

# EMPOWERDEX



## Shanduka Black Umbrellas: Enterprise Development Compliance Verification Report

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## **1.1 Background**

Enterprise development for SMMEs has featured prominently in the policies and strategies of the government, aimed at delivering a growing and inclusive economy since the democratic government.

Enterprise Development can be defined as applying entrepreneurship for growth of enterprises. Creating a culture of developing enterprises to grow and be profitable, the strategy is to promote an enterprise development culture that promotes ideas that are turned into profitable growing businesses by development programs of mentoring coaching and incubation (Kauffman Foundation et al 2005).

Unemployment is one of the most fundamental challenges facing people in South Africa today. This has been made worse by the recession experienced over the last 2 years. Moreover, thousands of new job seekers, the majority of them being youth join the army of the unemployed every year.

Development and growth of small, micro and medium enterprises (SMMEs) plays a vital role in turning this position around. Enterprise development of SMMEs is an important part of creating a better life for all.

## **1.2 Introduction**

Shanduka Black Umbrellas is a non-profit incubation enterprise development service provider which seeks to deliver real and meaningful transformation through empowered business growth. Shanduka Black Umbrellas affords collaboration opportunities between 100% black-owned businesses, government, the private sector and civil society by providing a critical foundation for sustainable futures.

Empowerdex (Pty) Ltd is pleased to present the verification of the Enterprise Development Compliance status of Shanduka Black Umbrellas. The Broad-based Black Economic Empowerment Act, Act 53 of 2003 (B-BBEE), affects all business in South Africa. It is a relevant and a vital catalyst for economic growth and increasing economic participation.

The primary objective of the Enterprise Development is to facilitate, foster entrepreneurship and operational and financial sustainability; and investments in B-BBEE enterprises must result in real economic benefit that will flow to the recipients.

## **1.3 Methodology**

Code Series 600, the Enterprise Development Element of the Codes of Broad-Based Black Economic Empowerment seeks to measure the extent to which companies carry out initiatives contributing to enterprise development. Empowerdex has utilised this Code to measure the degree of compliance of Shanduka Black Umbrellas as an Enterprise Development facilitator. Some of the terminology is outlined below.

### **Enterprise Development Contributions**

Enterprise Development contributions consist of monetary or nonmonetary, recoverable or non-recoverable contributions actually initiated and implemented in favour of beneficiary entities by a Measured Entity with the specific objective of assisting or accelerating the development, sustainability and ultimate financial and operational independence of that beneficiary. This is commonly accomplished through the expansion of those beneficiaries' financial and/or operational capacity.

Monetary or non-monetary contributions are carried out for the following beneficiaries:

(a) Category A - Enterprise Development Contributions involves Enterprise Development Contributions to Exempted Micro-Enterprises or Qualifying Small Enterprises which are 50% black owned or black women owned;

(b) Category B - Enterprise Development Contributions involves Enterprise Development Contributions to any other Entity that is 50% black owned or black women owned; or 25% black owned or black women owned with a BEE status of between Level One and Level Six.

Enterprise Development contributions include:

- Grant contributions to beneficiary entities
- Investments in beneficiary entities
- Loans made to beneficiary entities
- Guarantees given or security provided on behalf of beneficiaries.
- Credit facilities made available to beneficiary entities.
- Direct costs incurred by a company in assisting and hastening development of beneficiary entities.
- Overhead costs of a company that can be directly attributable to Enterprise Development contributions.
- Enterprise Development or developmental capital advanced to beneficiary entities.
- Preferential credit terms granted by a company to beneficiary entities.
- Preferential terms granted by a company in respect of its supply of goods or services to beneficiary entities.
- Contributions made to settling service costs relating to the operational or financial capacity or efficiency levels of beneficiary entities.
- Payments made by the company to third parties to perform enterprise development on the company's behalf

Empowerdex has performed an assessment of Shanduka Black Umbrellas, based on the principles of Codes 600 of the Codes Broad-Based Black Economic Empowerment.

## **Verification Procedures**

Empowerdex drew random sample of all beneficiaries from the consolidated list that was supplied by Shanduka Black Umbrellas. From the sample, information and documentation was requested and provided by Shanduka Black Umbrellas. Empowerdex found that Shanduka Black Umbrellas provided the accurate and correct information with the necessary documentation.

Empowerdex then scrutinised the documentation received to verify the Enterprise Development Beneficiary status of the entities supported by Shanduka Black Umbrellas. The documents were reviewed to identify the following aspects

- The proof of all beneficiaries supported by Shanduka Black Umbrellas over the last financial period and the category of support provided – eg: training vs. incubation etc.
- The proof of the percentage black ownership of each beneficiary or the B-BBEE status of an individual beneficiary if the entity is a sole proprietor.
- The proof of the total annual turnover of the supported beneficiary or an indication whether the business is a start-up enterprise and that its annual turnover is less than R5 million.

The procedures were applied and followed to the standard of a measurement procedure that provides repeatability and accuracy. Findings were drawn from that analysis.

## **1.4 Analysis & Findings**

### **Shanduka Black Umbrellas – An overview**

Shanduka Black Umbrellas is a non-profit company involved in the development, support, mentoring and sustainment of emerging 100% black owned businesses through enterprise development. Small businesses are provided with a working environment and support services that will enable them to thrive and to be able to sustain themselves in the long run.

They currently have incubators in Cape Town, Pretoria and Johannesburg and are giving support to more than 50 small businesses or enterprises in South Africa.

These enterprises are provided with the following services, for the specific purpose of marketing, rendering services to customers and conducting the administration activities of their businesses:

- A secure, professional and work-friendly office space;
- Computers, with ADSL internet access and licensed software;
- Comprehensive business tools and templates;
- Telephone, fax and e-mail facilities;
- Meeting facilities;
- Vehicles with drivers;

- A professional bookkeeping service;
- Assistance with statutory and taxation compliance requirements;
- A business consultant and mentor for advice and guidance, particularly the measurement of the progress of the development of the Enterprise according to the Shanduka Black Umbrellas methodology with the aim of the Enterprise being self-sustainable within a maximum period of three years;
- Access to third-party credit facilities and assistance to apply for credit, subject to terms and conditions; and
- A web presence (by way of a company profile on the Shanduka Black Umbrellas website).
- Procurement and marketing opportunities via a listing in the Shanduka blackpages, a directory of 100% black owned South African businesses.

As a contribution for the Services rendered by Shanduka Black Umbrellas, a subsidised monthly fee is paid to Shanduka Black Umbrellas. This fee is lower in value in relation to the value of services provided by Shanduka Black Umbrellas to its beneficiaries.

#### **Nature of business activity Shanduka Black Umbrellas**

The nature of business activity of Shanduka Black Umbrellas' business, places it in a unique position to support the country's transformation objectives via a full service incubation facility which supports small, black-owned enterprises.

Code 600, dealing with the measurement of the Enterprise Development Element of Broad-Based Black Economic Empowerment seeks to measure the extent to which enterprises carry out initiatives aimed at contributing to Enterprise Development. The Enterprise Development Element also aims to address certain key challenges facing Qualifying Small Enterprises and Exempted Micro Enterprises and more specifically black-owned entities that struggle to take their businesses from survivalist and/or micro level to a level of sustainability and profitability. In the opinion of Empowerdex, and based on verified supporting information, the operations of Shanduka Black Umbrellas achieve this.

Empowerdex hereby concludes or declares that Shanduka Black Umbrellas is fully compliant with requirements of the Codes and all relevant criteria therein for the recognition of Enterprise Development Contributions.

#### **Implications for Enterprise Development recognition**

Empowerdex has verified that all beneficiaries of the Shanduka Black Umbrellas initiative are Category A beneficiaries. This implies that the full value of contributions made to Shanduka Black Umbrellas by donor entities may be recognised at a factor of 1.25 when calculating the donor entities Enterprise Development Contributions.

Furthermore, Empowerdex has verified that Shanduka Black Umbrellas is an association incorporated under Section 21 and can therefore verify that all profits accumulated are retained as reserves to fund the future running costs of the organisation. The documentation that has been reviewed to arrive at this verification conclusion includes the following:

- Statutory documentation of Shanduka Black Umbrellas
- Financial Statements of Shanduka Black Umbrellas
- Statutory documentation of all beneficiary businesses
- Ownership information of all beneficiary businesses
- B-BBEE status of all shareholders of beneficiary businesses
- Financial statements of all beneficiary businesses

## 1.5 Conclusion

Empowerdex has taken due care and caution in its verification of the Enterprise Development status of Shanduka Black Umbrellas and its findings and conclusions thereon. Empowerdex is confident that the outcome of the analysis is a true and accurate reflection of reality and that the conclusions drawn are in line with the provisions set out in the Codes.

Empowerdex has retained copies of the substantive evidence provided by the company to support the conclusions made on its premises in line with the requirements of SANAS and the Department of Trade and Industry.

This document is signed for and on behalf of Empowerdex (Pty) Ltd.



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