



AMCHAM : Empowering Suppliers Workshop

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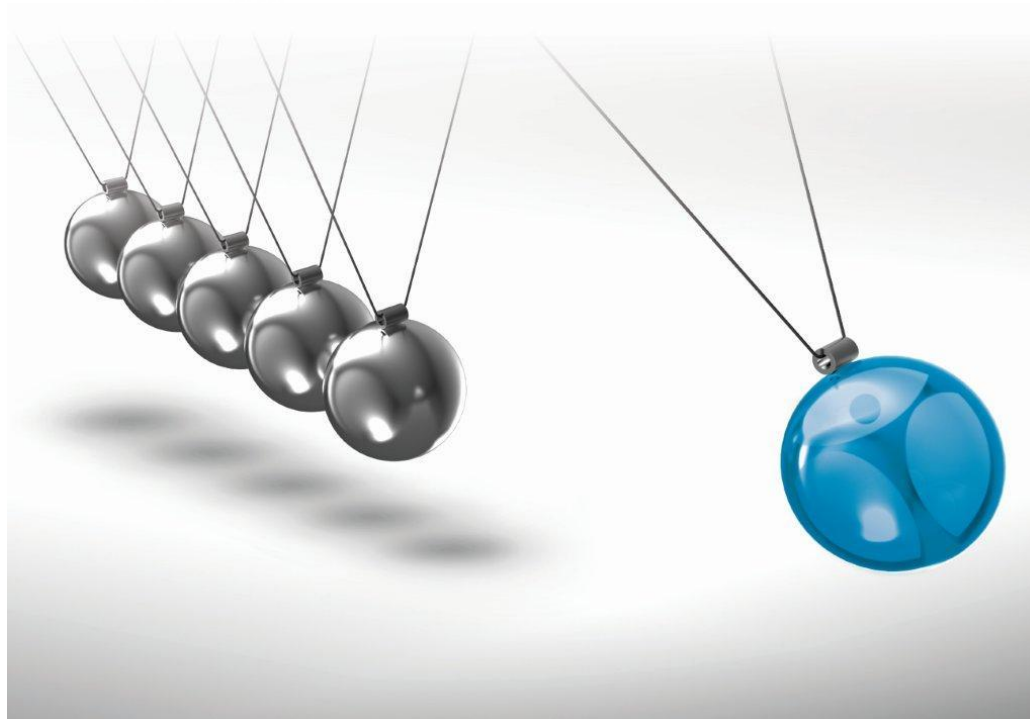
STRATEGY



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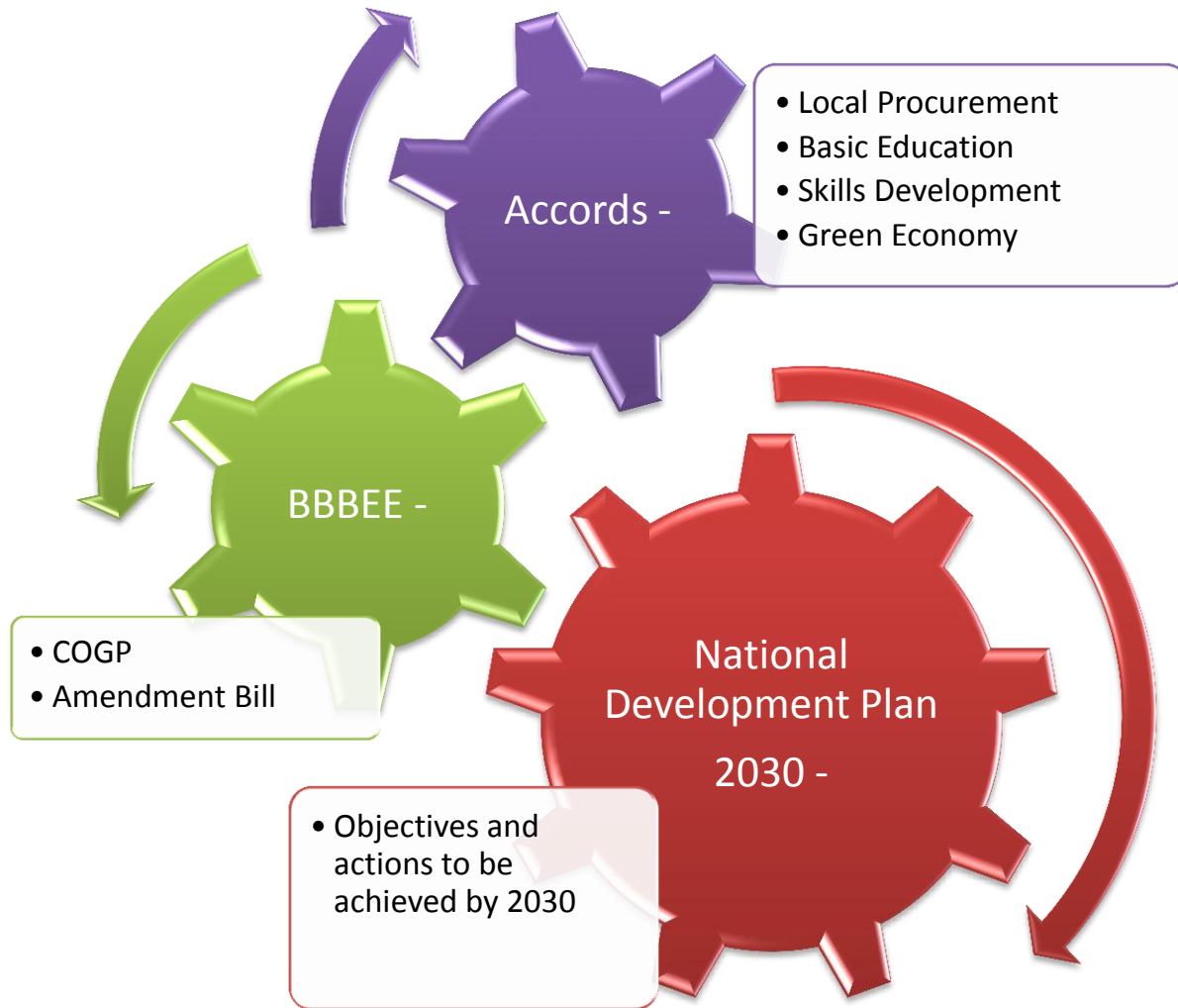
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End Goal





The Taiwanese Model

State coordinated industrialization process between 1952 and 1986:

1. Massive industrial and infrastructure development;
2. Policies to reduce import dependency to value-added exports;
3. Attract foreign investment;
4. Focus on state directed strategic priorities;
5. Develop the education system.

As a result

1. Economic growth on average = 8.7%
2. [Gross national product](#) grew by 360%
3. Gap between the rich and poor fell (Gini: 0.558 in 1953, 0.303 in 1980)
4. Health care, education and quality of life improved for all citizens



The South African comparison

The state is aiming to coordinated an industrialization process:

1. Switch SA from consumption led to production led economy
2. NGP, NDP and IPAP especially aimed at addressing structural weaknesses in the SA economy
3. In last 5 years - R1 trillion has been spent on infrastructure development (mostly energy)
4. Adopted 'localisation'
 1. Solar energy, rail infrastructure must be majority local

But SA is still constrained by:

1. Low growth rates (below key 3.5%)
2. High unemployment
3. Low skill levels
4. Insufficient black industrialists



The following industries, sectors and sub-sectors have so far been designated for local production with minimum local content thresholds.

Industry/sector/sub-sector	Minimum threshold for local content
Buses (Bus Body)	80%
Textile, Clothing, Leather and Footwear	100%
Steel Power Pylons	100%
Canned / Processed Vegetables	80%
Pharmaceutical Products:	
•OSD Tender •Family Planning Tender	•70% (volumes) •50% value
Rail Rolling Stock	65%
Set Top Boxes (STB)	30%
Furniture Products	
•Office Furniture •School Furniture •Base and Mattress	•85% •100% •90%
Solar Water Heater Components	70%
Electrical and telecom cables	90%



Economy	Perceived Opportunities	Perceived Capabilities	Fear of Failure	Entrepreneurial Intentions	Entrepreneurship as a good career choice	High status to successful entrepreneurs	Media attention for entrepreneurship
Brazil	52%	54%	31%	36%	89%	86%	86%
Russia	20%	24%	47%	2%	60%	63%	45%
India	n/a	n/a	n/a	n/a	n/a	n/a	n/a
China	32%	38%	36%	20%	72%	76%	80%
South Africa	35%	39%	31%	14%	74%	74%	73%

Entrepreneurial perceptions, intentions and societal attitudes across the BRICS countries (Source: GEM Report 2012)



Country	Total early-stage entrepreneurial activity (TEA)			Total established business ownership rates		
	2006	2011	2012	2006	2011	2012
Brazil	11.60%	14.90%	15.00%	12.10%	12.20%	15.00%
Russia	4.80%	4.60%	4.00%	1.20%	2.80%	2.00%
India	n/a	n/a	n/a	n/a	n/a	n/a
China	16.20%	24.00%	13.00%	8.90%	12.70%	12.00%
South Africa	5.30%	9.10%	7.00%	1.70%	2.30%	2.00%

Entrepreneurial activity and business ownership rates across the BRICS countries (Source: GEM Report 2012)



Empowering Suppliers



What is an Empowering Supplier?

An Empowering supplier within a context of BBBEE is a BBBEE compliant entity, which is a good citizen South African entity, complies with all regulatory requirements of the country and should meet at least three, if it is a large enterprise, or one if it is a QSE of the following:

1. $\geq 25\%$ of cost of sales excluding labour cost and depreciation must be procured from local producers or local suppliers in SA, for service industry labour cost are included but capped at 15%
2. Job creation – 50% of jobs created are for black people provided that the number of black employees since the immediate prior verified BBBEE Measurement is maintained
3. At least 25% transformation of raw material/ beneficiation which include local manufacturing, production and/ or assembly, and/ or packaging
4. Skills transfer – at least 12 days per annum of productivity deployed on assisting black EME and Qse's to increase their operation or financial capacity



Key Points



The development of a strategy to ensure the Empowering Supplier definition is met:

1. What is a Good Citizen South African Entity?
2. What is deemed to be all Regulatory Requirements and what is the onus of proof?
3. How does one treat a cyclical business with fluctuating employee numbers?



... within a context of BBBEE is a BBBEE compliant entity, which is a good citizen South African entity...

Regulatory Requirements specific to BBBEE:

Does the ME have a tax clearance certificate?	No
Does the ME have a CIPC Certificate of Confirmation?	No
Does the ME have Proof of Submission of EE Report?	No
Does the ME have an approval letter from their SETA?	No
Does the ME have a valid BBBEE Certificate?	No
Is the ME registered in South Africa?	No
Does the ME have a South African address?	No



Other Pertinent Definitions

Local Content	The portion of the price that is not included in the imported content, provided that local manufacturing takes place and is calculated in accordance with the local content formula
Imported Content	The portion of the price represented by: <ol style="list-style-type: none">1. The cost of imported components2. The cost of parts or materials which have been or are still to be imported (whether by the suppliers or the suppliers subcontractors or any other third party), the costs of which are inclusive of the costs abroad, Plus freight and other direct importation costs, such as landing cost, dock duties, import duty, sales duty or any other similar tax or duty at the South African port of entry excluding value added tax (VAT).
Beneficiation	Beneficiation, or value-added processing, involves the transformation of a primary material (produced by mining and extraction processes) to a more finished product, which has a higher export sales value.
Job Creation	The provision of new opportunities for paid employment, especially for those who are unemployed.
Skills Transfer	Competencies (see competence) in performance of a particular job which can be used in the performance of another job.



Exclusion of Imports from Total Measured Procurement Spend

Imported capital goods or components for value-added production on South Africa provided that:

1. There is no existing local production of such capital goods or components; and
2. Importing those components promotes further value-added production within South Africa

Imported good and services other than those listed above if there is no local production of those goods or services including, but not limited to, imported goods or services that-

1. Carry a brand different to the locally produced goods or services; or
2. Have different technical specifications to the locally produced goods or services

The exclusion of imports listed above is subject to companies having developed and implemented an Enterprise Development and Supplier Development plan for imported goods and services. This plan should include:

1. Clear objectives
2. Priority interventions
3. Key performance indicators
4. A concise implementation plan with clearly articulated milestones



Element	Indicator	Revised Targets	Revised Weighting
Preferential Procurement Total Points = 25 + 2 Bonus Points	BEE Procurement Spend from all Empowering Suppliers based on the B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	80%	5
	BEE Procurement Spend from Empowering Suppliers who are Qualifying Small Enterprises based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	15%	3
	BEE Procurement Spend from Empowering Suppliers who are Exempted Micro Entities based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	15%	4
	Procurement from Empowering Suppliers who are 51% Black owned based on the applicable B-BBEE Procurement Recognition Level as a % of Total Procurement spend	40%	9
	Procurement from Empowering Suppliers who are 30% Black women owned based on the applicable B-BBEE Procurement Recognition Level as a % of Total Procurement spend	12%	4
	BBBEE Spend from Designated Group Suppliers that are at least 51% Black owned	2%	2
Supplier Development	Annual value of all Supplier Development contributions made by the measured entity as a percentage of the target	2% of NPAT	10
Enterprise Development	Annual value of Enterprise Development Contributions and Sector Specific Programmes made by the Measured Entity as a percentage of the target	1% of NPAT	5
	Bonus point for creating one or more Enterprise Development beneficiaries to graduate to the Supplier Development level		1
	Bonus point for creating one or more jobs directly as a result of Supplier Development initiatives by the Measured Entity		1



Key Changes

1. The introduction of an Empowering Supplier
2. EME's and Start-up are automatically recognised as Empowering Suppliers
3. Enhanced recognition spend at a factor of 1.2 with suppliers that are:
 - i. Supplier Development Beneficiaries with a minimum 3 year contract in place
 - ii. Black QSE and EME suppliers (ordinary) with a minimum 3 year contract
 - iii. First time suppliers
4. Category B Enterprise Development beneficiaries are no longer claimable
5. Cumulative annual recognition for Supplier and Enterprise Development falls away
 - i. If the project spans multiple years, then the total contribution is divided by the number of years and the average is applied
6. Companies are encouraged to develop and implement an Enterprise Development and Supplier Development plan for qualifying beneficiaries which includes:
 - i. Priority interventions
 - ii. Key performance indicators
 - iii. A concise implementation plan
7. Imports may be excluded as per the 2007 COGP provided the importer has developed an Enterprise Development and Supplier Development plan:
 - i. Clear objectives
 - ii. Priority interventions
 - iii. Key performance indicators
 - iv. A concise implementation plan
8. Early payments are capped at 15% of the 10 points. (1.5 points). Calculation is based on percentage out of 15%.
9. The Benefit factor matrix has been adjusted



BBBEE Amendment Bill



Criminalised Fronting:

1. Up to 10 years imprisonment and/ or fine of 10% of Companies Annual Revenue

The establishment of a BBBEE Commission to monitor adherence to the BBBEE Act

Deliberate circumvention practices such as splitting entities into QSE's/ EME's or Start up's may constitute an offence.

Clarification documents

1. The Technical Assistance Guide (TAG)
2. Equity Equivalent Investment Program
3. Is there going to be a QSE Scorecard?



Salient Features



Number of elements reduced to five	Management Control and Employment Equity combined Procurement and Enterprise Development combined
Adjustment of Thresholds	EME – R 10 million <ul style="list-style-type: none"> • QSE – R 50 million • Generic Enterprise - > R 50m
Priority elements defined	<ul style="list-style-type: none"> • Ownership • Skills Development • Enterprise and Supplier Development
Non compliance on these elements will result in: <ul style="list-style-type: none"> • BBBEE Status discounted by one level for both Generic and QSE Companies 	
Ease of Compliance for Black Business	51% Black Owned = Level 2 100% Black Owned = Level 1
QSE's must comply with all elements of the scorecard	
Rules for Trusts, BBOS and ESOP's are more transparent. Family Trusts addressed.	
Adjusted recognition for gender falls away	Weighted average recognition based on number of Black, Coloured and Indian employees. This is based on annual EAP figures per StatsSA
Published Sector Codes supersede the Generic Codes of Good Practice	
Value Adding Supplier replaced with Empowering Supplier	
New Entrant value increased from R20m to R50m	
A Company can no longer exclude Mandated Investments and still apply Modified Flow Through. It is one or the other.	
Category B Enterprise Development falls away	
DTI has undertaken to provide a Technical Assistance Guide (TAG), Clarification Notes and Equity Equivalent Guidelines	
The 40% sub-minimum on Management Control falls away	



Measurement of EME's and QSE's

The Revised Codes indicate:

- 51% Black Owned EME's and QSE's are automatic level 2 contributors
- 100% Black Owned EME's and QSE's are automatic level 1 contributors
- EME's and Start up Enterprises are deemed to be Empowering Suppliers

The supporting evidence for these is a substantiated affidavit from the Company.

The consequences for misrepresentation is dealt with in the BBEE Amendment Bill which was formally Gazetted on 27 January 2014.

We are interested to see if companies will be allowed to apply the Modified Flow Through Principle in their ownership chain to achieve greater than 51% ownership and utilise this caveat.

The DTI will also need to clarify whether the subminimum applicable to QSE's will still apply to Black Owned QSE's. As such, will a Black Owned QSE be a level 3 or 2 as a result of not meeting the prescribed sub minimums.

Sector Codes

Integrated Transport	Forestry	Tourism	Property
Chartered Accountancy	ICT	Agri	Construction
FSC			

Existing Sector Codes supersede the Revised COGP until such time as they are either repealed or further guidance notes are issued.



Priority Elements – Application of Sub-Minimums	
Element	Application
Ownership	Companies need to achieve 40% of the Net Value per time based graduation factor. 1. 40% of 8 points in year 1 (3.2 Points)
Skills Development	Companies need to achieve 40% of total skills points: 1. 8 Points out of 20
Enterprise and Supplier Development	Companies need to achieve 40% of each of the three categories: 1. Procurement = 10 out of 25 2. Supplier Development = 4 out of 10 3. Enterprise Development = 2 out of 5



Turnover Thresholds

Type of Scorecard	Revenue	
	Current Threshold	New Threshold
EME	< R 5m	< R 10m
QSE	>= R 5m but < R 35m	>= R10m but < R 50m
GNC	>= R 35m	>= R 50m

Applicable to:

The revised weighting for each element is shown below and the new scorecard is out of 105 as opposed to 100

Element	Code Numbers - Old	Code Numbers - New	Weighting – Old	Weighting – New
Ownership	100	100	20	25
Management Control	200	200	10	15
Employment Equity	300	n/a	15	n/a
Skills Development	400	300	15	20
Preferential Procurement	500	n/a	20	n/a
Enterprise Development	600	n/a	15	n/a
Enterprise and Supplier Development (Merged Preferential Procurement and Enterprise Development)	n/a	400	n/a	40
Socio Economic Development	700	500	5	5
Sub-Total			100	105
Bonus Points			6	13
Total			106	118



B-BBEE Status	Current Qualification	New Qualification	B-BBEE Recognition Level
Level One Contributor	≥ 100 Points	≥ 100 Points	135%
Level Two Contributor	≥ 85 Points but < 100 Points	≥ 95 Points but < 100 Points	125%
Level Three Contributor	≥ 75 Points but < 85 Points	≥ 90 Points but < 95 Points	110%
Level Four Contributor	≥ 65 Points but < 75 Points	≥ 80 Points but < 90 Points	100%
Level Five Contributor	≥ 55 Points but < 65 Points	≥ 75 Points but < 80 Points	80%
Level Six Contributor	≥ 45 Points but < 55 Points	≥ 70 Points but < 75 Points	60%
Level Seven Contributor	≥ 40 Points but < 45 Points	≥ 55 Points but < 70 Points	50%
Level Eight Contributor	≥ 30 Points but < 40 Points	≥ 40 Points but < 55 Points	10%
Non-Compliant Contributor	< 30 Points	< 40 Points	0%



Questions

Thank you



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