity definitely deserves greater focus. To gain traction and to avoid the problems with holding minority equity stakes in SMEs on corporate balance sheets, equity holding vehicles that manage equity investments on behalf of corporate entities should be recognised as part of the solution. These entities should be registered with the FSC to improve business practices and compliance levels.

BUSINESS DEVELOPMENT SUPPORT

BDS focuses on building the internal capacity of a business—its systems, skills, and strategies—so that it can generate sustainable growth, attract funding, and compete on its own merits. As a long-term provider of BDS support to SMEs, we can confirm that developing business systems that achieve real impact is a slow process and cannot be achieved through passive learning. This is because the real work is never done in the training room; instead, it is done in the business by the business owner and their teams in parallel with their day-to-day pressures. The best practice of action learning can then be supported through business coaching and other advisory support.

The B-BBEE Commission's 2021 survey found that many SMEs participate in fewer than three interventions during their BDS Programme and that the average duration of a Programme is only 8-16 weeks. The 2022 Report expanded on this finding and confirmed that most SMEs received only one or two workshops or mentorship sessions as part of their support. The Commission has confirmed that such superficial interventions fail to build lasting capability and have little measurable impact beyond an attendance register. Despite these learnings and the views of the Commission, we have repeatedly been requested to implement short-term, quick-fix initiatives, which attempt to patch supply chain problems through compliance workshops and tender support. Why is this happening? The answer, as usual, is that it's "complicated".

Government Misalignment

The first step in unpacking the cause is to look at the behaviour of various government departments. ESD objectives often overlap with the requirements of other compliance obligations, e.g. the Mining Charter. Over the last 5 years, as increased unemployment, particularly youth unemployment, has gripped the country, government departments, particularly the Department of Mineral Resources, have encouraged corporate entities to "spread the love". This has taken the form of more or less explicit instructions to either directly establish support programmes for start-ups or to include larger numbers of SMEs in ESD programmes.

In the context of limited budgets, corporate entities have instructed BDS providers to design programmes that can accommodate a larger number of SMEs. Compliance with these instructions has led to the proliferation of workshops with no demonstrable impact. The tidal wave of light-touch, low-quality and low-impact workshops has predictably resulted in declining levels of SME participation.

In many rural mining towns, the increased focus on start-up support in already thin economies has exacerbated hyper-competition and the fragmentation of business activities, with SMEs typically trying to operate in the same 4-5 business areas in a desperate attempt to "catch" the few opportunities going. In the process, the SMEs become "jacks of all trades, and the masters of none", fail to impress and stagnate. It is to be expected that discontent will follow.

Another example of overlap is the requirements of the REIPPPP Economic Development framework, which mandates that Independent Power Producers (IPPs) allocate and disburse 1% of their revenue to SMEs every quarter, with penalties for non-performance. This crazy quarterly compliance cycle demands quick, easily reportable disbursements instead of medium-term developmental interventions. Predictably, this leads to quarterly chaos as SMEs need to be found, funds disbursed and all woe, the "impact" reported upon. The problem is that SMEs want access to opportunities, which requires capability. But thin, weak BDS programmes do not build capability. Is it any surprise that SMEs are increasingly "gatvol"?

ESD Is Not "Charity"

The desire to reach as many SMEs as possible is not limited to the government. We often encounter the attitude that larger SME businesses should not receive support because their size makes them less deserving of support. Nothing could, in fact, be further from the truth, as scaling requires very complex coordination between sales, operations, capacity, and cash flow. There is, however, a reluctance to focus on growing the "strong" and a tendency instead to prioritise the vulnerable, weak and very small.

This view often frames ESD as a form of charity, which runs contrary to the core economic value proposition of ESD, which is to strengthen businesses for supply chain inclusion and thereby grow the economy. It also creates a self-fulfilling prophecy for the non-inclusion of SMEs in corporate supply chains, as start-ups and very small SMEs are highly unlikely to be suitable suppliers.

Defining Quality In BDS

Different BDS providers approach business development support in various ways - some empower SMEs through training, while others act as hands-on consultants, and still others adopt a coaching-style approach. Some BDS providers emphasise the role of leadership, others focus on strategy or systems, while others focus more narrowly on specific aspects, e.g., finance systems, productivity enhancements, etc. The lack of official guidelines has given rise to a very vibrant BDS sector with a huge number of players across the whole of South Africa. Some have sophisticated end-to-end programmes and national coverage, whilst others are small, niche and local. Some are excellent, many are abysmal.

The problem is that defining "quality" in the BDS environment is extremely difficult. Despite a collaborative effort by SANAS and the DTIC to establish an ISO-aligned framework for BDS, attempts to develop a national "standard" have been quietly shelved. As a result, there is no government-sanctioned minimum curriculum or standard for BDS.

In the absence of guidelines, corporate entities have been left to make their own judgment calls. Transformation managers and corporate procurement teams have limited capacity to assess quality in the BDS field. Tender-linked procurement tends to create a race to the bottom as success is based on price. Inevitably, when cost per SME becomes the primary criterion for success, BDS providers hollow out their programmes, reducing the scope of support to group-based training or workshops that can be provided to larger groups of SMEs at a lower cost per SME. In these circumstances, thin, light-touch and low-impact programmes generally come out on top.

> ***"A cynic is a man who knows the price of everything and the value of nothing."*** — OSCAR WILDE

Measuring BDS Impact

Instead of pursuing the complex problem of defining BDS quality with all the attendant methodology arguments for and against different approaches, an alternative approach would focus on SME impact as the primary measure of quality. In the absence of independent audits, any BDS provider can claim impact victories, and the data problem is not uncomplicated.

Data Manipulation: Everyone knows that statistics can be manipulated, and reporting on SME impact is no different. For instance, comparisons of SME pools of varying sizes, from various industries, and different geographic locations can yield highly misleading results. For example, start-up turnover growth numbers can be several hundred percentage points, because the base is extremely low. Likewise, gross profit and net profit margins vary hugely between industries, sectors and geographic locations.

Data Quality: In the absence of audits or automation, impact data is typically self-reported by SMEs. Chasing and auditing management accounts are prohibitively expensive and probably pointless given the poor state of financial reporting in the SME sector. The automation of data through accounting systems is an excellent option. Still, it is likely to be unaffordable for many SMEs that primarily use small accountants to prepare management accounts and who are themselves not using automated software. And so, the problem of evidence is likely to remain unsolved.

Data Privacy: Providing actual turnover and profit numbers in an uncontrolled environment is contentious, if not downright dangerous. It is certainly not in the best interests of the SMEs themselves and is absolutely in breach of POPIA. As a result, many indicators are reflected as a % change over time.

The Need For Better Indicators: Official verification requirements currently focus solely on compliance inputs, such as spend levels and programme participation, without considering actual business outcomes. To grow SMEs that increase turnover and profitability, secure supply-chain contracts, diversify their client base, pay their taxes, access funding, and sustain jobs, we need to measure the SME indicators and make them count. To shift the system, measurement must emphasise impact indicators such as:

- Growth in SME turnover and profitability.
- SME client growth and client diversification.
- The strengthening of operational systems and productivity.
- The cashflow security and fundability of the SME.
- Job Creation and tax compliance.

Programme Duration vs The Corporate Budget Cycle

The ideal BDS support programme length is obviously dependent on its objectives. If you only want SMEs to know how to tender, then a single workshop is perhaps sufficient. However, if you position a business in a competitive market, build complex business systems and team consensus and get a business "funding-ready", then much more time is required.

The problem is that there are very few CFOs who would willingly commit to and contract for extended multi-year Programmes, as this requires them to estimate multi-year profitability for what is essentially a grudge spend. To address this issue, we typically offer SME extension programmes linked to performance. However, the reality is that extended programmes do not always happen, leaving many SMEs stranded.

RECOMMENDATIONS

Greater Transparency For Impact

We believe that the solution impact is transparency:

- **Focus On BDS Impact:** Programme design should not be politicised to address political or social problems or reflect personal perspectives. Instead, it should remain focused on the intended outcome for the SME, recognising that every SME is different. Increasing focus on BDS impact and tracking SME performance will inevitably drive more meaningful programmes.
- **Measure The Right Indicators:** To achieve the right outcomes, we need to track the right indicators. At a minimum, we should consider several key factors, including SME turnover and profitability, client growth and diversification, operational system enhancements and productivity improvements, cash flow security and fundability, job creation, and tax compliance.
- **Create A Register Of ESD Recipients:** For every opportunity, there are opportunists. The availability of grants and the potential for supply chain access have led to the emergence of SMEs that move from Programme to Programme, gaining little. Like most other BDS providers, we try to prioritise SMEs that have not previously been on programmes, but this relies on SME disclosure, which is incomplete at best.

> ***"What gets measured, gets done"*** — DRUCKER

DOES ESD SUPPORT MARKET PARTICIPATION?

Broadly speaking, market participation refers to the extent to which SMEs supported through ESD can secure actual business in the market. This is more than just being included on a vendor list or receiving a small order just before the end of the financial year. It is about repeat business secured by the business itself, not as a set-aside or handout, but as a result of its own marketing and sales efforts, and its ability to fulfil and deliver - its own ability and merit.

ESD Procurement Strategy Is Moving Backwards

In 2023, the B-BBEE Commission found that only 62% of reporting entities had effective ESD strategies, and only 61% of set targets were achieved. In practice, this means that there is very little planning taking place to graduate SMEs as suppliers into the corporate supply chain.

At Aurik, we have witnessed a retreat from the development of Procurement Strategy over the last 5 years. Previously, strategy sessions were held at the commencement of most Programmes to identify an SD procurement budget target, matching opportunities and timelines. This practice is becoming increasingly rare.

The development of an ESD Strategy, particularly a procurement strategy, is not required by Charters, regulations or the verification manual. Where it is done, it is generally a reflection of genuine commitment to broadening supply chain access. The development of a procurement strategy is an expensive and time-consuming business, as it is not a desk-top exercise. Instead, it requires genuine engagement and inevitably some conflict to navigate procurement trade-offs. Why do this if not explicitly required or measured?

> ***One swallow doesn't make a summer..."*** — ARISTOTLE

Where Are The Numbers?

Ironically, given the importance of this issue in policy terms, the measurement framework for market participation is extremely weak, focusing exclusively on the relationship between the corporate entity and the SME in tick-box terms, rather than in value terms. So long as there is "some" spend, SD spend measurement, graduation bonus, and procurement multiplier requirements are satisfied.

Reinforcing this point, it is apparent that across available DTIC reports, there is no consistent reporting on market participation. The 2022 Annual Status Report highlights that less than 40% of ESD-supported SMEs successfully entered corporate supply chains, with even fewer sustaining those contracts beyond an initial period. It is unclear how this statistic was derived, but, notably, no quantification of supply chain value is provided. The problem of measurement is exacerbated by fragmented, disjointed information provided by key departments such as the Department of Mineral

Resources and Energy in relation to the Mining Charter or Official reports on the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP).

Multi-year data issued by the Banking Association of South Africa shows that preferential procurement spend with black-owned SMEs increased from approximately R12 billion in 2020 to R14 billion in 2021 and R15 billion in 2022. In the telecommunications sector, ICASA's compliance reports indicate a similar trend, with procurement from black-owned suppliers increasing from R8 billion in 2019 to R9.5 billion in 2020 and surpassing R10 billion in 2021. On the face of it, these statistics are encouraging, but it is essential to note that black-owned suppliers may include large corporate entities, with little or no overlap with SMEs within the ESD pool. The devil invariably lies in the detail, of which there is extremely little.

This is a remarkable oversight, negating every effort to quantify the impact of ESD on market participation. Without knowing the actual value of contracts flowing to SMEs in the ESD pool, it is impossible to calculate the return on ESD investment or to benchmark progress against market participation objectives.

Procurement Spend Is Happening, But It's Uneven

At Aurik, we have made a concerted effort to obtain statistics to measure the value of procurement spend directed to SMEs on ESD Programmes for more than 3 years. Part of the reason for this problem is that procurement and finance departments are fiercely protective of actual procurement numbers, making them difficult for Transformation Managers to obtain.

Out of curiosity (not to mention frustration), we finally launched our own survey, speaking directly to more than 120 SMEs currently engaged in SD Programmes with 10 different corporate clients.

The survey tracked procurement spend from Programme sponsors, i.e. the corporate entity funding the BDS Programme. The findings are illuminating:

- 53% of the SMEs reported procurement spend from their programme sponsor. The total value of spend exceeded R62 million, which equates to an average of approximately R1 166 000 per SME, but the actual spend per SME varies widely.
- The bulk of the procurement spend was driven by corporate clients in the **mining** sector, with one programme sponsor responsible for more than 70% of the total procurement spend.

> ***"In God we trust; all others must bring data."*** — W. EDWARDS DEMING (ATTR.)

The corporate sample size may be small, but we believe that the significant and positive performance by corporate entities in the Mining Sector is driven by strategic frameworks embedded in Social and Labour Plans, taken together with strong monitoring activities undertaken under the Mining Charter. If there is a lesson, it is that the key to success is both planning and monitoring.

At Aurik, we believe that SMEs should be empowered to ultimately secure their own commercial opportunities beyond those provided by their corporate sponsor. As a result, we also tracked procurement from other corporate entities. The findings show that 65% of the SMEs tendered for procurement opportunities with other corporate entities and 62% of these SMEs were successful in their tenders with the other corporate entities.

We are very pleased by the results because it is clear that building market access can be done beyond corporate matchmaking events. But remains unclear why SMEs should experience greater success outside their sponsor supply chain than within it. Perhaps the very fact that they are designated as "ESD" SMEs plays a role, cementing the perception that they are not "ready" by internal procurement teams? We don't have an answer to this question, and it is an area that definitely requires further research.

ESD Is In The Wrong Home

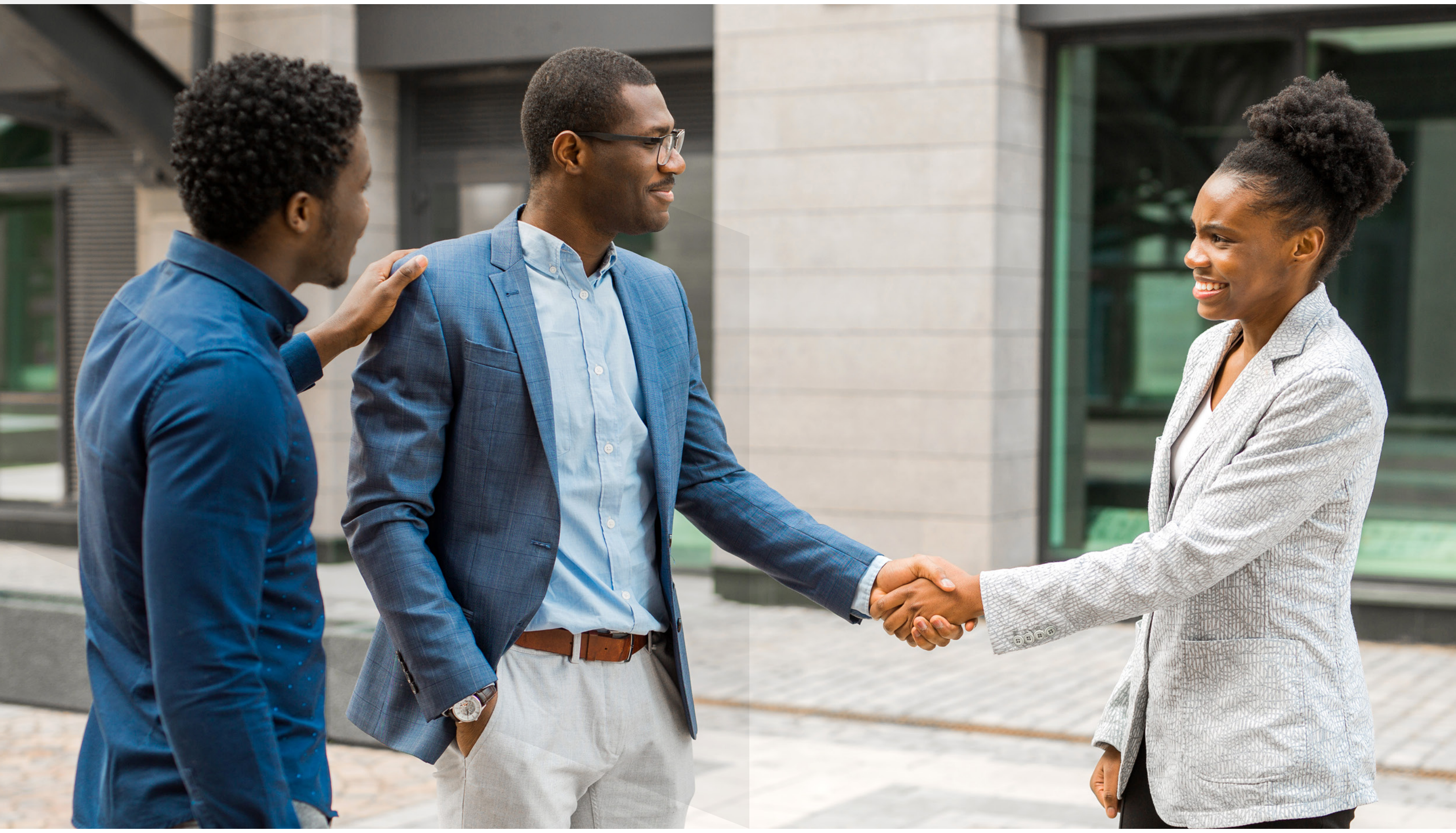
The organisational location of ESD is one of the most important considerations impacting ESD success. Transformation managers are often located in a no-man's land somewhere between Corporate Affairs, HR and Procurement. The result is that they are marginalised and frequently powerless, struggling to access key reporting information, never mind calling out problems with organisational compliance or speaking truth to procurement power.

Transformation managers often operate in relative isolation and are viewed as a hassle factor by procurement teams and as the drivers of a grudge spend by CFOs. Their ability to monitor and quantify procurement spend, as well as confirm the link between supplier development programmes and actual procurement, is virtually non-existent.

One of the challenges that must be acknowledged is that the principles of ESD often conflict with professional Supply Chain Management (SCM) practices. It is challenging to disregard SCM practices without opening procurement loopholes, undermining KPIs and ultimately hindering career advancement. If ESD were located structurally within Procurement, clearer rules for managing exceptions could potentially be developed, thereby reducing some of the tension.

> "***Great things are not done by impulse, but by a series of small things brought together."*** — VINCENT VAN GOGH

SCM Best Practice	ESD Focus
Rationalised supplier base with fewer, larger suppliers for enhanced leverage, quality, and control	More blackowned EMEs/QSEs in the chain
Award to the lowest Total Cost of Ownership/ best value	Preferential procurement weighting for SD SMEs
Strict pre-qualification requirements to reduce risks, e.g. capacity, QA/HSE, SABS/ISO, insurance, and financials	Work with SMEs who lack certifications and build them up through the SD process
Large, multi-year frameworks to secure volume discounts and stability	Unbundled/stepped access so SMEs can win manageable work and build a track record
Open, highly competitive tendering processes with broad advertising and neutrality.	Targeted SD pipelines feeding beneficiaries into buying opportunities
Tight SLAs with On Time, In Full (OTIF) requirements and penalties to protect service	Patient capabilitybuilding
SCM KPIs = cost, service, risk	ESD KPIs = scorecard points, SD spend, #beneficiaries



Procurement Violence And Intimidation

ESD, once arguably the most popular element of the BEE Scorecard, has lost its shine. During the era of State Capture, ESD became a Trojan horse for many corrupt schemes, which brought it into significant disrepute. It is also widely recognised that ESD and government procurement frameworks, which frequently include 30% set-asides, created the initial halo of legitimacy that was conducive to the emergence of construction mafias and other forms of extortion associated with procurement set-asides. This is familiar ground for many in the mining sector, where community protests over job allocations and work frequently result in mine disruptions, gate protests, railway blockages and plant closures.

Despite the best intentions of policy, actual engagement between procurement teams and supplier development beneficiaries is often negligible. This is driven, in part, by the need to maintain proper procurement governance at a corporate level. As a result, many procurement professionals shy away from coal-face engagements to avoid allegations of favouritism or impropriety. The best practice of linking ESD performance to supply chain access is increasingly threatened by violence directed at ESD and transformation managers. Corporate entities seeking to expand their access to the supply chain fear the potential for creeping corruption and violence.

RECOMMENDATIONS

Fixing Market Access

If we cannot increase corporate spend with SMEs, then the whole exercise is futile. We need to fix this by:

- **Get The Data:** The absence of information on linkages reinforces a lack of accountability within corporates. Require disclosure of the actual value of procurement spend with SMEs over the duration of programmes. Verification agencies already test and measure the extent of procurement spend with various entities, including EMEs, QSE, women, etc. Verification agencies should likewise be required to capture the total value of annual procurement spend with ESD SMEs. It is disgraceful that this critical impact measure has been left to chance.
- **Relocate The Role:** Move ESD to procurement to create an incentive for corporate entities to resolve tensions between supply chain management practice and ESD realities.
- **Address Intimidation:** If the risks of SME growth outpace the benefits, the link between ESD and supply chain will die.
- **Strengthen Incentives:** Investigate incentives, particularly tax incentives, to incentivise procurement from ESD SMEs.

CONCLUSION

South Africa's ESD spend is significant, but too much value evaporates in process-heavy, outcome-light programmes. Grants are rushed at year-end and rarely build assets; lending is "soft" at origination and enforcement, often drifting into de facto grants; equity—ideal for volatile SME cashflows—has withered; and BDS is too frequently short, generic, and unverifiable. Procurement "success" is still counted at first PO, not on repeatable revenue, retention, and margin. A summary of our recommendations for action is attached in Section 2 of this Report.

The remedies are practical and achievable without complex institutional rework or new legislation: point verification squarely at outcomes that matter (capability milestones, contract value delivered, repeat spend, and fundability), professionalise finance (NCR-compliant origination and disciplined arrears), standardise equity via intermediated vehicles, require multi-month outcome-priced BDS, and publish procurement value and retention for ESD beneficiaries. Digitisation must be treated as a precondition for productivity and compliance, not an add-on. With these shifts, ESD will fund assets, not activity; finance will build credit histories; and supply chains will widen on merit. That is empowerment that actually empowers.

Beyond The Tick-Box

R150 BILLION LATER, WE FUNDED ACTIVITY, NOT IMPACT. LET'S FIX THAT.

GRANTS

YEAR-END CASH DUMPS ≠ DEVELOPMENT

Late-year budget panics push easy cash, not capability, then we're shocked when nothing sticks.

ISSUE:

- >60% of ESD is grants, ≈R90–R100bn with thin diagnosis or proof of use
- **Leakage and gaming flourish:** Nepotism, backhanders, and "grant-rebates"

FIX:

- Plan early
- Pay suppliers directly (invoice finance)
- Tie every Rand to assets/skills & verify deployment

LOANS

PSEUDO-LOANS KEEP THE POINTS, KILL THE DISCIPLINE

Interest-free, unsecured, "alive forever" loans are delayed grants with paperwork.

ISSUE:

- Origination is soft; collections softer, breaches ignored to keep points rolling
- Write-offs = grants, the default endgame

FIX:

- NCR-registered origination only
- List defaulters before any grant write-off

EQUITY

THE CAPITAL SMEs NEED IS THE CAPITAL WE AVOID

Equity suits volatile cashflows, so why did we bury it?

ISSUE:

- Balance-sheet optics and verification fuzz

FIX:

- FSCA-registered intermediary vehicles to hold equity off corporate balance sheets
- Define clear verification treatment for intermediated equity to unlock uptake

BDS

WORKSHOP THEATRE DOESN'T BUILD FIRMS

Talk-shops don't move sales, delivery, or create cash discipline.

ISSUE:

- **Misalignment:** "Spread-the-love" mandates and REIPPPP quarterlies force shallow, high-volume tick-boxes
- **Inputs over outcomes:** Attendance logged, nothing embedded

FIX:

- Multi-month, action-learning to build sales systems, delivery reliability, and financial controls
- Stronger impact tracking on turnover, margin, client mix, fundability, jobs, tax
- Use impact tracking to weed out poor BDS providers

PROCUREMENT / MARKET ACCESS

A VENDOR LISTING ISN'T MARKET ACCESS

ISSUE:

- We celebrate vendor numbers, not revenue, repeat spend, or retention, because we don't measure them

FIX:

- Publish value, repeat spend, and retention for ESD SMEs, make success visible
- Put ESD where buying happens - move it into Procurement to align authority, data and incentives
- **Name the risk:** Intimidation and violence choke buyer–SME ties, manage it or market access dies

VERIFICATION FOR IMPACT

WE AUDIT INPUTS, THEN WONDER WHY OUTCOMES DON'T MOVE

ISSUE:

- If you count Rand outflows and attendance, you'll get Rand outflows and attendance

FIX:

- **Flip the rules:** Verify spend link to capability, determine actual R-value of procurement spend, duration of contracts etc.
- Create a recipient register to stop programme-hopping and enable due diligence
- Address the allegation of 16% reach threshold

SECTION 3:

Aurik Impacts

AURIK Enterprise Development

Scale Of Aurik Operations

30 Number of **Employees**	**76** Number of **Facilitators and Mentors**	**4** Number of **Regional Offices**

SMEs Supported

1 346 **Established** Businesses	**121** **Start-Up** Businesses

BDS Support Provided

The success of the Programme depends on two key factors. First, business owners must attend and engage in sessions, as these are the core mechanisms through which change is driven in the business. Second, businesses must provide accurate and timely information about various aspects of the business. This enables Aurik facilitators to identify trends, uncover operational or strategic issues, and work with business owners to find practical solutions.

22 210 Activities with SMEs	**52 170** Sessions with SMEs	**24 566** Zoom Sessions with SMEs	**15** Avg. No. Interventions per SMEs	**95,6%** Avg. SME Satisfaction

Programme Management Support Provided

With over two decades of experience, Aurik Enterprise Development is dedicated to delivering measurable impact and consistent quality. Our Enterprise and Supplier Development (ESD) and localisation programmes are designed to create sustainable growth for business owners while delivering lasting value for corporate partners.

We provide end-to-end programme management support — from strategy and design through to implementation, monitoring, and reporting. Our quality management team ensures that SMEs receive consistent, practical, and meaningful support at every stage.

ESD Portfolios Managed	SME Sourcing Campaigns	Due Diligence Activities	Portfolio Reports Issued
665	298	955	1454

Aurik Impacts

AURIK Enterprise Development

Business Impacts

Aurik utilises several indicators to assess whether a business is developing operational capacity and resilience. Tracked from baselines and updated monthly, the indicators create an early warning system and a progress scorecard, guiding support actions, informing funding and procurement decisions, and demonstrating the measurable impact of the Programme.

Customer Growth measures the expansion of the business's active client base.

New Leads Generated	Number of New Customers
+16%	+59%

Financial Sustainability measures whether effort is converting into financial results.

Turnover Growth Rate	Profitability Growth Rate
+57%	+397%

Operational Capability shows the extent to which operations are efficient.

Mapped Business Processes	Improved Employee Productivity
+94%	+38%

Cashflow Security and Fundability measures the business's ability to manage risk and access finance when needed.

Improved Cashflow Security	Improved Fundability
54% Secure	+31%

Socio-Economic Impacts

This section measures how the programme benefits society, beyond the performance of individual businesses. We track four key indicators: jobs created, jobs sustained, contributions to the fiscus through taxes paid, and contributions to the broader economy.

Taken together, these indicators measure inclusive growth: more people employed, more public revenue, and a stronger local economy. Measured from a baseline and updated over time, these indicators provide clear and comparable evidence of socio-economic impact, supporting ESG and transformation reporting.

New Jobs Created	Jobs Sustained	Contribution to Fiscus	Contribution to GDP
1808	14 602	R1 569 836 142	R56 065 576 516

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