

4.0 Commercial issues

Commercial issues relevant to the PRASA rolling stock fleet renewal programme

17 March 2011

Contents

1	Introduction	1
2	Localization	3
2.1	Background and objectives of localization	3
2.2	Definition of localization	3
2.3	Industrial Policy Action Plan 2	4
2.4	Competitive Supplier Development Programme	5
2.5	National Industry Participation Programme	6
2.6	More Information	6
3	Broad Based Black Economic Empowerment (“B-BBEE”)	7
3.1	Background and objectives of Black Economic Empowerment	7
3.2	The elements of B-BBEE	7
3.3	Interpretation of the B-BBEE scores obtained	10
3.4	Related legislation	11
3.5	Other considerations	11
3.6	More information	13
4	Incentives	14
4.1	Tax-based incentives	14
4.2	Grant-based incentives	15
4.3	Further incentives to watch out for	16
4.4	More information	16
	Appendix 1 – template for a SDP	17
	Appendix 2 – KPIs for SDPs	18
	Appendix 3 – DTI draft evaluation template	19
	Appendix 4 – Detailed Rail Sub-Sector Scorecards	20

1 Introduction

The Passenger Rail Agency of South Africa (“PRASA”) foresees the need for approximately 8 600 new Metrorail commuter coaches and some 2 000 new Shosholozha Meyl coaches phased in over an 18 year period¹. These estimated volumes start with the current fleet of 4 638 and 1 223 coaches for Metrorail and Shosholozha Meyl, respectively, plus the estimated growth expectations. The South African Government sees the rolling stock fleet renewal as a landmark project of national importance with significant localization objectives, which is one of two strategic fleet programmes already identified in South Africa’s Industrial Policy Action Plan (“IPAP2”).

This document describes certain commercial issues that will form key bid evaluation criteria should the PRASA rolling stock fleet renewal programme progress to the Request for Proposal (“RFP”) stage:

- Responsibility for maintenance of the new fleet;
- Significant localization that will lead to the development of a South African-based rolling stock manufacturing and maintenance capacity; and
- Broad-Based Black Economic Empowerment (“B-BBEE”).

These commercial issues are discussed in more detail in section 2 and section 3, respectively. An introduction to incentive structures available to prospective investors in South Africa follows, in section 4.

We realize that many of the parties interested in establishing manufacturing facilities have experience with similar processes from other parts of the world. For the purposes of the Market Engagement process we would therefore encourage manufacturers interested in participating in the interview process to prepare responses to the following issues and provide examples of past experience. Kindly bring these responses to the interview.

Localization

- Conditions (if any) imposed by rolling stock manufacturers to set up the required local rolling stock manufacturing plant;
- Annual commitment and volumes required to justify the required investment in a local production plant;
- Initial view on what proportion of local content can be achieved using local component suppliers;
- Estimated creation of jobs in South Africa given past experience;
- Government support mechanisms experienced in other parts of the world (i.e. concessional credit, etc.);
- Prior South African or similar developing country train building and maintenance provision experience;

¹ Current estimates to be confirmed through passenger demand studies

- Initial view on South African cost structure relative to the industry globally;

Maintenance

- Ability of the rolling stock manufacturer to provide maintenance and significant whole of life support for manufactured vehicles; and
- Conditions (if any) imposed by rolling stock manufacturers to training local staff involved in manufacturing, operations and maintenance, as well as the transfer of research and technology.

B-BBEE

- Involvement of South African (small and medium/B-BBEE) enterprises in the rolling stock manufacturing process.

The remainder of this document sets out the key considerations in relation to localization policy, the broad legislative and policy framework of B-BBEE and incentives available to investors, that rolling stock manufacturers participating in the market engagement should be familiar with.

2 Localization

2.1 Background and objectives of localization

The primary guidelines for localization relevant to PRASA are the Industrial Policy Action Plan (“IPAP2”), the Competitive Supplier Development Programme (“CSDP”) and the National Industry Participation Programme (“NIPP”).

The IPAP2 is a policy and action plan designed to help build South Africa’s industrial base in critical sectors of production and value-added manufacturing, which are largely labour-intensive industries. It is designed to address the decline in South Africa’s industrial and manufacturing capacity and to contribute to the reduction of chronic unemployment. IPAP2 is a product of the Department of Trade and Industry (“the DTI”) with intensive work carried out with the Economic Sectors and Employment Cluster of Ministers and Departments. PRASA has an active role in some of the action plans contemplated in IPAP2, which aim to customize certain procurement and financing components of strategic fleet approaches.

The CSDP is a programme which allows for State Owned Entities (“SOEs”) to commit themselves to developing and implementing competitive supplier development plans and new business generation. The CSDP is a product of the Department of Public Enterprises (“DPE”) and its aim is to increase the competitiveness, capacity and capability of the local supply base. Transnet and Eskom are amongst those SOEs, which have already elected to participate in this programme for their large scale infrastructure investment programmes.

The NIPP is a DTI programme targeted at suppliers of goods and services to government / parastatals, where the imported content of such goods and services is equal to or exceed US\$10 million.

There is an intention to improve the interaction between the NIPP and the CSDP and ultimately merge the two programmes into one. While PRASA is inclined to follow the CSDP programme, until implemented, both programmes are potentially relevant at this stage.

While IPAP2 gives an overall direction to all Industrial sectors in South Africa, the CSDP and NIPP are programmes which are used for the implementation of localization objectives in capital expenditure programmes. PRASA has not yet committed to which of the CSDP or the NIPP it will apply to the fleet renewal programme.

2.2 Definition of localization

The DTI will measure the percentage of localization in a particular project based on the value of locally manufactured components compared to the overall project value (refer to

Appendix 3 for a draft DTI evaluation template). It also includes foreign currency spent on the other elements of localization as, for instance, described in the CSDP. PRASA's target for localization is 65% of the overall project value. Additionally, the DTI regards the following elements as critical in ensuring that local content is achieved:

- Skills development through training;
- Technology transfer;
- Stimulating job opportunities through investment in establishing new manufacturing facilities or expanding existing facilities; and
- Sourcing of locally manufactured components.

The DTI contracted the United Nations Industrial Development Organization (“UNIDO”) to assist with the matchmaking of international manufacturers and potential local suppliers across various sectors. UNIDO has been active in South Africa since 2009 and is in the process of building a database with local manufacturers, which may be potential partners to prospective international manufacturing investors into South Africa. Globally their initiative has proven highly successful.

2.3 Industrial Policy Action Plan 2

The PRASA rolling stock fleet renewal programme is identified in IPAP2 as one of the first strategic fleet procurements to help in achieving the IPAP2 objectives. These objectives are summarized as follows:

- Long term industrialization and industrial diversification beyond South Africa's current reliance on traditional commodities and non-tradable services;
- High employment and growth multipliers that compete in export markets as well as compete in the domestic market against imports; and
- Increased participation of historically disadvantaged people and regions in South Africa's economy.

Manufacturing in South Africa is not as dynamic as other economic growth drivers. This inevitably has led to unsustainable imbalances in the economy, high levels of unemployment and large current account deficit.

The IPAP2 solutions relevant to PRASA are (1) to develop proposals to enhance access to concessional industrial financing for investment and (2) to evaluate the use of the fleet approach to increase competitive local procurement and supplier development opportunities, minimize “leakages” from the domestic economy, and support meaningful B-BBEE.

The section in IPAP2 entitled “Industrial Financing” addresses the Development Finance Institutions (“DFIs”) such as the Industrial Development Corporation (“IDC”) and the Development Bank of South Africa (“DBSA”), which are important lenders in the South African economy for industrial and infrastructural investments. These DFIs often invest in large projects in South Africa and more broadly on the African continent. They are

encouraged to build local and regional localization into their funding conditionalities, especially for large projects, in order to offer competitive financing. DFIs are expected to play a disproportionate role in financing private investment in real-economy sectors.

The Key Action Programmes (KAP) defined in the IPAP2 are addressing the above mentioned issues with lead departments and supporting departments/agencies.

One KAP deals with the identification of fleet programmes to make investments in associated supply chains viable and thereby promote local manufacturing. They look at medium to long term plans for fleet programmes and also agreements and optimal financial arrangements.

Another KAP looks specifically at a competitive financing programme for suppliers into public capex programmes. The DTI is looking at current finance packages and identifies support gaps. It also deals with a suitable monitoring and evaluation programme.

2.4 Competitive Supplier Development Programme

The DPE has developed, and certain large SOEs have adopted, the CSDP, with the goal of increasing the competitiveness, capacity and capability of the local supply base. This in turn will further the long-term commercial interests of the SOEs in the following areas:

- Improving the competitiveness of the services being provided by the SOE (through savings resulting from more competitive suppliers)
- Increasing the security of supply for the SOE; and
- Providing the potential advantages of local supply versus imports, including:
 - removal of exposure to foreign currency fluctuations in terms of pricing;
 - lower stock level requirements;
 - greater responsiveness;
 - ease of communication;
 - shorter delivery times;
 - being part of an industrial cluster; and
 - increased potential for collaborative partnerships and innovation for local conditions.

The CSDP goals are also in line with the objectives of South Africa's Accelerated and Shared Growth Initiative, of shared growth, employment creation, poverty reduction, skills development, and B-BBEE.

The overall long-term national target that DPE has set for the CSDP is to increase localization from 60% to 70% of the SOE capex and opex expenditures by 2012². Some supplier development plans ("SDPs") will have higher targets than others, and some procurement strategies will contain higher levels of local supply network development than others, depending on the nature of the commodities being sourced and the characteristics of the particular supply markets.

² Foreign purchases are defined as those goods and services whose point of origin is not within South Africa, regardless of the fact that a South African supplier or agent was awarded the business.

A typical SDP provides a medium to long term vision of the local supplier industry to guide both the SOE and the industry in their decision making. A template for the contents of the SDP and a guideline for the Key Performance Indicators (KPIs) are provided in Appendix 1 and 2 respectively.

2.5 National Industry Participation Programme

The DTI has developed the NIPP, which is targeted at the South African industries, enterprises, and suppliers of goods and services to the South African Government / parastatals where the imported content of such goods and services equals to or exceed US\$10 million. The first beneficiaries of NIPP is the South African industry that benefit through the NIPP business plans which, when implemented, generates new or additional business activities through one or more of the following: investment, export opportunities, job creation, increased local sales, SMME and BEE promotion, Research and Development and technology transfer. The second beneficiaries of NIPP is the foreign suppliers who benefit from the programme through increased participation in the South African economy.

The NIPP has generated substantial value-added investments and employment; however, it is noted in IPAP2 that it can be promoted in a more strategic manner to address certain weaknesses.

2.6 More Information

Further information and more detailed requirements of the CSDP and the NIPP can be obtained on the South African Government Information official website www.info.gov.za as well as the Department of Public Enterprises' official website www.dpe.gov.za and www.dti.gov.za/offerings/NIPP.htm.

3 Broad Based Black Economic Empowerment (“B-BBEE”)

3.1 Background and objectives of Black Economic Empowerment

In 1948, the South African government adopted Apartheid, a policy that legislated the exclusion of the majority of the population from the mainstream economy of the country. This policy classified the population into 3 races, namely African, Coloured and White, each with different privileges. Different pieces of legislation were implemented to regulate the privileges, e.g. where the different races can reside, who they can associate with including who they can enter into marriage with, the types and level of education they can access and what type of employment they can engage in.

This policy remained in place until 1993 when South Africa implemented its first democratic constitution, followed by the country’s first democratic elections in 1994. Government policies in support of B-BBEE have been implemented in order to:

- Address the imbalances created by the apartheid policy and colonisation;
- Provide a transformational process that will address the social and economic dimensions of inequality;
- Promote the achievement of the constitutional right to equality;
- Increase broad based participation of black people in the economy; and
- Promote a higher growth rate, increased employment and equitable distribution of wealth.

In 2003, the DTI who are the appointed custodians of B-BBEE in South Africa initiated legislation designed to extend the benefits of empowerment to the wider population of black South Africans, and to standardise the measurement of B-BBEE, and the Broad-Based Black Economic Empowerment Act, 2003, was enacted.

3.2 The elements of B-BBEE

The B-BBEE policy is multi pronged and founded on seven pillars, namely:

- Ownership – involvement of black people in the shareholding of the entity as determined by the voting rights and economic interest held by black people;
- Management Control – involvement of black people in the day to day management of the company as determined by representation in the company’s Board of Directors;

- Employment Equity – black representation in the upper echelons of the employee population measured as black representation in the junior, middle and senior management categories;
- Skills Development – investment in the training and skills development of black people as a percentage of the entity’s total payroll;
- Preferential Procurement – procuring goods and services from black owned and B-BBEE compliant companies;
- Enterprise Development – providing monetary and non-monetary assistance to black entrepreneurs; and
- Socio Economic Development – contributions towards facilitating sustainable access for black people, communities and youth into the economy.

The Codes of Good Practice on Broad Based Black Economic Empowerment (the Codes) were gazetted in 2007, in terms of the Broad Based BEE Act 53 of 2003 (“the B-BBEE Act”). The Codes set out the key principles and define the various elements of B-BBEE. Further, the Codes provide scorecards that facilitate the consistent measurement of B-BBEE compliance. The scorecards also provide the targets and weighting for each of the indicators and elements of the scorecard. The focus is on measuring black representation for each element.

The targets are set by the Codes for each element of B-BBEE, and the total score of a measured entity is assessed through a B-BBEE verification exercise that has to be conducted annually. Poor scoring on the scorecard can result in failure to secure new contracts, non-renewal of existing contracts and a generally negative transformation perception in the market.

There is a differentiation between Rail Sub-Sector B-BBEE Scorecards and Qualifying Small Enterprises (“QSEs”) B-BBEE Scorecard under the Rail Sub-Sector Code for B-BBEE. The QSEs have different targets and weightings.

Figure 1 below depicts the rail sub-sector B-BBEE scorecard and QSE B-BBEE scorecard as prescribed in the Transport Sector Code.

Figure 1: The Rail Sub-Sector B-BBEE Scorecard

Element	Definition	Code	Rail Sub-Sector Weighting	Bonus Points
Ownership	Measures effective ownership by black people	100	20	5
Management Control	Measures effective control by black people	200	10	1
Employment Equity	Measures initiatives intended to achieve equity in the workplace under the Act and the Employment Equity Act	300	17	3
Skills Development	Measures the extent to which employers carry out initiatives to develop the competencies of black employees	400	20	-
Preferential Procurement	Measures the extent to which enterprises buy goods and services from B-BBEE suppliers	500	18	-
Enterprise Development	Measures the extent to which enterprises carry out initiatives intended to assist and accelerate the development and sustainability of other enterprises	600	10	-
Socio-economic Development	Measures the extent to which enterprises have implemented initiatives that promote access to the economy for black people	700	5	-
Total			100	9

Figure 2: The Rail Sub-Sector QSE B-BBEE Scorecard

Element	Definition	Code	Rail Sub-Sector Weighting	Bonus Points
Ownership	Measures effective ownership by black people	100	25	3
Management Control	Measures effective control by black people	200	25	2
Employment Equity	Measures initiatives intended to achieve equity in the workplace under the Act and the Employment Equity Act	300	25	2
Skills Development	Measures the extent to which employers carry out initiatives to develop the competencies of black employees	400	25	-
Preferential Procurement	Measures the extent to which enterprises buy goods and services from B-BBEE suppliers	500	25	-
Enterprise Development	Measures the extent to which enterprises carry out initiatives intended to assist and accelerate the development and sustainability of other enterprises	600	25	-
Socio-economic Development	Measures the extent to which enterprises have implemented initiatives that promote access to the economy for black people	700	25	-
Total			175	7

Note: A QSE must select any four of the above seven elements for the purposes of measurement. If QSE does not make a selection, its four best element scores will be used for the purposes of measurement.

3.3 Interpretation of the B-BBEE scores obtained

The Codes document the manner in which the score obtained by a measured entity based on the scorecard described above, is used to determine the B-BBEE "contribution level" for that measured entity, which in turn determines the preferential procurement consequences for a client or customer of the measured entity, when that client or customer buys goods or services from the measured entity.

Figure 3 below demonstrates how the scores are converted into B-BBEE contribution levels or status, and how that status ultimately determines the extent of recognition of the customer's spend on the measured entity.

Figure 3: The B-BBEE status and Recognition Level

B-BBEE Contributor Status	Points obtained on the Scorecard (including bonus points)	B-BBEE Recognition Level
Level One Contributor	≥100 points on the Generic Scorecard	135%
Level Two Contributor	≥85 but <100 points on the Generic Scorecard	125%
Level Three Contributor	≥75 but <85 on the Generic Scorecard	110%
Level Four Contributor	≥65 but <75 on the Generic Scorecard	100%
Level Five Contributor	≥55 but <65 on the Generic Scorecard	80%
Level Six Contributor	≥45 but <55 on the Generic Scorecard	60%
Level Seven Contributor	≥40 but <45 on the Generic Scorecard	50%
Level Eight Contributor	≥30 but <40 on the Generic Scorecard	10%
Non-Compliant Contributor	<30 on the Generic Scorecard	0%

- Procurement from supplier is calculated by multiplying spend with recognition level
- Where procurement is directly from a Supplier who is also a recipient of enterprise development contributions from the Measured Entity all BEE spend from that Supplier may be multiplied by 1.2 when calculating the BEE Procurement Spend of the Measured Entity.

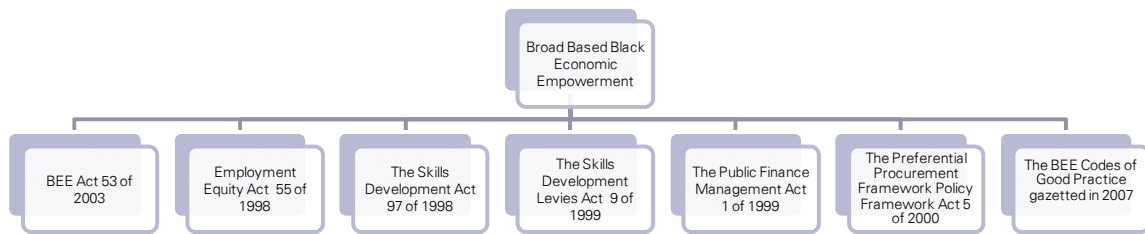
Compliance with B-BBEE requirements or targets has become a critical factor in the awarding and review of on-going contracts by South African Government departments and state owned entities.

The Recognition level attached to the B-BBEE Status level shows how much recognition a client of your business can obtain, on its preferential procurement scorecard, for procuring goods or services from you. In other words, if you are a Level 7 contributor your clients will only receive 50% recognition or R50 for every R100 of spend on you when they complete their own preferential procurement score on their B-BBEE scorecard. On the other hand, if you were a Level 2 contributor your client would have obtained R125 recognition for every R100 he spent on you. B-BBEE therefore has a direct effect on your competitiveness in the South African market place. The better your B-BBEE score the more attractive you become to your market relative to your competitor who is less empowered.

3.4 Related legislation

The extent to which and the manner in which B-BBEE is taken into account in a South African public procurement programme involves consideration not only of the Broad-Based BEE Act, 2003 and the Codes, but also the following statutes and other instruments.

Figure 4: Other legislation linked to B-BBEE



3.5 Other considerations

Sector Charters and Codes

The Codes make provision for different sectors to apply to the DTI for approval of a Sector Code which in effect modifies the generic Codes in order to make the targets and

compliance requirements more relevant to the specific sector and/or industry. These are referred to as Sector Charters and/or Sector Codes. Only gazetted Sector Codes are binding on those measured entities operating in the specific sector, with the effect that those measured entities operating in the applicable sectors must measure their compliance or B-BBEE contribution level in accordance with the gazetted Sector Code.

In August 2009, the Minister of Trade and Industry gazetted a Transport Sector Code, which includes a number of sub-sector Codes including a Public Transport Sub-Sector Code and a Rail Sub-Sector Code. These Sector Codes will be relevant to procurement by PRASA.

All stakeholders in the Transport sector shall commit themselves to actively promote a transformed, vibrant, and globally competitive transport sector that reflects the demographics of South Africa. A Transport Sector Black Economic Empowerment Council shall carry out processes of targets, responsibilities, reviews, implementation and monitoring.

Companies need to use their purchasing power to drive the transformation of the entire rail industry value chain, including manufacturers, suppliers' consultants and maintenance companies. The Rail Sub-Sector Code sets out the sector specific scorecard. Please see Appendix 4 for the detailed elements of the scorecards of the Rail Sub-Sector Code for B-BBEE.

Equity Equivalents programme for Multinationals

The Codes make provision for Multinationals to comply with the ownership requirement through the equity equivalents programme. This programme allows Multinationals to earn points for the ownership elements without selling shareholding to black people. The points can be earned through implementing programmes in the following areas:

- Enterprise Development area, i.e. programmes that are geared towards assisting Small Medium and Micro Enterprises to be more sustainable; and
- Skills Development area, i.e. programmes in line with the government Joint Initiative on Priority Skills Acquisition ("JIPSA") and Accelerated and Shared Growth Initiative for South Africa ("ASGISA") programmes whose primary objectives are to develop scarce and core skills in South African.

The qualification criteria for multinationals to qualify for this program are as follows:

- The multinational must demonstrate that they are forbidden by a global policy from selling minority shares; and
- The multinational must NOT have sold shares in other countries.

The equity equivalents contributions will be measured against 25% of the multinational's South African operations.

Implementing an equity equivalent programme is subject to the equity equivalents approval procedure which involves obtaining approval for the line ministry (in this case the Minister of Transport) and then submitting a proposal to the Equity Equivalents committee in the Department of Trade and industry.

3.6 More information

Further information and more detailed requirements regarding B-BBEE can be obtained on the Department of Trade and Industry's official website: www.thedti.gov.za/BEE as well as <http://www.thedti.gov.za/bee/transportcharter.htm>.

4 Incentives

The Government of South Africa has a number of incentive schemes, which fall under the promotion of infrastructure and manufacturing development and may be relevant to rolling stock manufacturers should the PRASA rolling stock fleet renewal programme proceed to the procurement stage. Further details will shortly be available also from UNIDO, whose mandate extends to assisting members with available incentives and how one can benefit from these. In the remaining section we introduce some of these incentives for your information.

4.1 Tax-based incentives

The most relevant tax incentive is derived from Section 12I of the Income Tax Act 58 of 1962, which was gazetted on 23 July 2010. This Tax Incentive is designed to support Greenfield investments (i.e. new industrial projects that utilise only new and unused manufacturing assets), as well as Brownfield investments (i.e. expansions or upgrades of existing industrial projects). The new incentive offers support for both capital investment and training.

Government will put in place R20 billion in tax allowances or tax breaks to promote investments, expansions and upgrades in factories. For a project to qualify, the minimum investment must be R200 million for new projects and R30 million for expansion and upgrades.

The incentive offers:

- R900 million in the case of any greenfield project with a preferred status;
- R550 million in the case of any other greenfield project;
- R550 million in the case of any brownfield project with a preferred status;
- R350 million in the case of any other brownfield project;
- an additional training allowance of R36 000 per employee, which may be deducted from taxable income; and
- a maximum total additional training allowance per project: amounting to R20 million in the case of a qualifying project; and R30 million in the case of a preferred project.

To be eligible for preferred status the project should achieve the following:

- Upgrade an industry within South Africa (via an innovative process, cleaner production technology or improved energy efficiency);
- Provide general business linkages within South Africa;
- Acquire goods and services from small, medium and micro-sized enterprises (SMMEs);
- Create direct employment within South Africa;
- Provide skills development in South Africa; and
- In the case of a Greenfield project, be located within an Industrial Development Zone (IDZ).

4.2 Grant-based incentives

The more relevant grant based incentives are the following:

- Enterprise Investment Programme;
- Business Finance: Metals, Transport and Machinery Sector; and
- Critical Infrastructure Programme (CIP).

Enterprise Investment Programme

The Enterprise Investment Programme is a sector-specific investment scheme that was launched by the DTI in 2008 in order to stimulate growth within key areas of manufacturing in South Africa. The Manufacturing Investment Programme (MIP) is an investment incentive sub-programme intended to boost sustainability of manufacturing investment projects by small enterprises and to support large-to-medium sized investment projects that are aligned with the South African Government's National Industrial Policy Framework (NIPF). This programme offers support to both local and foreign-owned entities and it focuses on manufacturing projects that would not have materialized without the grant offered.

Medium-to-large investment projects of above R5 million, may qualify for an investment grant of between 15% and 30% payable over a period of two years, but the grant is limited to R30 million.

Business Finance

The Business Finance: Metals, Transport and Machinery Sector is an incentive programme developed by the Industrial Development Corporation (IDC) which provides financing to entrepreneurs and businesses in the following sectors:

- Basic iron, steel and non-ferrous fabricated metal products;
- Plant, machinery and equipment;
- Motor vehicles, components and accessories; and
- Diverse transport products such as planes, boats and trains.

The financing offered comes in the form of loans, mezzanine financing and performance bonds but the financial solutions are adapted for the requirements of a particular project. With regards to larger projects, the IDC will co-finance with commercial banks and they will tend to take on the higher risk element of the transaction. The IDC offers the following financing options:

- Revolving Credit Facility
- Acquisitions and Equity Transactions and
- Fixed Interest Rate Scheme

Critical Infrastructure Programme

Finally, the Critical Infrastructure Programme is a non-refundable incentive scheme provided by the DTI that offers subsidised support for economic infrastructure for new projects and expanding existing projects. The funds required for the infrastructure project must be deemed to be 'critical'. The CIP supports construction of the infrastructure that enables the investor to undertake a defined fixed investment, or the expansion of an existing fixed investment.

The grant covers between 10% and 30% of the total development costs of the qualifying infrastructure.

4.3 Further incentives to watch out for

As part of the IPAP2, an Inter-ministerial task team is specifically developing tax and other incentives to attract rolling stock manufacturers to establish meaningful South African rolling stock capacity.

4.4 More information

Further information and more detailed requirements can be obtained on the Department of Trade and Industry's official website: www.thedti.gov.za

Appendix 1 – template for a SDP

- 1 Background
- 2 High level five year objectives of the plan.
- 3 Spend Analysis (detailed 5 years and high level 5-10 years)
 - Capital expenditure (Capex)
 - Copex (Maintenance, Repair and Upgrade)
 - Operational Expenditure (Opex)
- 4 Supplier Industry Analysis
 - SOE strategic requirements
 - Strengths and weaknesses of supplier cluster from SOE perspective
 - Analysis of imports
 - Priority areas for competitiveness improvement and localisation
 - Sustainability of increased local manufacturing
- 5 Priority Interventions and Associated Sectors.
 - Input Sector Interventions.
 - Tier three supplier interventions
 - Tier two supplier interventions
 - Tier one supplier (OEMs) interventions
 - Maintenance, Repair and Upgrade related interventions.
 - Skill development interventions.
- 6 Key Performance Indicators (see Appendix Two)
- 7 High level implementation plan
 - Description of key initiatives
 - Implementation dates.
 - Key milestones for each initiative
- 8 Appendix containing a review of the procurement policy in relation to its compatibility with the objectives of the supplier development process.

Appendix 2 – KPIs for SDPs

The following KPIs will be reported upon in all supplier development plans.

- 1 The key objective of the supplier development plan is to create a balance between increasing the value added component of the spend produced by national industry without unduly increasing the cost paid of these products or services. Consequently, the most fundamental KPI will be that of:

National Value Add / Total procurement spend.

This will be measured against the following expenditures:

- Aggregated enterprise expenditures.
- Capital expenditures.
- Operational expenditures.

- 2 In order to give a sense of the qualitatively new investments associated with the supplier development plan, it will be useful to apply a multiple to those areas of national value add which are a result of new investment. Consequently a further KPI will be the:

National Value Add / Total cost of procurement where the National Value Add will be calculated with a multiple of 1,2 being applied for four years to procurements from greenfield investments and a multiple of 1,1 being applied to procurements from brownfield investments which result in qualitatively new capabilities.

This will be measured against the following expenditures.

- Aggregated enterprise expenditures.
- Capital expenditures.
- Operational expenditures.

- 3 Where appropriate the procurement officers will integrate skills development requirements into tenders. Hence, a compulsory KPI will involve the definition of key skills and associated targets relevant to both the SOE and supplier industry that can be developed through procurement.

Delivery to plan KPI's: The plans will also include KPIs specifically relating to progress relating to the delivery of initiatives defined in the plan.

Appendix 3 – DTI draft evaluation template

DTI Local Content Evaluation								
Metro Rail Train Sets								
Order of magnitude estimates				MIN	Max			
				100	500			
Base on 12 car train sets				10	50			
	% of Train Set Costs	% SA Content as per Present capability	Max % SA Content if stated total production is committed and rate is maintained		Max % SA Content Time to start SA production after commencement of contract delivery	R m Investment to establish capacity for max local content	SA Content as per Present capability Emloyment	Max SA Content Employment
			%	Rate				
Car body								
Car body shell								
Door system								
Windows								
Seats								
Heating and ventilation								
Lighting								
Grab pillars and rails								
Interior cladding								
Passenger gangway								
Cable and wire								
Coupler and draft gear								
Bogies								
Bogie frame								
Traction motors and gears								
Wheels								
Axles								
Bearings								
Suspension								
Braking system								
Electric systems								
Electric propulsion and electronic control systems								
Air systems								
Auxiliary converter and batteries								
Brake system								
Dynamic regenerative brake								
Control, diagnostic and communication systems								
Assemble, Test and Paint								
Other Components								
Specify								
Total	100%							

Appendix 4 – Detailed Rail Sub-Sector Scorecards

4. RAIL SUB-SECTOR B-BBEE SCORECARD

B-BBEE Element	Indicators of Empowerment	Private Sector 5 Year Targets	Private Sector Weights	
Ownership	Exercisable voting rights in the hands of black people	25%+1 vote	3	
	Exercisable voting Rights in the hands of Black Women	10%	2	
	Economic Interest in the hands of black people	25%	4	
	Economic Interest in the hands of Black Women	10%	2	
	Economic interest in the hands of black natural people in the enterprise: -Black designated groups; -Black participants in employee ownership schemes; -Black beneficiaries of broad-based ownership schemes or Black participants in cooperatives	3%	1	
	Net Economic Interest/Net Value	25% graduated over 10 years as per the Codes (year 5 at 60%)	7	
	Ownership Fulfilment	-	1	
	Bonus Points:			
	Involvement in the ownership of the Enterprise black new entrants	10%	2	
	Involvement in the ownership of the Enterprise of black participants in ESOPs, Broad-Based Schemes or Co-operatives	10%	1	
	Economic Interest & exercisable voting rights in the hands of black disabled people	2%	2	
	Management	% of total exercisable voting rights in the hands of black board members	33%	1.5
% of total exercisable voting rights in the hands of black women board members		16.5%	1.5	
% Black persons who are executive directors		33%	1	
% Black women who are executive directors		16.5%	1	

B-BBEE Element	Indicators of Empowerment	Private Sector 5 Year Targets	Private Sector Weights
	% of black people who hold senior top management positions	40%	1.5
	% of black women who hold senior top management positions	20%	1.5
	% of black people who hold other top management positions	40%	1
	% of black women who hold other top management positions	20%	1
	Bonus Point: Black Independent non-executive board members	40%	1
Employment Equity	% Black People in Senior Management	60%	3
	% Black Women in Senior Management	30%	2
	% Black People in Middle Management	75%	2
	% Black Women in Middle Management	37%	2
	% Black People in Junior Management	80%	2
	% Black Women in Junior Management	40%	2
	Black People living with disabilities as a % of all employees	3%	1
	Black Women living with disabilities as a % of all employees	1.5%	1
	% of Black Women in semi-skilled and unskilled positions	15%	2
	Bonus points: Meeting or exceeding the EAP target in each category of employment equity		3
Skills Development	Skills Development Spend on black employees as a % of Leivable amount total payroll	3.5%	7
	Skills Development Spend on black women employees as a % of total leivable amount/payroll	1.5%	3

B-BBEE Element	Indicators of Empowerment	Private Sector 5 Year Targets	Private Sector Weights
	Number of black employees in Learnerships Programmes or Category B, C and D as a % of total workforce	5%	5
	Number of black women employees in Learnerships Programmes or Category B, C or D as a % of total workforce	2%	2
	Skills Spend on black employees living with disabilities as a % of total payroll	0.3%	1.5
	Skills Spend on black women employees living with disabilities as a % of total payroll	0.15%	1.5
Preferential Procurement	Procurement from all B-BBEE Compliant Enterprises as defined by the B-BBEE Recognition Levels as a % of Total Measured Procurement Spend	50%	10
	Procurement from B-BBEE Compliant QSEs and EMEs as defined by the B-BBEE Recognition Levels as a % of Total Measured Procurement Spend	10%	3
	Procurement from 50% Black-Owned as a % of discretionary spend	9%	3
	Procurement from 30% Black Women-Owned Enterprises as a % of discretionary spend	6%	2
Enterprise Development	Expenditure on supplier development initiatives as a proportion of NPAT	3% of NPAT	10
Socio-economic Development	Expenditure on social development programmes as a % of NPAT	1% of NPAT	5
TOTAL			100

5. QUALIFYING SMALL ENTERPRISES B-BBEE SCORECARD

B-BBEE Element	Indicators of Empowerment	Private Sector 5 year target	Private Sector Weightings
Ownership	Exercisable voting rights in hands of black people	25%+1 Vote	6
	Economic Interest of black people in the Enterprise	25%	9
	Realisation Points:		
	Ownership fulfilment		1
	Net Value	25% graduated over 10 years as per the Codes (Year 5 at 60%)	9
	Bonus Points: Involvement in the ownership of the Enterprise by black women	10%	2
	Bonus Points: Involvement in the ownership of the Enterprise by black participants in Employee Share Schemes, Co-operatives or Broad Based Ownership Schemes	10%	1
Management Control	Black Representation at Top Management level	50.1%	25
	Bonus Points: Black women representation at Top-Management	25%	2
Employment Equity	Black Employees of the Measured Entity who are Management as a % of all Management	40%	7.5
	Black Women Employees of the Measured Entity who are management as a % of all Management	20%	7.5
	Black employees of the Measured Entity as a percentage of total employees	60%	5
	Black women employees of the Measured Entity as a percentage of total employees	30%	5
	Bonus points: meeting or exceeding the EAP targets in each category		2
Skills Development	Skills Development spend on learning programmes for Black employees as a percentage of the leviable/payroll	2%	12.5
	Skills Development spend on learning programmes for Black		12.5

RAIL SUB-SECTOR CODE FOR BBEE

B-BBEE Element	Indicators of Empowerment	Private Sector 5 year target	Private Sector Weightings
	Women employees as a percentage of the leviable/payroll	1%	
Preferential Procurement	BEE Procurement Spend from all suppliers based on the B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	50%	25
Enterprise Development Spend	Average annual value of Qualifying Contributions made by the Measured Entity as a percentage of the target	2% of NPAT	25
Socio-Economic Development	Average annual value of Qualifying Contributions made by the Measured Entity as a percentage of the target	1% of NPAT	25
TOTAL			175

A QSE must select any four of the above seven elements for the purposes of measurement. If a QSE does not make a selection, its four best element scores will be used for the purposes of measurement.