

## **Creating an enabling environment for impact investment in South Africa**

Enhancing B-BBEE for impact investing

Report 3 in our three-part series



**krutham**  
An Intellidex Company



## About Krutham

Krutham works with clients across the spectrum of capital, from profit-led investment in emerging markets to philanthropy. We work with investors, banks, capital market infrastructure providers, corporates, insurers, law firms, development agencies, multilaterals, governments and philanthropies to develop products and systems that help mobilise finance to deliver better social outcomes. It has offices in Johannesburg, Cape Town and London.

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## Note on Process: Public comment stage

This version of the preliminary research report has been released for public comment by interested parties. Please use the website form where you downloaded this report to submit your comments or questions.

The deadline for submission of comments is Tuesday 9 September 2025.

Krutham will be hosting an invitation-only workshop in mid-to-late September 2025 to discuss the feedback and recommendations on this report. Please register your interest to attend the workshop via the website.

## Disclaimer

This report is based on information believed to be reliable, but Krutham makes no guarantees as to its accuracy. Krutham cannot be held responsible for the consequences of relying on any content in this report.

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## Executive summary

Broad-based black economic empowerment (B-BBEE) is strongly aligned with the principles of impact investing in that it seeks to generate both social impact and financial returns by promoting economic participation and business ownership among black South Africans. In part, BEE encourages companies to use investment instruments to achieve the social objective of transformation, while also earning financial returns.

Unlike impact investing, however, B-BBEE initiatives are activities-based, in that they are focused on activities that are assumed to result in transformation, rather than directly assessing their impact. In other words, B-BBEE focuses on measuring the inputs – usually the money spent or invested in empowerment activities – instead of the resulting socioeconomic outcomes.

In contrast, impact investing has established formal mechanisms for measuring and managing impact, ensuring that success is evaluated based on the outcomes achieved rather than just the capital invested or the money spent.

B-BBEE has achieved significant progress since it was first enacted in 2003 but on a national level, businesses have largely failed to achieve their targets, as we outline below. We argue in this paper that an impact investing approach has the potential to enhance B-BBEE's effectiveness and accelerate the transformation it seeks to achieve by strengthening its alignment with impact investing principles and mechanisms.

This is not consistent across all components of B-BBEE. For example, management control does not have input measurement – it already measures the outcomes (e.g., percentage black executive managers), but the other four components of the B-BBEE scorecard are amenable to impact investing to some extent. In this paper we focus on the enterprise and supplier development (ESD) component, which lends itself particularly well to an outcomes-based model and offers some immediate opportunities for maximising the transformative potential of B-BBEE through impact investments.

Our proposals are both conceptual and practical. At the conceptual level, we advocate for a fundamental reprioritisation of what matters in BEE, to focus on the outcomes. This, we believe, will ensure better deployment of scarce resources to maximise transformation.

At a practical level, we propose a set of metrics, of which some or all could potentially be used to measure the impact of ESD initiatives, depending on the nature of the business and its industry, among other factors (for full details see section at end: *Initial recommendations for an outcomes-based ESD framework*). These are revenue growth, margin expansion, job creation, growth in clients (includes improving market access/network opportunities), improved access to funding, improved prospects for private equity investment and successful enterprise creation.

We have kept this list brief as its purpose is to generate debate and refinement with stakeholder input, before proposing a formal framework of indicators. We also recognise that transitioning from an established, input-based measurement system to an outcomes based one will be a major undertaking including refining the codes for each B-BBEE sector, incorporating each one's specific circumstances and needs.

As difficult as such a transition will be, Krutham believes such an undertaking would be extremely beneficial, particularly in the face of increasing criticism of the country's transformation policies.

First, such an initiative will serve to counter the false criticism that B-BBEE “is not working”. As seen in transformation reports such as the Sanlam Transformation Gauge and others which we reflect on below, there have been major advancements in each scorecard component since the broad-based components of empowerment policies were introduced in 2003. The problem is that nationally and within sectors, the **targets** have still not been achieved (except for socioeconomic development). The swing to measuring outcomes could trigger renewed momentum in empowerment initiatives that do make a measurable difference in the business environment.

Second, abandoning empowerment policies altogether, as many are now calling for, risks further alienating the poverty-stricken majority of the population, leading to increased risk of social unrest. It is thus extremely important for transformation policies to be visibly successful, so that both the potential beneficiaries and the business community accept that they are making a real difference on the ground, which in turn will help to develop wider social cohesion. Adopting an approach that prioritises measurement of outcomes, shifts the emphasis from particular routes to those outcomes, potentially allowing for greater policy flexibility while improving the achievement of outcomes.

## About this report

Impact investing has the potential to deliver extensive social benefits for South African society but we need a conducive regulatory environment to realise this potential. In this research brief, we present proposals to stimulate and regulate impact investing in South Africa. We believe these should be considered in three domains: instrument design and disclosure; tax regulation; and the B-BBEE framework. In this paper we focus on the third of these. Other papers are available through the Accelerating Impact website [here](#).

## Background

Impact investors desire not just financial returns but returns in the form of measurable improvements in societies and their environments. Impact investing has the potential to generate positive social and environmental outcomes in addition to a form of financial return. Impact investing is growing worldwide, following the 2008 G20.

With the ability to mobilise both private and public savings, this form of investment has the potential to deliver outcomes that lead to better lives for South Africa's people. Governments around the world are actively encouraging it as they have recognised the importance of stimulating investment markets to support projects that have positive social and environmental outcomes.

From a public policy perspective, impact investing is a "no brainer" given that allocating investment in a way that has positive public outcomes creates public benefits "for free". Investing already achieves public benefits simply by financing economic activity; impact investing leverages that to achieve greater public benefit. This does not displace traditional investing but rather focuses on increasing the public benefits. For fiscally constrained governments, eager to mobilise private finance to achieve public policy objectives, impact investing is a clear opportunity.

The South African regulatory environment as it stands presents challenges to impact investing. This is limiting the potential for investment to help achieve the country's development objectives. To help address these constraints, Krutham partnered with Anglo American Foundation, Investec, Tutuwa Foundation and the FirstRand Empowerment Trust to launch the Accelerating Impact project to research and propose solutions expand impact investing in the country. Through the project, researchers are examining three areas that are critical to reform to stimulate and support impact investing:

### Track 1: Instrument design and disclosure

Extensive work is being done worldwide on disclosure requirements for investment instruments that take on a sustainable investing or impact label. Such labels are part of the proposition to clients. In order to allocate their money effectively, clients who desire impactful outcomes need reliable labels and other disclosures by investment funds and instruments. A fund that calls itself an impact fund must meet the necessary and sufficient conditions to count as an impact fund. Such conditions need to be regulated to ensure appropriate conduct by providers, and be in clients' interests, with labels serving as a signal of that compliance.

Impact investments have several unique characteristics. Unlike traditional investments, they are usually not listed on public capital markets, given that the funding often supports development activities that do not fit



traditional corporate structures, though there are several listed instruments such as green bonds and sustainability linked notes that are impact instruments. Another differentiating feature is that they can be illiquid, with long time horizons before the realisation of returns. They also must serve two objectives: financial and social/environmental outcomes, with reporting and measurement requirements for both.

Globally, sustainable finance and impact disclosure frameworks are being developed, which can be embraced by regulators by defining certain instruments. This may require unique regulatory instruments that accommodate illiquid assets and have both impact and financial measurement and disclosure requirements.

Relatedly, regulation should support investors to incorporate such instruments into their investment strategy where appropriate, including institutions like foundations, pension funds and insurance companies.

### *Track 2: Taxation and public benefit organisations*

The vanguard of impact investing worldwide has been public foundations. These are non-profit organisations that have large investment endowments. Traditionally those endowments have been invested in debt and equity instruments through public capital markets to generate a return that finances their programmes. But these foundations have over time come to recognise that their endowment portfolios can be managed, at least in part, in a way that achieves positive impact in line with their overall mission. They have therefore become more active managers of their portfolios and are using a portion of portfolios for "mission-aligned investing". Foundations can also supplement their traditional grant-making activities by introducing investing instruments as part of their programmes, such as small loans, which potentially allow grant monies to be recycled and increase impact (often called "programmatically investing").

Globally, foundations are learning that through impact investing they can magnify the difference they make in the world. Impact investing enables them to catalyse their limited financial resources to have a much greater impact than through grant-making programmes alone. Given that foundations undertake public benefit activities, this scaling of their impact ultimately means greater public good is delivered through impact investing than through traditional grant-making.

However, when a foundation becomes an active manager of a portfolio that has both impact and financial objectives, there is a risk that such activities conflict with tax-based restrictions on non-profit activities, and foundations risk losing their tax-exempt status. This risk discourages foundations from engaging in impact investing even though it has clear public benefit consequences. The ambiguities and risks around the tax status of impact investing must be resolved to stimulate greater impact investing activity by foundations and other non-profits.

### *Track 3: B-BBEE framework*

The broad-based black economic empowerment framework involves impact investing, though it is seldom referred to as such. Empowerment transactions that aim to deliver transformation of the economy are impact investments by another name, as are the enterprise and supplier development components on the B-BBEE scorecard. Supplementing those is the socioeconomic development component which drives direct investments that improve socioeconomic outcomes, often made in the communities surrounding a business's operations. There are also sector-specific B-BBEE targets – banks, for example, get empowerment points for ensuring access to banking facilities in rural or other underserved areas.

By delivering on the empowerment components, companies supplement financial returns with the impact objective of achieving transformation.

The B-BBEE framework, however, is activities-based and does not focus on the impact created by these activities. Rather, it measures the inputs – usually that is the money spent or invested, the number of employees sent on skills training, etc. In contrast, impact investing has formalised the measurement and management of impact, ensuring it is not just the money invested but the impact delivered that is assessed. That is what guides decision-making.

As part of building the impact ecosystem in South Africa, we believe there is potential to enhance the impact of B-BBEE by aligning it with broader impact investing methods and approaches to deliver transformation. This track of the research project reviews the opportunities and makes recommendations.

## Methodology / approach

Our recommendations for South African policymakers are designed to support addressing the aforementioned challenges. The recommendations are the outcome of both **research** and **engagement** with key stakeholders – including regulators and policymakers – which ensures that any proposals for the way forward are appropriately ambitious, but pragmatic.

The methodology applied to this work consists of three phases:

1. Developing a draft policy paper on each of the three key focus areas (**this document**).
2. Circulating and workshopping the paper with relevant stakeholders to enable a co-creation process for developing the final draft paper.
3. Gathering feedback on the draft policy paper and incorporating commentary to develop the final draft report.
4. Initiating a policy engagement process with relevant stakeholders.
5. Finalising policy recommendations.

## Impact Investing

There are several definitions of the term “impact investing”. The Global Impact Investing Network’s definition is: “Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.” (Global Impact Investing Network (GIIN), 2019)

The diagram below illustrates how impact investing is growing in appeal for both philanthropic organisations and asset managers alike.

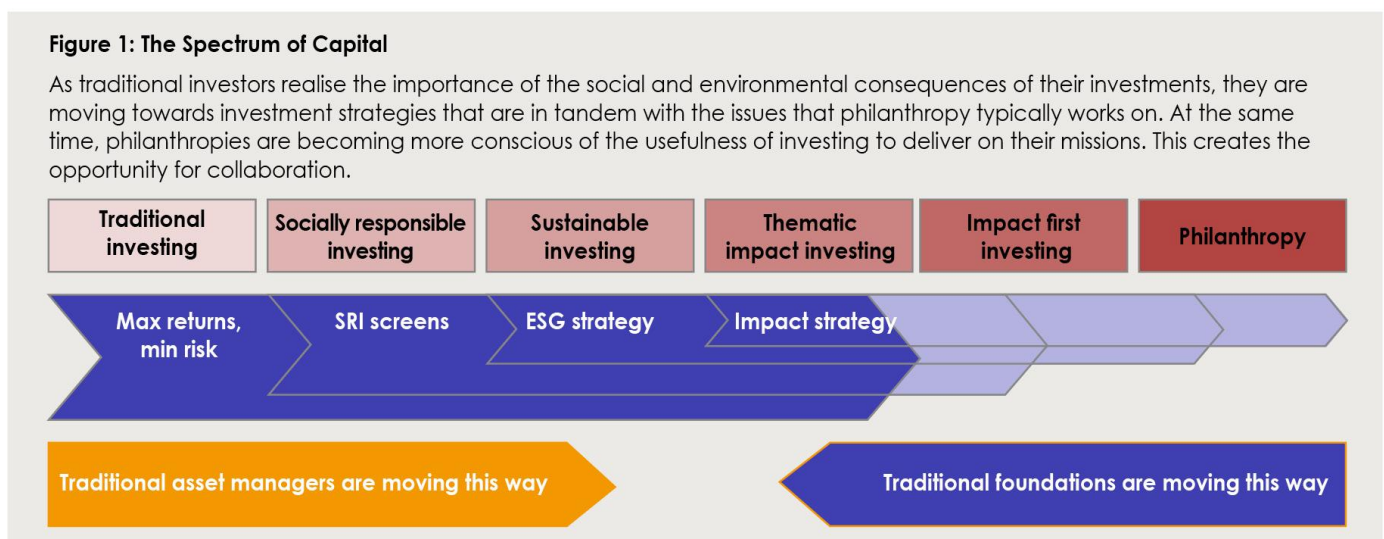


Figure 1: The Spectrum of Impact Capital; Source: Krutham

The GIIN Impact Investing Guide describes four “core characteristics” of impact investing:



1. **Intentionality:** An investor's intention to have a positive social or environmental impact through investments is essential to impact investing.
2. **Investment with return expectations:** Impact investments are expected to generate a financial return on capital or, at minimum, a return of capital.
3. **Range of return expectations and asset classes:** Impact investments target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital and private equity.
4. **Impact measurement and management:** A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field. (Global Impact Investing Network (GIIN), 2019)

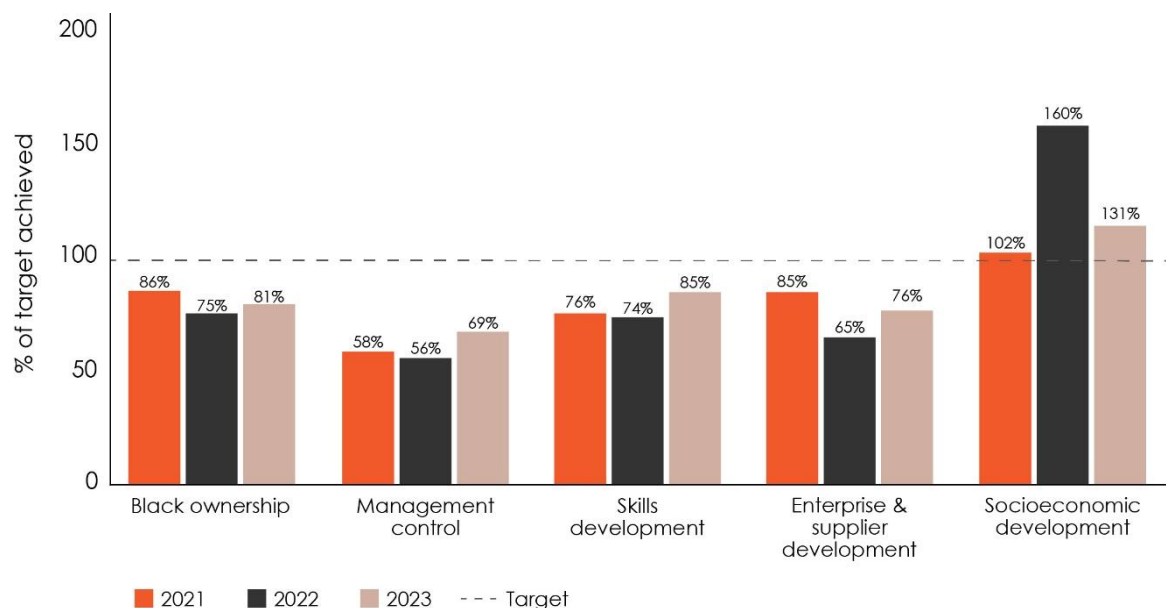
## Problem statement

### Persistent inequality in SA, despite B-BBEE

In South Africa's context, where apartheid and systemic discrimination concentrated wealth in the hands of a minority, it is imperative to develop policies and mechanisms that address and correct historical economic inequalities by ensuring that wealth, assets and economic opportunities are more equitably distributed across different racial groups. This is particularly important in SA given the widespread poverty and high unemployment levels across the country, and the potential for social and economic instability that implies.

B-BBEE is one such policy. Its goal is to deracialise wealth distribution in South Africa by reducing racial disparities in income and wealth, fostering a more inclusive and representative economy. While there has been moderate progress towards achieving transformation through the B-BBEE framework, with some sectors performing better than others, private and public entities are still largely failing to meet their transformation targets. This is reflected by the 2023 Sanlam Transformation Gauge, researched by Krutham, which measured scorecards across all sectors to generate a "national" B-BBEE scorecard.

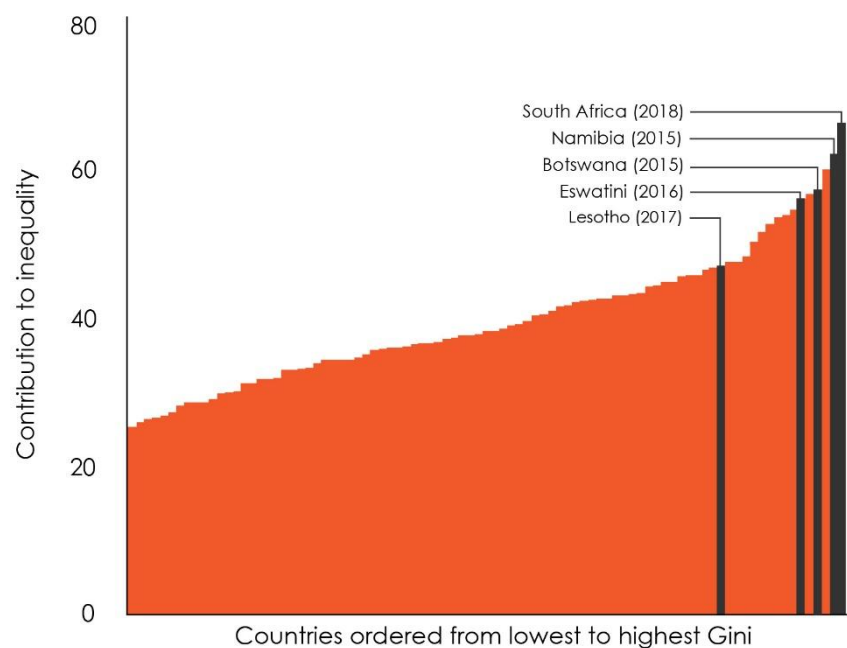
Figure 2. Percentage of scorecard targets achieved



Source: Sanlam Transformation Gauge 2023 (Krutham)

Yet despite the initial success of B-BBEE initiatives, a recent World Bank report classified South Africa as the most unequal country in the world, ranking it first among 164 countries based on Gini coefficients, which measure the inequality of per capita consumption (Sulla et al., 2022). South Africa also showed the slowest decline in inequality levels among countries in the Southern African Customs Union, despite having the highest level of inequality in the region.

Figure 3. Comparison of Gini ranking of SACU countries



Source: World Bank Report on Inequality in SACU countries

According to the latest data in 2018, the country's Gini index was at 67, down by just 0.21 points on average per year in the span of a decade, emphasising the enduring nature of inequality in South Africa. Race was found to be the largest factor related to inequality and its contribution was growing, up from 37% in 2008 to 41% in 2018, and overshadowing the role of education (30%), labour market dynamics (16%), demographics (9%) and location (2%).

Socioeconomic inequality is linked to violent protests, labour strikes and civil unrest, which directly affect business operations and economic stability (Khan et al., 2024). A clear example of this was the social unrest in KwaZulu-Natal and Gauteng in July 2021, perceived to be fuelled by economic grievances and exclusion, which resulted in R50bn in damages and an estimated 1.5% decline in GDP (Times Live, 2021).

Conceptually, the task of undoing the racial bias in the distribution of resources is different to the task of addressing inequality. One could achieve a racially equal distribution without any improvement in equality overall, if there is common levels of inequality within each racial group. However, the focus on "broad-based" black empowerment signals the objective of improved distribution of wealth within race groups, and not only between them.

Without B-BBEE, the country's levels of inequality could be worse. Black ownership levels would be lower. There would be less investment in skills development, enterprise support and employment equity, which are essential for integrating black South Africans into the formal economy. Socioeconomic spending, which possibly runs into billions of rand, also would be lower.

One of B-BBEE's significant achievements has been the creation of a black middle class, which grew more than 30% in 10 years since 2012. The 2022 Black Middle Class Report shows that the black middle class

constituted 3.4-million people, making up 7% of South Africa's black African population, with spending power of R400bn per year. At the same time, 40-50% of the country's white population were classified as middle class with an estimated 33-million people were still living in poverty (UCT Liberty Institute of Strategic Marketing, 2022).

## Impact investing can accelerate transformation

Impact investing can strengthen B-BBEE and accelerate transformation by directing capital towards enterprises and initiatives that deliver measurable transformation. An impact investing approach would pivot the focus from the amount invested or spent to the impact of that spending. Such impact can be measured and firms rewarded – in terms of their BEE Status level (see [Figure 6](#) in the Annexure) based on this measured impact.

Impact investors seek both financial returns and social impact. Financial returns are, of course, measured through accepted accounting standards which have been developed over centuries. Impact investors have been aiming to develop equivalently robust approaches to measuring impact. In the context of social impact, impact investors can seek poverty reduction, gender and social equity, job creation and economic development, among other objectives.

In melding impact investing and transformation policy, the specific social impact from investing can be classed in terms of transformation goals such as supplier and enterprise development and skills development and social-economic development. Impact investing focuses on driving progressive change, so impact is constantly measured against baselines. This would allow transformation to be progressively driven, rather than setting arbitrary benchmarks based on rands spent relative to profitability, for example. Companies could be assessed not just on what they do, but how they change the status quo.

Internationally, impact investors are converging on globally recognised impact measurement frameworks. The most common is the IRIS+ framework (Impact Investing and Reporting Standards) developed by the Global Impact Investing Network.

Using the IRIS+ approach, several relevant metrics can be chosen upfront to assess the impact performance of investments. IRIS+ provides standardised impact metrics. For racial inequality, key metrics include:

IRIS+ Metric	Description	Example data collected
<b>PI3193</b> – Client Individuals: Demographics	Tracks the racial/ethnic breakdown of individuals (for example, business owners) served.	In the case of a bank, 90% of loan recipients are black entrepreneurs.
<b>PI2383</b> – Jobs Created at Directly Supported/Financed Enterprises	Measures employment growth in businesses receiving investment.	200 new jobs created, with 90% filled by black employees.
<b>PI5898</b> – Revenue Growth Rate of Supported Enterprises	Measures financial performance of businesses funded.	In black-owned businesses, average revenue increase of 30% in 12 months.
<b>PD5752</b> – Access to Financial Services for Underserved Populations	Tracks whether businesses previously had access to formal credit.	60% of black recipients had never accessed formal loans before.

An impact investor would gather this data and then compare it to a baseline. For example, baseline data might indicate that currently only 20% of loan recipients are black and a goal can be set against this baseline to determine the success in delivering impact.

Adapting B-BBEE by enhancing its alignment with impact investing strategies could increase its potential for maximising social outcomes that are the goal of B-BBEE activities. This approach ensures that transformation is not just a regulatory requirement but a long-term driver of economic and social equity.

Indeed, by aligning BEE with impact investment approaches, there is an opportunity to crowd in impact investors into related investments that catalyse BEE (or where BEE can catalyse other impact investor objectives such as job creation).

For example, many black-owned businesses struggle to access traditional financing due to historical financial exclusion and lack of collateral. Impact investors can provide patient capital, equity investments and blended finance solutions that support the growth of these businesses beyond short-term B-BBEE compliance requirements.

Where traditional B-BBEE is focused on inputs (eg, rands spent) rather than measurable outcomes, impact investing brings a change in focus to outputs and outcomes, and robust impact measurement frameworks (eg, ESG metrics, social return on investment, the IRIS+ metrics noted above) that can ensure real transformation results rather than box-ticking exercises. This shift from input-based to outcomes-based transformation can strengthen long-term sustainable economic inclusion.

Impact investing generally aims to maximise impact at minimum cost. Impact investors can set targets for particular objectives such as job creation and then aim to minimise the cost of achieving that objective by selecting investments that have the highest probability of success at the lowest cost. Such impact objectives can be framed in ways that deliver on B-BBEE objectives, for example, or the number of black-owned businesses that are created and made sustainable. Using a typical impact investing approach, investors would aim to maximise these impact objectives while simultaneously ensuring financial resources are used prudently.

Companies aiming to maximise B-BBEE points could be considered impact investors themselves, with their points awarded for outcomes rather than inputs, which could incentivise much better use of financial resources.

## B-BBEE impact investing opportunities

The generic scorecard allocates points for the following: ownership 25 points; management control 19; skills development 20; enterprise and supplier development 40 and socioeconomic development 5 (see [Figure 5](#) in the Appendix for descriptions of the five components of the generic B-BBEE scorecard). However, certain components of B-BBEE are more closely aligned with the principles and mechanisms of impact investing due to their focus on sustainable transformation, measurable outcomes and long-term economic inclusion.

Enterprise and supplier development (ESD) and socioeconomic development (SED) are both strongly aligned with impact investing principles. ESD drives entrepreneurship, helping SMEs grow and integrate into supply chains, which is a core strategy in impact investing for fostering sustainable businesses. SED contributions require businesses to support community upliftment projects. These commonly focus on education, healthcare and economic empowerment, all of which are key focus areas for impact investors.

Skills development and ownership also share similarities with impact investing, as both contribute to long-term economic inclusion, though they could benefit from stronger impact measurement. Companies would need to link skills programmes to measurable employment/promotion outcomes. The ownership element also has significant scope for impact investing, through providing finance to black people to buy into companies. Management control is effectively already outcomes-focused.

Since the generic scorecard allocates significantly more points for ownership and ESD components, and failure to achieve a sub-minimum of 40% of the targets in these priority elements could incur a penalty drop of one level in a company's B-BBEE status (Department of Trade and Industry, 2013; and see Appendix for an overview of B-BBEE status qualifications), we discuss both these elements, assessing their potential for

achieving equitable wealth distribution and accelerating the pace of economic transformation. Our main focus is on ESD and we present a framework, to be fleshed out and refined, for measuring impact (see below: [Enterprise and supplier development: proposed framework](#)).

## Why ownership is necessary, but not sufficient

Under the DTIC's Codes of Good Practice, black shareholders must be South African citizens, must be able to participate in dividends and have voting rights at a shareholders meeting. Black shareholders must have economic interest in the company. This means that they must have the right to dividends. The economic interest of black shareholders must be proportionate to their ownership in the company, however, this does not necessarily include voting rights. A minimum of 25% of black ownership is required to qualify for points towards the generic scorecard.

### Early progress in ownership

The first phase of black economic empowerment was largely market-driven, involving the transfer of equity from white-owned companies to black people or black-owned companies, with a focus on transformation of ownership and boards of directors. As early as 1993, the financial services company Sanlam divested 10% of its stake in Metropolitan Life to a consortium owned by black investors, all former figureheads of the anti-apartheid struggle. After 1994, the number of empowerment deals grew exponentially with more than 270 concluded up until 1998, worth in excess of R50bn. Although there was little government intervention in direct ownership deals at this stage, following the 2001 BEE Commission Report, government initiated steps to establish a legal framework for the asset transfer process (Acemoglu et al., 2007).

Research conducted by Krutham in 2015 which analysed empowerment transactions conducted by the 100 largest companies listed on the Johannesburg Stock Exchange found that these deals collectively generated approximately R317bn in value for beneficiaries. This valuation indicates net asset value after deducting debt and other financial obligations.

A report by the B-BBEE Commission analysing major transactions over a six-year period shows the drastic decline in major transactions from 272 registered deals in 2017/19 to only 41 registered deals in 2022/23. The gross value of these transactions has also declined from nearly R189bn in 2017/18 to just under R36bn in 2022/23, peaking at R253bn in 2019/20 (B-BBEE Commission, 2023). The decline could be attributed to the fact that most big companies had already executed an equity BEE deal.

The commission's 2022 National Status and Trends on B-BBEE Transformation Report examined scorecard elements in terms of percentage achieved against targets, as set out in the DTIC's Codes of Good Practice. The report, which draws on data from 1,475 B-BBEE certificates submitted by accredited verification agencies and 225 compliance reports from public entities, shows that, on average, 34% of the black ownership target was achieved across sectors in 2022. This had increased from 29.5% in 2021 and is also well above the six-year annualised average of 28%. Although based on a limited sample, the results do indicate a step in the right direction (B-BBEE Commission, 2022b).

The Sanlam Transformation Gauge Report draws on a larger sample of certificate submissions of 14,542 companies and demonstrates more positive results. The report shows that 81% of the ownership target for 2023 was achieved when averaged across sectors. Although up from 75% in 2022, it is still below the 86% of target achieved in 2021. Notably, these results do not reflect 81% black ownership, but rather that companies are, on average, 81% of the way of achieving a target of 25% black ownership (Krutham, 2023).



Table 1. Black equity ownership performance against targets by sector

B-BBEE sector	Number of companies	Scorecard weighting	Average points 2023	% of target 2023	% of target 2022	% of target 2021
<b>Agri-B-BBEE</b>	177	25	18,75	75	68	87
<b>Construction</b>	1601	27	22,11	82	69	85
<b>Financial</b>	1076	25	22,82	91	81	88
<b>Forestry</b>	28	25	23,04	92	72	53
<b>ICT</b>	815	25	22,00	88	75	83
<b>Transport</b>	1015	20	12,22	61	90	95
<b>Marketing</b>	143	25	21,87	87	73	84
<b>Property</b>	441	30	19,55	65	67	78
<b>Tourism</b>	177	27	23,07	85	78	96
<b>Generic</b>	9069	25	20,38	82	75	77
<b>Average</b>	14,542	25	20,26	81	75	83

Source: Sanlam Transformation Gauge, 2023

## Challenges of the B-BBEE framework regarding ownership

While the growth rate of *direct* black ownership deals has steadily declined since the early years of transformation, indirect forms of ownership through broad-based investment schemes such as collective investment schemes, pension funds and insurance policies have grown.

Listed companies are legally owned by shareholders, who ultimately represent individual interests (though, in the case of some types of shareholders like trusts, asset managers and life insurance companies, the shares are held *on behalf of* groups of people, and there is no easy way at any point in time to determine who the natural persons are within these groups<sup>1</sup>). Many shares are also held by foreign investors, who supplement the limited domestic savings pool within the country to make equity investments. Foreign investment has desirable domestic economic benefits, although it results in a reduced proportion of black (and other domestic) interests in companies.

However, most shareholders do not directly influence company decisions, as executive managers typically hold decision-making power. Shareholder influence is ultimately defined by the Companies Act, with the main power being the ability to appoint directors, who in turn can appoint senior managers and set remuneration. Empowering black investors necessitates that they hold enough shares and voting rights to affect decisions. It is usually assumed that black shareholders have an interest in reducing racial disparities and enhancing diversity in decision-making, though it could also be argued that black shareholders would be straightforward profit maximisers without a specific interest in promoting empowerment in their

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<sup>1</sup> For example, an insurance company holds an investment portfolio to cover payouts to policy holders in the event of risks materialising. It is only at the point of the insured event, such as a death, that the beneficiary becomes the beneficiary of the portfolio of assets. It is therefore not feasible to determine at a point in time who the natural persons are who stand to benefit from the portfolio. Likewise, pension funds with final salary defined benefits schemes will hold a portfolio to cover estimated future liabilities, but will not know who the future retirees will be nor what their final salaries will be at retirement. While these are estimated through actuarial models, this cannot be extended to the race of the beneficiaries without becoming conceptually confused. For example, a defined benefit pension scheme holds assets on behalf of future employees. The race of these employees depends on other aspects of transformation such as employment equity. If we are to assume that employment equity is going to reach targets, then it would follow that the assets are held on behalf of proportionately more black beneficiaries than the current make up of a pension fund.

companies.<sup>2</sup> Yet, this approach may not necessarily lead to more equitable ownership or broader economic equity across society.

A more pressing issue is that direct black ownership faces a “chicken and egg problem”. For black individuals to acquire shares, they first need wealth. But to accumulate wealth, they need to have investments in high-yielding assets like equity. This creates a situation where the lack of initial wealth prevents more black individuals from becoming shareholders, while simultaneously, the absence of significant share ownership limits their ability to build wealth (Theobald, 2024).

To solve for this lack of capital, many B-BBEE deals did not require cash up front. Instead, debt was provided to enable black individuals to purchase shares and this had to be settled over a defined period. However, if the value of their shares dropped significantly or if companies stopped paying dividends<sup>3</sup>, these investors would struggle to maintain their repayments, even leading to a negative net equity value when forced to prematurely sell their shares at a discounted rate.

Conversely, broad-based investment schemes – such as employee share ownership plans (ESOPs), community trusts, retirement funds and managed investment vehicles such as unit trusts – can facilitate a broader distribution of profits and ownership.

The Financial Sector Charter, launched in 2004, played a crucial role in introducing the concept of indirect ownership as part of black empowerment. Given that institutional investors like pension funds hold significant amounts of equity and many black individuals invest in these funds through their pensions, a key concern has been how much this counts as black ownership. Initially, there was resistance to this idea during early black empowerment discussions. However, the Financial Sector Charter committed the industry to achieving 10% direct black ownership by 2010. If this target was met, an additional 15% of indirect ownership would then be recognised as legitimate black ownership (Acemoglu et al., 2007).

In 2013, amendments to the Codes of Good Practice made it easier for companies to include black ownership through “mandated investments”, aiming to enhance the ability of companies to meet ownership requirements by allowing these investment types to count towards their black ownership metrics.

However, these institutional investments often do little to affect company governance or alleviate workplace inequalities. More importantly, these investments principally benefit black people in the most prosperous 20% of households, since lower-income groups have virtually no financial savings (Makgetla, 2021) hence little or no ability to participate in public B-BBEE ownership transactions.

The B-BBEE Codes of Good Practice allow for companies to “obtain a competent person’s report” estimating the extent of black ownership. As a result, companies increasingly rely on a combination of expert estimates of the share of black ownership in mandated investments, employee and community schemes, and through “continuing ownership” where a degree of ownership is recognised even though a black shareholder has either sold the shares or reneged on conditions of ownership.

The problem with this approach, particularly for institutional investments, is that fund managers and stockbrokers are not required to record the race or gender of individual members or investors, and this lack of granular demographic data can compromise estimations. While the proxies noted above are widely accepted, they remain just that, and lack of accurate demographic data on both direct and indirect

<sup>2</sup> Exceptions such as the Government Employees Pension Fund with more than 1.267 million active members, majority of whom are black employees in the public sector, represented by the Public Investment Corporation who are often vocal about member interests at company AGMs, are rare.

<sup>3</sup> For example, the crash of global stock markets, including the JSE, in 1998 and in 2008 would have reduced the net asset value of many B-BBEE deals at that point in time; post-crash recovery in markets would then have helped increase deal value for participants.

ownership compromises the debate on both historic achievements and next steps (contrast this with employment equity data which is legally required to be kept in HR systems and results in more accurate tracking of progress).

## Impact investing opportunity

While there's no denying that direct B-BBEE deals had a significant impact on the black middle class, albeit a relatively small group of beneficiaries, and that indirect ownership through mandated investments and broad-based investment schemes has enabled more widespread economic inclusion for salaried workers and, in some cases, community equity ownership schemes, both attempts at transformation have yet to meet the ownership targets. Impact investing in ownership would require a move away from the traditional "BEE deal" and focus instead on using share ownership in companies to foster long-term, sustainable wealth creation based on support for business growth and development, rather than once-off equity transfers or broad-based ownership schemes with minimal entrepreneurial growth and development and little to no decision-making powers.

The ownership element has significant scope for impact investing by providing finance to black people to buy into companies. Alternatively, ownership could be tied to impact investing at the community level, funding human capital development goals using permanent or perpetual share capital structures. For example, impact investing already frequently involves the use of grants and non-participating financial instruments (such as convertible grants) to finance companies that are expected to deliver a high impact return. The field has created innovative financing approaches to developing companies and endowing their entrepreneurs with full ownership rights.

## ESD is critical for economic growth

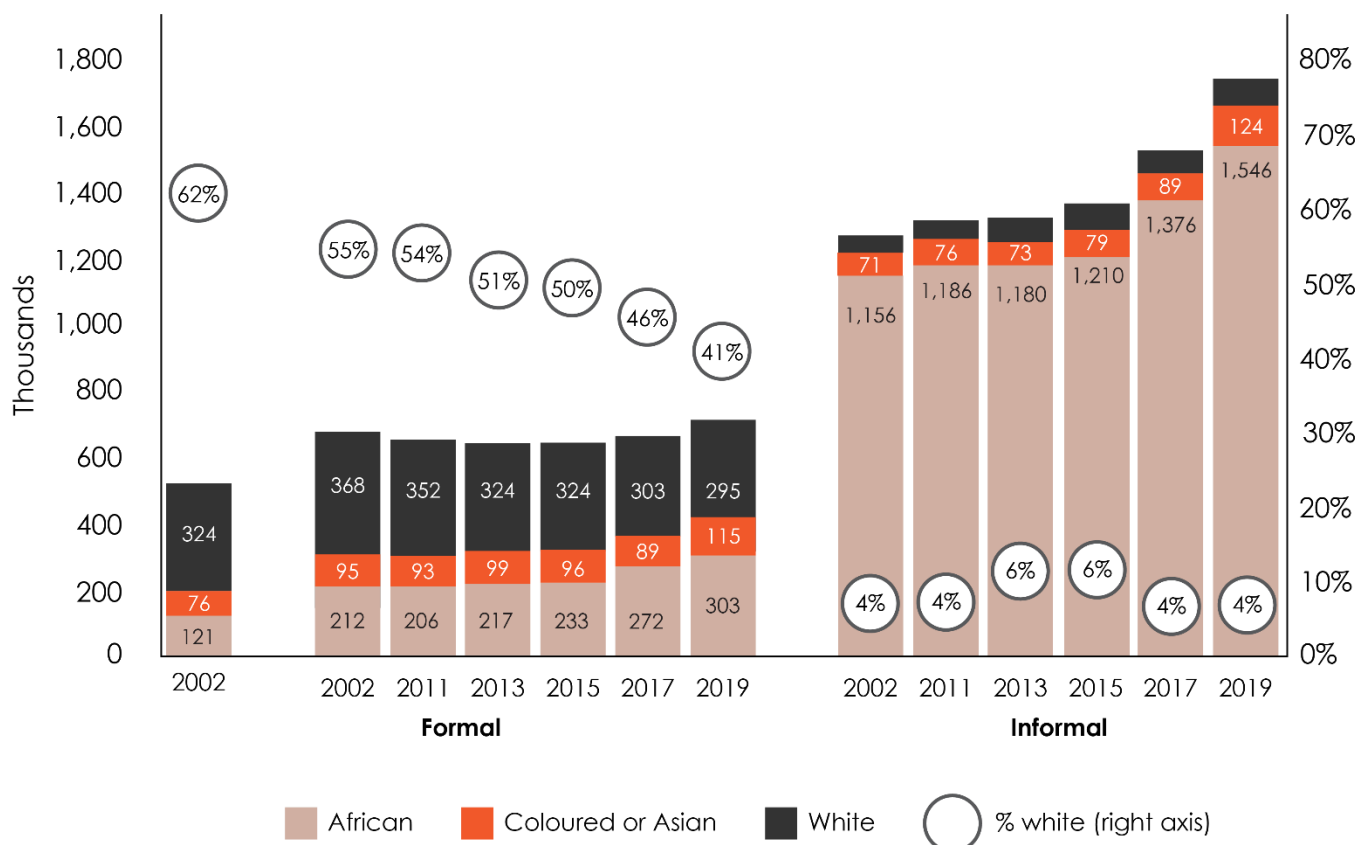
ESD measures the level of spend on three sub-components: (1) preferential procurement, referring to goods and services procured from empowering suppliers and companies with high BBBEE ratings; (2) enterprise development, which is the amount spent on developing small black-owned businesses, and; (3) supplier development, the monetary, mentoring/training, and equipment contributions made to black-owned suppliers to help their businesses grow.

## Growth in black-owned small businesses

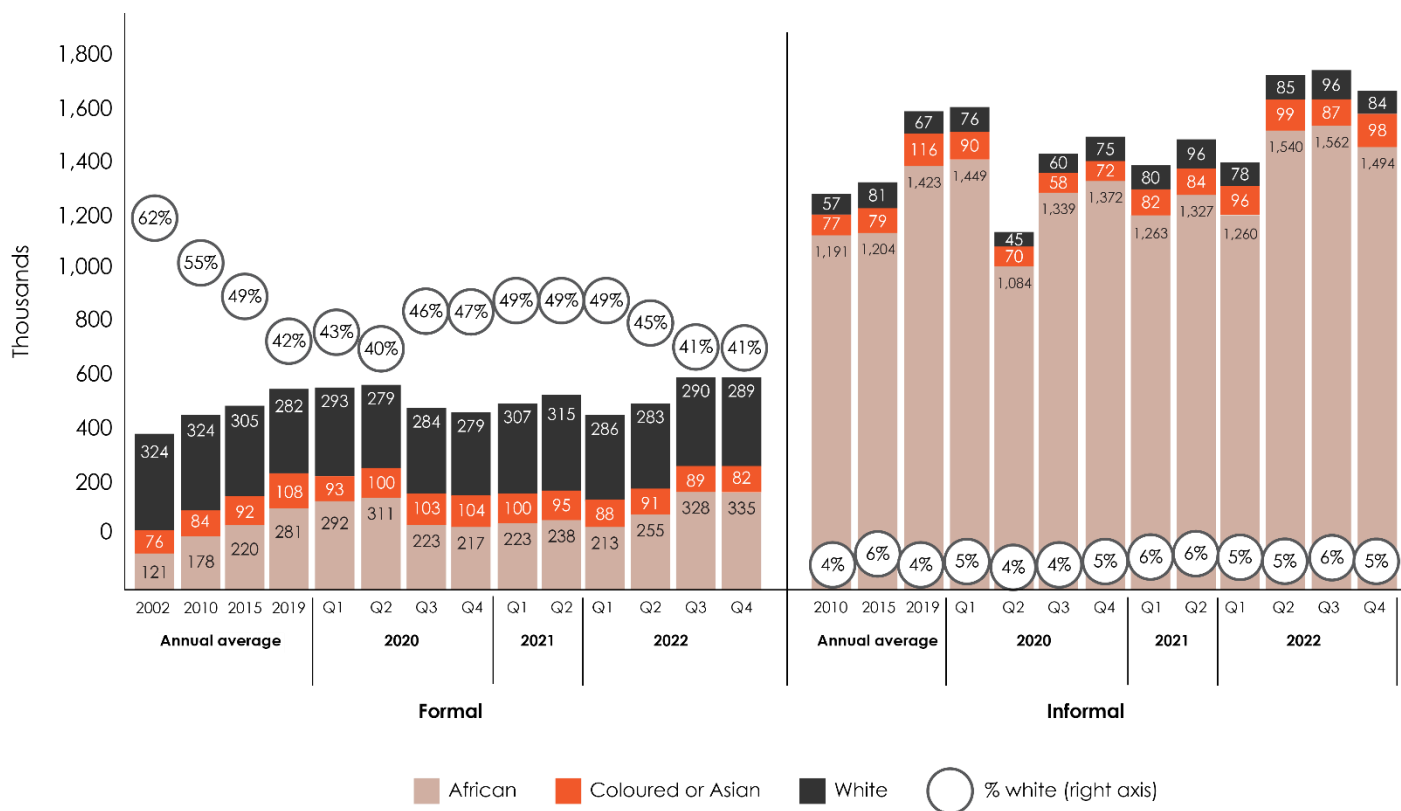
Data from StatsSA's Labour Force and Labour Market Dynamics surveys show that the number of formal small businesses increased from 590,000 in 2010 to 680,000 in 2019, and the number of informal small businesses rose from 1,3-million to 1,6-million across the same period. By 2022, the numbers were even higher with approximately 710,000 formal small businesses and 1,75-million informal businesses (Makgetla et al., 2023).

The number of black-owned businesses doubled from around 200,000 in 2002 to over 400,000 in 2019 with black ownership in formal small businesses increasing from 38% in 2002 to 59% in 2019 and 2022 (Makgetla, 2021). Black people have consistently owned around 95% of informal small businesses since 2002.

Figure 4. Business ownership by race in the formal and informal sectors (2002 to 2019)



Source: Makgetla, N, 2021, based on StatsSA Labour Force and Labour Market Dynamics Surveys



Source: Makgetla, et al, 2023, based on StatsSA Labour Force and Labour Market Dynamics Surveys

About a quarter of small formal business owners were women, with only marginal improvements from 2010 to 2022. Over half of women business owners in the formal sector were, however, white. Black African women, who made up 40% of the working-age population in 2022, owned only 13% of small formal business at the end of 2022, up from 10% in 2010. Black African women were almost as likely as white men to have a degree and nearly twice as likely as African men – but they still earned significantly less than either group.

In 2019, the median age for formal business owners was 45 and for informal owners, 41. In 2022, only 4% of youth aged 18-34 were business owners, which equated to approximately 15% of employed youth. The majority of youth were either unemployed or discouraged jobseekers.

In 2022, small formal businesses accounted for 30% of total employment in South Africa, 32% of all waged employment including informal and domestic work, and half of waged work in the formal private sector. However, they also accounted for 85% of the formal job losses during the Covid pandemic. Nearly all of these job losses affected lower-level workers rather than professionals and managers. This shrinkage in formal opportunities fuelled a sharp increase in informal self-employment through most of 2022.

Although ownership of informal enterprises accounted for a larger share of employment among black people (11% in 2019) compared with formal business ownership of 3% in 2019, informal business ownership typically offers lower and less stable incomes than jobs in the formal sector.

## **MSMEs as a catalyst for growth and employment**

Despite the obvious growth in entrepreneurship and black-owned small businesses, South Africa lags other upper-middle-income countries in terms of small business ownership as a percentage of the working-age population (6% compared with over 20%). Moreover, South Africa has a significantly lower rate of established entrepreneurship compared with other African countries, given its GDP per capita, which is indicative of problems in scaling and sustaining businesses.

A 2018 World Bank report estimated the total MSME market at 5.78 million, but only 14% were formalised and contributed around 34% to South Africa's GDP. The report showed that a large portion of informal enterprises was driven by a lack of other options (unemployment), which limits its potential for sustainable job creation (International Finance Corporation, 2018).

Black ownership in MSMEs declined between 2008 and 2017 and was heavily concentrated in micro-enterprises, with black representation decreasing as the size of the business grows. Youth MSME ownership stagnated in the 25-34 age bracket and declined in the 18-24 age bracket in the same period. MSMEs provided employment to between 50% and 60% of the work force, however, these were not contributing significantly to youth employment.

The two major constraints to MSME development were listed as access to finance and access to markets. There was a significant finance gap (estimated at \$30bn in 2018) between the supply and demand for MSME financing. Formal MSMEs and larger businesses had better access to finance. Limited access to finance was especially acute at the lower end of the MSME market where firms too big for micro-finance but too small for traditional institutional financing results in MSMEs being under-served.

The study found that 85% of MSMEs were informal "survivalist" businesses. These enterprises often struggle to grow due to a poor business environment characterised by regulatory hurdles and fragmented support systems. This leads to low rates of formalisation and business sustainability. To address these issues, solutions are needed such as technology enabled business registration, reduced regulatory burdens and tax adjustments to minimise the tax burden on small businesses.

During the pandemic it was particularly difficult for small business to access relief funding. The Covid-19 National Small Business Survey found that of the 53% of small businesses that applied for funding, only 6% were approved (Business Tech, 2020).



## Challenges with ESD in B-BBEE framework

The enterprise and supplier development component of the B-BBEE scorecard is designed specifically to fuel the growth of small black businesses. Given the growth cited above (from 590,000 formal small businesses in 2010 to 710,000 in 2022; with informal businesses increasing from 1.3-million to 1.75-million), the ESD framework can be said to be working to an extent. Yet critics argue that many company ESD programmes are of a superficial nature that often do not result in substantial upliftment and growth of the black enterprise.

Scorecard rules require measured entities to spend 2% of net profit after tax on supplier development and 1% on enterprise development. Yet according to a B-BBEE Commission report, of the R26bn in funds available in 2021, only 61% was allocated to ESD spend. This trend has been persistent over the past five years: 44% in 2017, 60% in 2018, 51% in 2019, and 61% in 2020 (B-BBEE Commission, 2022a).

Companies report varying levels of procurement from black-owned suppliers, with some spending significant amounts but still representing a small percentage of their total purchases. For example, a company may have increased its spending on black suppliers significantly over several years, yet this may still account for only 1% of its overall procurement.

Moreover, by reducing the total eligible procurement spend (through eligible exclusions), companies can effectively increase the percentage share of qualifying suppliers while keeping the actual spend on empowered suppliers low – and still score the required percentage spend to meet scorecard targets.

At the same time, companies can improve their procurement score not by awarding contracts to producers with higher B-BBEE scores, but by encouraging their current suppliers to obtain a B-BBEE rating, regardless of how low that rating may be, or by replacing noncompliant suppliers with those that have very low ratings. Effectively, companies can still achieve a favourable B-BBEE score while primarily engaging with lower-rated suppliers.

In 2013, the Generic Codes of Good Practice established local value-added requirements as a condition for recognising black ownership, but these requirements were later suspended indefinitely. The new Preferential Procurement Policy Framework Amendment Bill has, however, placed this back on the political agenda (Parliament of the Republic of South Africa, 2023). The bill seeks to prioritise local suppliers, particularly black-owned businesses, in government procurement processes. To qualify as a local supplier, businesses generally need to produce goods or provide services within South Africa. This means that the manufacturing or service delivery must occur domestically rather than being imported.

The amended bill will have significant implications for small, medium and large businesses alike. Small to medium businesses may face challenges in meeting these criteria due to resource constraints or lack of access to markets, which could limit their ability to participate in government procurement opportunities. Promoting black ownership therefore seems to conflict with efforts to encourage local procurement. This is because, in practice, it is operationally simpler and financially requires much less capital to establish a small black-owned importing company than to invest in creating new local production facilities.

In its current form, the bill permits companies to exclude imports that are not produced locally and develop a plan to replace them with local products. This reduces the incentive for large companies to procure from black-owned local suppliers because it enables them to reduce their total qualifying procurement. While the amended bill can help strengthen this incentive, in practice, however, determining when a product must be imported is challenging because it involves a multitude of factors that are sector specific.

A 2021 study by the firm Trade and Industrial Policy Strategy, “The impacts and outcomes of BBEE: A preliminary assessment”, found that just over 40% of respondents’ procurement was either not feasible to produce locally or depended on a sole supplier, leading to its exclusion from their B-BBEE calculations. This exclusion was particularly pronounced among retailers, who rely heavily on imports, as well as manufacturers primarily engaged in assembling imported components (Makgetla, 2021).

Respondents acknowledged that the primary barrier to procurement remains the challenge of identifying black-owned, and especially black women-owned, suppliers. Several companies highlighted that the administrative burdens and costs associated with obtaining a B-BBEE certificate pose challenges for their suppliers, with many micro and small enterprises remaining unaware that they can provide an affidavit instead of incurring the expense of certification (Makgetla, 2021).

A 2024 report published by the Gordon Institute of Business Science investigated the efficacy of ESD initiatives in fostering the growth and sustainability of SMMEs and highlighted several challenges (Myres et al., 2024). They found that companies displayed different levels of commitment to transformation, with many approaching ESD from a compliance perspective as merely a tick-box exercise. Most companies assumed that what SMMEs needed most was funding for their businesses but SMMEs indicated that their primary need is access to market opportunities to grow their businesses. Yet this is something that was rarely offered and if such market access was provided, companies would impose unrealistic market entry requirements that many SMMEs found difficult to meet. Given that companies are incentivised to spend a certain amount of profits, rather to deliver specific impact metrics for business growth, this finding should not be a surprise.

Third-party enterprise development programmes were particularly problematic as they were often treated as corporate social responsibility initiatives rather business development programmes. Many ESD programmes incorporate different forms of business-related training, often labelled as “workshops”, “bootcamps” or “masterclasses.” However, the criteria for their design, the qualifications of those delivering them, and the methods used to evaluate their effectiveness are often unclear. At times, the researchers found, ED programmes targeted SMMEs with the potential to become suppliers, but these were rare instances.

Supplier development programmes, in contrast, were found to be much more focused and often run completely separately from enterprise development initiatives, partly to ensure that real supply opportunities are provided. Companies either develop existing suppliers or deliberately seek to develop suppliers where opportunities exist for B-BBEE-compliant suppliers. Even so, it is generally a low percentage of SMMEs on supplier development programmes that end up receiving business contracts.

All of this has created a sense of disillusionment among SMMEs, which could not see the value or impact of these programmes for their businesses, the report states. It also drives criticism of ESD programmes for lacking relevance and practicality.

Companies were equally sceptical of the impact of external ESD programmes, often claiming that SMMEs in their own programmes experienced growth and job creation. These results were said to be based on rigorous monitoring and evaluation processes, which unfortunately were “proprietary” and could therefore not be shared or externally validated.

The report concludes that what is lacking is a comprehensive framework, with “more impact measurement metrics to track progress against intended social and economic outcomes”. It also recommended better benchmarks to assess “success” to assess thoroughly to what extent these programmes were creating real value for SMMEs and the wider economy.

## Impact investing opportunity

Both impact investing and ESD prioritise entrepreneurship and SME growth, particularly for historically marginalised groups. Impact investors provide capital, mentorship and technical assistance to high-impact businesses, similar to how ESD encourages corporations to develop and integrate black-owned enterprises into supply chains. Both frameworks emphasise financial and non-financial support, ensuring that beneficiary businesses have the resources and capacity to scale sustainably. However, ESD could be significantly strengthened by incorporating impact measurement, with its implicit focus on *outcomes achieved* instead of just tracking spend, to track the growth, long-term success and economic inclusion of supported businesses.

Maximising the job creation potential of SMEs by bridging the finance gap for underbanked and financially excluded small businesses is where impact investors could have the greatest relevance. With a low rate of survival of many startup SMEs, there is a thin pipeline of businesses with potential for successful scaling, which impact investors could address through patient capital and technical expertise. A friendlier regulatory regime for impact investing (including aligning tax policy – see paper 2 of this series) would help stimulate this further.

## Impact measurement is key

There has been considerable progress over the past two decades in transformation. However, there are also many who argue that the pace of transformation is happening too slowly, that the nature of transformation is not particularly meaningful for most black South Africans, and that after more than 30 years of democracy it is time to reassess the B-BBEE framework and reassess elements of the framework that could be better designed to achieve more meaningful transformation.

One problem, as highlighted by B-BBEE Commissioner Tshediso Matona, is that monitoring and measurement mechanisms are not embedded in the legislation, which are needed if government is serious about determining whether intended outcomes are being achieved, why certain elements of the policy are not working and what can be done to address them. The unintended consequence of this is significant rates of fronting and misrepresentation of B-BBEE credentials (Peyton & Kumwenda-Mtambo, 2024).

Some companies engage in fronting where they create the appearance of compliance with B-BBEE policies without genuine transformation. In such cases, black individuals are superficially included in businesses without genuine participation or benefit, effectively misrepresenting a company's compliance with B-BBEE requirements. These practices undermine the intent of B-BBEE and perpetuate existing inequalities.

Engaging in fronting practices is considered a serious offence under the B-BBEE Amendment Act, which states that knowingly participating in such practices can lead to penalties. This includes not only the companies involved but also individuals who fail to report fronting activities when they are aware of them.

Former B-BBEE Commissioner Zodwa Ntuli condemned companies for fronting skills development, stating that companies approach skills development as a box-ticking exercise to improve their scorecards. Whereas some companies hire graduates without ensuring they receive proper training, others seem to provide no training at all.

To receive full points on the generic scorecard, companies must spend 6% of their payroll on skills development for employees (3% for qualifying small enterprises). Separately, companies with annual payroll exceeding R500,000 must pay 1% of payroll to the skills development levy, administered by SARS.

Matona has called for stricter legislation and enhanced powers to prosecute companies that undermine efforts to empower previously disadvantaged groups and frustrate the transformation process. The B-BBEE Commission has received over 1,200 complaints to date, with more than 80% related to fronting (Business Tech, 2023). As a result, the commissioner concedes that “it's easy for some to claim ‘B-BBEE is not working’ based on an anecdote, just as it is for someone else to claim the policy is successful” (Krutham, 2023). Effectively, you cannot know what you do not measure.

Measurement is a critical component of impact investing and impact reporting requirements often form part of the contractual obligations between investors and investees. However, to determine the extent to which impact is being achieved, you first need to identify *what* it is you are measuring, *how* it will be measured and what the ultimate *purpose* of measurement is (Krutham, 2024a).

In our assessment of B-BBEE measurement, we identify three key shortcomings: (1) over-reliance on measuring inputs (the *what*); (2) emphasis on scorecard performance (the *how*); and (3) lack of an updated vision of transformation goals (the *why*).

## What is measured?

The B-BBEE framework is activities-based and, for the most part, does not focus on the intended outcomes of these activities. Instead, it focuses on how much money companies spend or invest in B-BBEE activities. This is problematic mainly for skills development, socioeconomic development and enterprise & supplier development.

Take skills development, where despite the expenditure, there's nothing in place that measures the effectiveness of the training itself or whether trainees derived any benefit from it. What this ultimately means is that any approved training course will do, even if it doesn't meet the needs of those being trained, or indeed, even if the course does not meet the needs of the company. Employers frequently report "training fatigue" as one of the main reasons for underspending on skills development.

One could argue that the company spending 50% of its skills development budget but creating real impact is better than a company spending 100% of its budget but delivering no impact.

Chairperson of the Commission of Employment Equity (CEE), Tabea Kabinde, writes in the 2023 Sanlam Gauge Report that employers are not engaging in meaningful skills development. Instead, they are "maintaining the status quo and blocking rather than facilitating upward mobility for black candidates". Her comments are based on findings of the 2022 CEE Annual Report, which suggest that white employees are still the highest beneficiaries of skills development opportunities at top and senior management levels (Commission for Employment Equity, 2022).

The same argument goes for spending in socioeconomic development, which has consistently outperformed all other elements of the B-BBEE scorecard in that SED spend targets are regularly exceeded whereas other elements fall short of their targets. This could be an indication of "expenditure-dumping" where companies simply donate to some or other cause so they can tick it off on the scorecard.

Research conducted by Krutham in 2018 showed that 25 B-BBEE trusts, established by some of the largest companies listed on the JSE, had collectively spent about R4,5bn between 2002 and 2018 on activities that promote socioeconomic development in previously disadvantaged communities, with two thirds of this amount being spent on education alone (Krutham, 2018). Given that this amount is dwarfed by the Department of Basic Education's annual budgets (R246bn in 2018 alone) and that international benchmarking tests consistently place the literacy rates of South African children as among the worst in the world (Maynier, 2023), it is clear that education should be a priority area for SED spending. What is less clear is the value of this spend when you take into account that many SED initiatives tend to tackle localised areas in relative isolation from one another, frequently leading to redundancy where, for example, a single school might be benefiting from multiple funders while one nearby might not be receiving any funding. A co-ordinated, partnership-based approach has the potential to improve overall impact.

Measures of ESD spending can be equally misleading. This is because grant funding, 100% of which counts towards the scorecard, is only recognised once-off in the financial year, even though the beneficiary may continue to benefit from the support beyond the assessment period. In contrast, business loans and equity funding, of which only 70% count towards the scorecard, are recognised on the outstanding loan balance at the end of the assessment period.

Large companies may take advantage of this in that as long as loans are outstanding and that outstanding balance grows due to default and growing interest, then that company may never have to invest any further in ESD activities ever again. In fact, according to Anton Baumann, executive director of Empowerment Capital, much of what is recognised as ESD spending is often old loans that are in default and the repayment terms are constantly being pushed out. He questions the sense of a grant, which is support in the form of cash flow, only being recognised in one year, and a loan being recognised across multiple years when it is effectively money that will be paid back to the company (Krutham, 2021).

Measuring inputs such as spending is necessary under the current scorecard rules for determining whether B-BBEE scorecard targets have been met, but it says nothing about what the intended outcomes were, nor whether they were achieved.

## How is it measured?

While the case of “inputitis” applies less to ownership and management control, both of which are measured by their outcomes (ie, percentages of black equity ownership and black people in leadership and management roles), a lack of effective measurement processes that go beyond the numbers on a scorecard can create an incomplete and, in the worst case, a false picture, of the country’s transformation progress.

The primary way in which transformation through B-BBEE is measured is by assessing entities’ performance against set targets for each scorecard element. This type of analysis is useful as it makes for easy comparison across sectors and uses data that are readily available through B-BBEE certificates.

The core, however, is whether the scorecards accurately reflect the underlying transformation within each industry. The prevalence of the tick-box approach to score high enough but without effecting any meaningful change, not to mention scorecard manipulation and outright fronting, pose significant challenges for determining the country’s actual state of transformation. Even if these issues were mitigated through better regulation, the conceptual foundations of the scorecard remain input-driven with a focus on money spent or number of beneficiaries. At best, the current system is effective at measuring scorecard performance, but it does not measure impact – whether B-BBEE initiatives are contributing in any way to the economic upliftment of previously disadvantaged South Africans.

Take ownership as an example. Two decades after the enactment of B-BBEE legislation in 2003, it is still not clear how much of the economy black people actually own. The commission estimates that black individuals own approximately 30% of the economy, with black women accounting for 14%. Yet, these figures are often contested, as various metrics and targets are utilised across both the public and private sectors to measure progress (Joffe, 2023). For instance, 30% black individual ownership does not imply that 70% is white owned, because much of the balance is likely to be held by institutional investors such as private and public pension funds (members of which would be black), by the government, or foreign investors.

Even though black ownership should be relatively easy to measure compared with other components of the B-BBEE framework, there is a significant difference between measuring actual black ownership and measuring ownership for the purposes of scoring points on the B-BBEE scorecard.

For instance, if a company that is 51% black-owned (company A) acquires 25% of another company (company B), then the modified flow-through principle applied in ownership calculations allows for company A to be treated as if it is 100% black-owned. As a result, Company B would be considered to have 25% black ownership instead of just 12.75% of effective black ownership. In terms of the B-BBEE Code Series 100, an entity may apply the modified-flow through principle to determine black ownership, where in the chain of ownership structure black people have a flow-through level of participation of at least 51%, then only once in that entire ownership structure of the entity such black participation may be treated as though it were 100%.

For indirect ownership it works the other around. There may be thousands of individual members contributing to a pension fund, but no one (outside, perhaps, the pension fund administrators if they collect the data) really knows how many of those members are black. Nevertheless, if a fund has an equity stake in a company, then it is likely that actual black ownership is higher than estimated on the scorecard. And as discussed earlier, measuring the “ownership rights” of defined benefit fund members is a highly complex undertaking.



Measuring outcomes may be more onerous for companies already saddled with a high compliance burden even outside of B-BBEE, but the option is certainly worth exploring. That said, the B-BBEE Commission itself struggles with a lack of reporting, even from entities that are legally mandated to do so.

The commission's National Status and Trends on B-BBEE Transformation Reports, based on data reported by JSE-listed entities and other companies, organs of state, public entities and SETAs in the form of B-BBEE certificates uploaded to the commission's online portal, suffers from insufficient data. In 2021, only about one-third of JSE-listed companies and 95 out of South Africa's hundreds of public entities submitted reports to the B-BBEE Commission as legally required (Legodi, 2023). And the total number of B-BBEE compliance reports submitted in 2021 (1,373) had dropped by 76% from 2019 (5,818).

We agree with the B-BBEE Commission that the decline in reporting is due to a lack of consequences in the event of non-compliance (B-BBEE Commission, 2022b). To address this, the commission has recommended amending the B-BBEE Act to include administrative penalties for non-compliance, as well as criminal sanctions for repeat offenders. Additionally, the commission has suggested that all B-BBEE certificates issued by Sanas-accredited verification agencies should be uploaded to the B-BBEE Commission's online portal. Further consideration could be given to lowering the cost of compliance by integrating BEE reporting with annual tax returns, for example, which could prevent multiple reporting of overlapping data. Such measures would address levels of compliance but would not necessarily lead to further progress with transformation, as noted above.

## Outcomes model

One alternative to the progress-against-targets approach is the use of outcomes-based models. Also known as “pay-for-performance” programmes, an outcomes model works by paying only for outcomes delivered, which means that money is not spent on activities and processes that fail to deliver the desired outcomes.

An example of a government-led outcomes fund is the Jobs Boost Outcomes Fund run by Krutham, a R300m pay-for-performance youth employment model being piloted in South Africa (Krutham, 2024b). Jobs Boost was initiated by the Presidency as part of the Presidential Youth Employment Intervention (PYEI) and is funded by the Department of Higher Education and the National Skills Fund. It is a major innovation in the South African government's effort to confront the chronic youth unemployment problem. Further outcomes funds are in the process of being launched under the auspices of the Department of Basic Education and the Department of Health. Jobs Boost only pays implementing partners for outcomes delivered – in this case, the employment of previously excluded youth – and not for inputs such as training programmes.

Outcome monitoring requires a step beyond the regular analysis of companies' progress against the specifics of the scorecard; yet as with current scorecard reporting, it also requires the use of independent verification to assess progress against outcomes, which could be milestone based. Apart from the need for additional data from measured entities, such an evaluation demands that government be more specific about the desired end-state for B-BBEE (including the individual pillars) and its alignment with the overarching economic aim of economic inclusiveness.

## Why is it measured?

Most business leaders agree that the majority of South Africans need to have a meaningful stake in the economy in some form or other. While general adherence to B-BBEE policy and the need to meet targets by various sectors is necessary, it is not enough to bring about the kind of meaningful and sustainable change that is needed and is now long overdue.

Yet public perceptions of B-BBEE, often shaped by those shouting the loudest, are generally poor, with many calling for it to be scrapped entirely. Instituting a system where outcomes are tangible and measurable will change public perceptions so that B-BBEE is seen as an opportunity to generate capital and create jobs

and ultimately create inter-generational wealth, among other financial inclusion imperatives. To achieve this, government needs to place the focus back on realising the objectives of economic inclusion and transformation rather than an overly prescriptive focus on compliance, which paradoxically creates an environment that encourages box ticking.

The question remains: What does a transformed South African economy look like and how long do we need to get there?

For the second part of the question, perhaps it would be useful to view this over 30 years for example, broken down into phases with checkpoints to measure and reset if required.

If the answer to what a transformed economy looks like is for the business environment to reflect the demographics of the country, this will require greater collaboration by all stakeholders to drive forward a shared vision of the country's transformation. For example, progress in skills development and employment equity will continue at its current slow pace unless there is strong collaboration between the Sector Education and Training Authorities and the private sector to align skills development with market needs.

It will also require taking a hard look at each element and articulating what the most impactful outcome should be. For ownership, for example, this could mean deciding whether the ultimate goal is to create black business owners in each sector or to create a broad base of black minority shareholders, and determining which of these is more likely to move the transformation needle in a meaningful and sustainable way. For skills development, it would entail categorising various outcomes depending on the original intent of the company. For example, if a company sends 10 employees on management-type training, the target could be that a percentage of those 10 should gain a promotion in a pre-defined timeframe (say within two years); or if it is sending 10 unemployed people on skills training, the target could be to ensure a percentage do gain full-time employment.

For each element, these “desired” outcomes will require input from stakeholders and experts in the various fields before being finalised. Whatever form that new vision takes, strong monitoring and measurement must be instituted while strengthening the level of independent verification

## Initial recommendations for an outcomes-based ESD framework

The primary policy recommendation of this paper is to introduce a clear objective for B-BBEE policy for ESD and then to measure performance in delivering that objective. Fundamentally, input-based measures such as the amount of money spent should be converted to output-based measures.

It is important to emphasise the challenges that would be faced. Developing a universal, acceptable set of indicators to measure the impact of ESD spending in each beneficiary company, for example, is no simple task. The assistance required by a small business operating in the mining sector, for example, is likely to differ significantly from a small financial management firm operating in Soweto. And even within the same industry and location, two businesses operating in Soweto may have differing needs – ranging from gaining access to markets to marketing or financial support. Transforming the B-BBEE framework will also require political buy-in and extensive stakeholder engagement. Then, measurement of the outcomes needs to be independent and credible. We are also concerned about increasing both the compliance and cost burdens when trying to measure outcomes.

Nevertheless, transformation in South Africa is too important both for social stability and long-term inclusive economic growth to accede to calls to disband it – even if moral redress obligations are excluded from the debate. Nor should the country simply continue with the status quo but rather look to build upon what has been already achieved. Should South Africa successfully transition its transformation policies to measuring impact rather than inputs, meaning that ineffective spending does not gain scorecard points (or that points accrue when outcomes are achieved and independently verified), the improved outcomes in each

specific area of spending has the potential to significantly improve socioeconomic conditions and drive economic growth (particularly by developing a more vibrant and durable small business sector).

It is also important at this stage to highlight that many of the country's biggest businesses are *not* guilty of the tick-box approach. Krutham has been measuring transformation in various segments of the economy since 2015.<sup>4</sup> In its dealings with listed companies in particular, many of which have a dedicated transformation officer, it has been striking is how seriously they undertake their transformation initiatives and, indeed, many are already firmly focused on the outcome of their spending and are dedicated to improving that. These companies, along with small business representative organisations, are the first-tier of stakeholders whose input will be required to develop an effective national framework of indicators to measure the outcomes of transformation spending because they operate where the rubber hits the road: they have direct experience in implementing transformation policies with the beneficiaries and know what works most efficiently and what the major obstacles are.

It is also important to recognise that elements within the existing B-BBEE scorecard already do incorporate outcomes-based measurement. Preferential procurement (now a subcomponent of ESD in the generic scorecard) is an example: the impact is that the benefactor company procures more from black-owned businesses and gains points for such procurement; and it increases its overall percentage spend with black-owned suppliers. The Youth Employment Service (YES) scheme is also outcomes-based – companies move up one B-BBEE recognition level for achieving the hiring targets of previously unemployed youth through the YES programme (verified independently). It has made a measurable impact: 186,000 12-month jobs have been created since inception of YES in August 2018.

In that context, we focus initially on ESD with a view to then facilitating indicators for the skills development and socioeconomic pillars in conjunction with a team of experts. This approach could potentially be tested at an industry level first (where an industry-specific scorecard exists), before it is adopted at the generic scorecard level.

The proposed set of indicators below for enterprise and supplier development is merely as a starting point for further debate and refinement. We have purposely kept the list brief rather than attempting an all-inclusive approach – input is needed from the companies who have been successful in generating positive outcomes, small business representative organisations, NGOs that operate in that space and other experts in the scorecard components such as verification agencies. The public participation process as outlined in the methodology section will provide a platform for these entities to further develop these lists.

### **Enterprise and supplier development: proposed framework**

In the table of indicators below we have drawn on the international IRIS+ approach presented above and adapted it for South Africa's context. We have also been careful when it comes jobs growth, the one indicator that directly addresses SA's severe unemployment crisis. Jobs are created because a business grows and needs more workers; you can't create jobs out of nothing. Our indicators therefore focus more on the conditions that will likely lead to a business needing to hire more people, including improved market access, leading to higher revenue/profit margins; access to funding for business expansion, etc.

The benefactor business would not need to make an impact on every one of the indicators below but would need to select appropriate ones and stipulate in advance which outcomes it intends to achieve.

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<sup>4</sup> Most Empowered Companies (measuring transformation in the top 100 JSE-listed companies by market cap) 2015-2019; Sanlam Transformation Gauge (measuring B-BBEE scorecards across all sectors for unlisted and listed companies) 2021, 2021 and 2023; Banking Association South Africa transformation reports 2018-2024.

Metric/indicator	Description
Revenue	Growth of (for example) 10% in a financial year
Margin	Expand operating/net profit margin by a predetermined amount (e.g., 3% a year).
Number of clients (includes improving market access/networking opportunities)	Particularly important if the beneficiary business has only one customer – the benefactor company. Increase from one customer to (say) three or four. The benefactor company could assist with introductions/improved networking access or by simply endorsing the business. Could be measured in terms of number of new clients or new business achieved in revenue terms.
Employment	Employment metrics need to be carefully considered on a case-by-case basis but could take two forms: <ol style="list-style-type: none"> <li>1. Used only when appropriate (e.g., a business needs to hire more employees to be able to meet client requirements for a specific contract/expand into new markets).</li> <li>2. Quality employment (measuring whether the job is sustained over a 12-month period, is full time, etc).</li> </ol> Normally, increases in the profit/margin indicators will lead to jobs growth, so this may be a secondary outcome.
Improved access to funding (credit/loans)	Support could entail a mentoring component, helping the beneficiary business to get its financial records into shape to improve prospects for a loan; or even guarantee the loan on behalf of the beneficiary company. Could include contributions to pooled funding structures for on-lending to SMEs. (This would exclude banks and other financial services firms which have this as a subcomponent on their scorecards.)
Improve prospects of private equity investment	Aim would be to support the beneficiary company if it is in a growth phase and needs investment for expansion. This could be done in two ways: (1) by setting up the beneficiary company to be as “investor-friendly” as possible (e.g., by ensuring correct governance procedures are in place) and (2) by introducing the company to the PE investor and facilitating interactions and negotiations.
Successful enterprise creation	It is not difficult for a benefactor company to fund a black-owned start-up; it is difficult for that start-up to become successful. Measurement indicators for this component will need to be determined by the type of business, but typically, one measurement indicator could be survival after three years; another could be a track record of improved revenue (say 5% revenue growth over two consecutive years). Other potential indicators could be based on the client acquisition rate, growth into new products and services or expansion into new markets.

The following factors will be important:

- The benefactor company must explicitly state what the goals of its ESD spend are in terms of which indicators it aims to improve in the beneficiary business (e.g., margin expansion/number of customers).
- Measuring the success of that initiative cannot be the prerogative of the benefactor company; it needs to be verified by an independent entity. Existing B-BBEE verification agencies could expand their services to confirm the outcomes in the benefactor company. We note that this may drive up verification costs.

- Beneficiary companies that wish to select the financial indicators as growth targets (increases in revenue/margin) need to be aware that not all small businesses are growth companies; they will need to do due diligence to ensure the growth targets are practical for that company (and within its industry, geographic location, etc).

More primary research to ensure maximum impact would be strategically important. Benefactor companies will need to take a "whole of market" view when setting out their ESD strategies, for example, by mapping the economy in communities surrounding mining operations. What kind of businesses, in which sectors, will make the most impact on the local economy, in terms of both multiplier effects and local municipal taxes? Such an approach will ensure more focused initiatives with set outcomes targets rather than a shotgun approach, hoping something works.

- The intended outcomes need to be identified and the mechanisms to measure those need to be agreed upon and instituted. These may vary widely from sector to sector.
- A scoring system still needs to be determined to allocate B-BBEE points to each indicator per enterprise supported, but in such a manner that a company will not need to achieve gains in every indicator to score maximum points. Rather, the company should identify which indicators it is aiming to achieve for the beneficiary business at the outset, and gains in those factors will count on the scorecard.
- Finally, the framework must incorporate the fact that outcomes can take time to achieve; consequently the use of outcomes-based ratings may need to be phased in in such a way that companies do not suffer a drop in scores during the transition.



## Appendix

Figure 5. Generic scorecard components and weighting

BBEE Scorecard Element	Description	Available Points
<b>Ownership</b>	Measures the unencumbered economic interest, voting rights and net value of shares held by black people.	<b>25</b>
<b>Management Control</b>	Evaluates the percentage of black executive board members, senior, middle and junior management positions.	<b>19</b>
<b>Skills Development</b>	The amount of money spent on skills development initiatives and training for black employees, and the amount made available for bursaries, apprenticeships.	<b>20</b> <b>(+5 bonus points)</b>
<b>Enterprise and Supplier Development (ESD)</b>	Measures the level of spend on preferential procurement, enterprise development and supplier development.  Preferential procurement is the amount spent on procurement of goods and services from empowering suppliers and companies with high B-BBEE ratings.  Enterprise development is the amount spent on developing any small black-owned enterprises.  Supplier development refers to monetary, training and equipment contributions made to black-owned suppliers to help grow their own businesses.	<b>40</b> <b>(+4 bonus points)</b>
<b>Socioeconomic Development (SED)</b>	Refers to a business' overall corporate social investment contributions.	<b>5</b>
<b>TOTAL</b>		<b>118</b>

Figure 6. B-BBEE Status and Recognition Levels

B-BBEE Status	Qualification	B-BBEE Recognition Level
<b>Level One Contributor</b>	≥ 100 points on Generic scorecard	135%
<b>Level Two Contributor</b>	≥ 95 points on Generic scorecard	125%
<b>Level Three Contributor</b>	≥ 90 points on Generic scorecard	110%
<b>Level Four Contributor</b>	≥ 80 points on Generic scorecard	100%
<b>Level Five Contributor</b>	≥ 75 points on Generic scorecard	80%
<b>Level Six Contributor</b>	≥ 70 points on Generic scorecard	60%
<b>Level Seven Contributor</b>	≥ 55 points on Generic scorecard	50%
<b>Level Eight Contributor</b>	≥ 40 points on Generic scorecard	10%
<b>Non-Compliant Contributor</b>	< 40 points on Generic scorecard	0%

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