

BEE – empowering new entrepreneurs in South Africa

Eskom

The challenge

To drive business opportunities for Previously Disadvantaged Individuals in South Africa.

The business contribution

The South African utility Eskom supplies around 95 per cent of the country's electricity.

Under current South African Government policy, Previously Disadvantaged Individuals are given preference in the allocation of government and large-scale contracts. This policy, known as Black Economic Empowerment (BEE), endeavors to repair the inequities of South Africa's past apartheid regime. BEE charters are now being applied across many sectors of the local economy and large companies now have prescribed target quotas for procurement from black-owned businesses.

Back in 1994, Eskom set up its own highly successful BEE project. This multifaceted initiative creates new opportunities for Previously Disadvantaged Individuals and communities to participate in South Africa's mainstream economy. The initiative is also successfully transforming Eskom's supplier base to better reflect the country's demographics.

The innovation

Eskom's policy is to maximize purchases from BEE firms of all sizes and a spread of industries. It also works to foster businesses owned by BEE women across all sectors of the economy. Beyond this, the company concentrates its developmental efforts on black suppliers in the manufacturing, construction and mining/extraction sectors and providers of professional consulting services. Eskom has set its own criteria reflecting different levels of black ownership in these companies to decide the procurement spend allocated to each category.

Moving higher up the supply chain, it becomes progressively more difficult for new BEE businesses to compete against more established market players. Therefore Eskom has developed tools to help these smaller companies meet the demanding requirements of large corporations. Together with major electrical component suppliers, it conducts joint training country-wide to develop basic technical skills. The company works directly with BEEs advising them on best practice, efficient production processes and enabling them to successfully grow their businesses. It also facilitates access to specialist financing, a crucial element of capacity building.

Eskom has built up a BEE supplier database of black-owned and controlled companies. Any company that applies for listing on the supplier database is assessed to ensure it complies with all criteria set out in Eskom's BEE policy. This database currently encompasses some 14,000 BEE businesses of all sizes. Eskom generally utilises around 30 per cent of its registered BEE suppliers at any one time, depending on the nature of the services required and those available. The vast majority are small contractors supplying goods or services to local power stations or Eskom offices. However there are also some larger companies, such as suppliers of coal and engineering, construction or professional services. A number of overseas companies have also sold equity stakes to local BEEs to comply with these listing criteria.

Eskom's database enables a buyer to search using a number of parameters, including product lines and BEE status. The company sets aside some contracts for the development of black suppliers; also a portion of other contracts allowing BEEs to match the price of traditional suppliers. It also prescribes a percentage of work to be subcontracted to BEE firms on other contracts.

The benefits

The BEE initiative is a strong example of concerted effort to invest in a vibrant SME sector. The benefits of the scheme are manifold. A large number of Black owned and controlled small, medium and micro enterprises have become competitive suppliers to Eskom. These new business opportunities are creating sustainable jobs, and Previously Disadvantaged Individuals and communities are acquiring the necessary business and technical skills for their businesses to thrive. Eskom has consistently exceeded its BEE procurement targets; since 1998 it has exceeded its targeted BEE spending, achieving in the last eight years a combined total BEE procurement spend of approximately US\$6,295 million.

Preferential procurement for black women entrepreneurs has also exceeded company targets, with a total procurement spend of approximately US\$470 million since 2002.

Eskom's BEE programme has further resulted in the following:

- A large number of Black owned and controlled small, medium and micro enterprises have become competitive suppliers to Eskom.
- Previously disadvantaged individuals are participating in the mainstream economy.
- The business opportunities created have also created and sustained jobs.
- Previously disadvantaged individuals and communities are acquiring the necessary business and technical skills for survival.

Way forward

BEE procurement targets will remain a future priority for Eskom. The company will also look to integrate more large BEE businesses into its supply chain, where small firms currently predominate. Other core focus areas will be the development and procurement of services from Black Women-owned Enterprises and broad-based empowerment.

In addition, Eskom will also strengthen its training provision for black entrepreneurs in business management skills, with an emphasis on tax code and legal compliance. Eskom is also seeking to align its internal processes more closely with the latest South African government BEE legislation. Eskom will also continue to concentrate its developmental efforts on Black Suppliers in the manufacturing, construction and mining/extraction sectors of the economy and providers of professional consulting services.