



ANNEXURE A

GUIDELINES FOR COMPLETION OF SUPPLIER DEVELOPMENT (SD) PROPOSAL

1.0 What is Supplier Development?

Definition

The Supplier Development (SD) Programme is a Department of Public Enterprises (DPE) initiative supported by Transnet. The aim of SD is to increase the competitiveness, capacity and capability of the South African supply base where there are comparative advantages and potential competitive advantages of local supply. This can be achieved through skills transfer, increasing the local content of items procured, as well as building new capability in the local supplier base. In addition, SD has its roots grounded firmly around the transformation of South Africa and the empowerment of previously disadvantaged individuals and enterprises.

2.0 Background and Guidance on the of Supplier Development Objectives for South Africa

As a developing economy with inherent structural and social imbalances, South Africa is facing the significant economic challenge of increasing growth in a manner that includes all South Africans. The historical lack of investment in infrastructure in South Africa has had significant negative impacts on local industry, resulting in a loss of key skills and a decrease in manufacturing industry capabilities. To respond to this, Government policies have been designed to address these imbalances and to act as a catalyst of change for the benefit of South Africa.

One of these Government policies, the New Growth Path (NGP) aims to enhance growth, employment creation and equity by reducing the dependencies of South African industries on imports, and promoting the development of skills and capabilities that are in short supply within the country. It identifies strategies that will enable South Africa to grow in a more equitable and inclusive manner and promotes the development of new industry to attain South Africa's developmental agenda.

Transnet's SD is closely aligned to the NGP objectives and as a result is able to fulfil its commitment to sustainability within South Africa whilst at the same time addressing other corporate objectives including



increasing productivity and efficiency, volume growth, capital investment, financial stability, funding, human capital, SHEQ¹, regulatory and improving customer service.

The combined objectives of Transnet and Government can be realised through:

- Aggressively implementing capital investment plans which will result in competitive local industries;
- Improving operational efficiency;
- Using procurement to influence the development of the local supplier industry; and
- Ensuring it creates sufficient opportunities for the participation of previously disadvantaged groups in the economy.

This will lead to Transnet achieving its long-term objective of increasing both shareholder and societal value using its procurement expenditure to ensure local development through sustainable localisation of its supply chain and the inclusion of the previously disadvantaged individuals in the economy in a manner that is beneficial to Transnet, South African industry, and the population of South Africa. As a result the State Owned Enterprise (SOE) is able to fulfil its responsibility as the biggest player in the South African freight logistics chain whilst complementing the objectives of Government.

3.0 Transnet's Supplier Development objectives and framework

To aid its implementation of SD, Transnet has adapted an existing framework from the DPE. This framework allows for a basic set of principles to be applied to appropriately target SD initiatives. Supplier development initiatives aim to build local suppliers that are competitive through building capability and capacity. Hence the framework has been termed the Increased Competitiveness, Capability and Capacity (IC³) Supplier Development Classification Matrix.

The framework encapsulates the types of SD opportunities which Transnet currently considers and allows Transnet to move its SD structure away from a dynamic policy environment towards a framework that is designed around general Supplier Development objectives. This allows Transnet to adopt a standard structure but also allows the flexibility to change emphasis on certain aspects as objectives change. The

¹SHEQ - Acronym for Safety, Health, Environment and Quality

IC³ Matrix (refer to Figure 1) categorises SD opportunities on a matrix based on their value, extent of industrial leverage and strategic importance to Transnet. Further categorisation of opportunities into the relevant quadrants is based on supplier-buyer power, industrial complexity, risk and the length of procurement period.

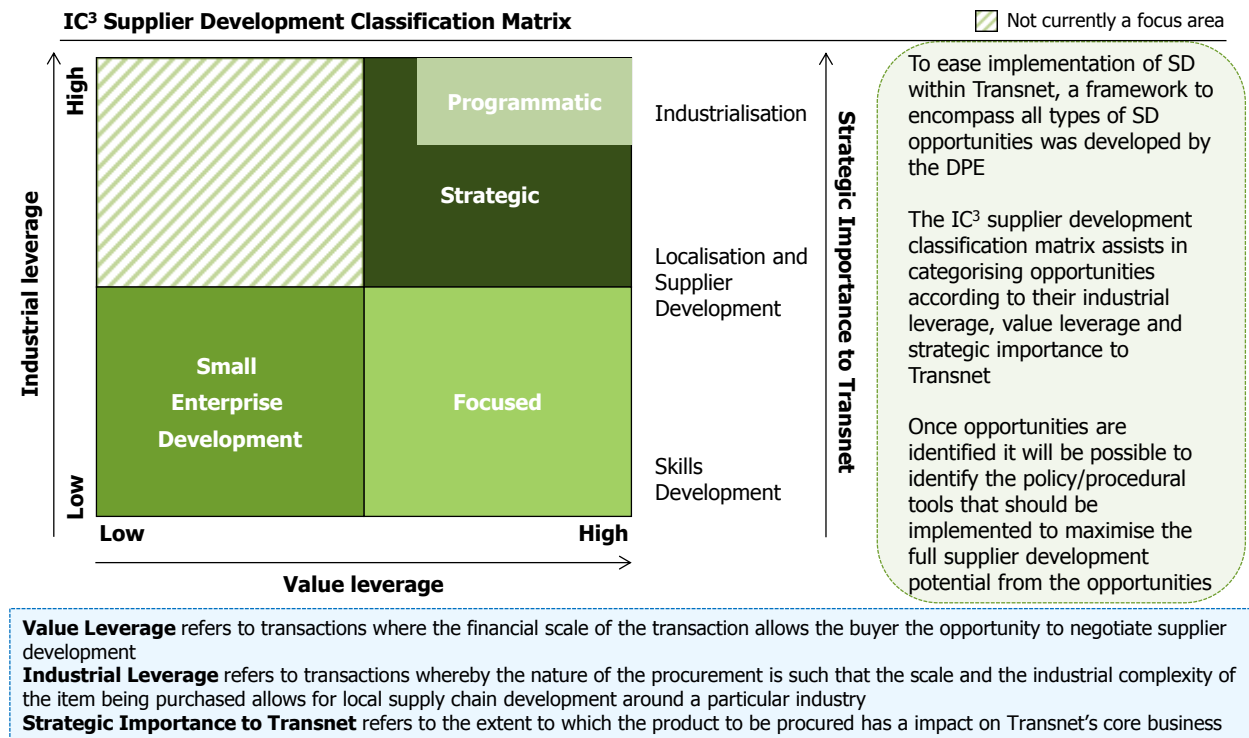


Figure 1: The IC³ Supplier Development Classification Matrix

In order for suppliers to successfully meet the needs of a particular initiative, a detailed understanding of each quadrant is required.

3.1 Programmatic

Programmatic initiatives follow a longer than normal planning horizon and generally exceed the funding capacity of Transnet's balance sheet. They are identified either in the Industrial Policy Action Plan II (IPAP II) or through the SOE as a strategic fleet. Collaboration between the SOE and Government is achieved



through focused task teams whereby infrastructure development and industrialisation is achieved through joint support and in some cases public spending. Investment is focused in plant, technology and skills in both intermediate and advanced capabilities to develop competitive advantage.

3.2 Strategic

Strategic initiatives follow a three to five year planning horizon, involving investment in at least plant, technology and/or skills in intermediate capabilities. This enforces the need for multinational corporations and Original Equipment Manufacturers (OEMs) to develop a certain percentage of their products locally. Strategic initiatives can therefore be used to achieve localisation objectives by increasing the competitiveness, capability and efficiency of local suppliers. Strategic initiatives can sometimes focus on advanced capabilities but will in most cases require government support to develop local capability.

3.3 Focused

Focused initiatives include all high value transactions with limited industrial leverage and medium to low strategic importance. These initiatives address short to medium-term contracts that can be leveraged to encourage Supplier Development, with a focus on investment in technology or skills that enhance existing local capability. Emphasis will largely be placed on benefiting previously disadvantaged individuals. The overall result improves the socio-economic environment by creating competitive local suppliers and furthers objectives of empowerment, transformation and regional development.

3.4 Small Enterprise Development

Small Enterprise Development initiatives are typically of low value and have no industrial leverage as they are characterised by typically low complexity goods and high competition. These initiatives concentrate on increasing the capability of small local suppliers and are targeted toward historically disadvantaged individuals and communities, providing basic skills development and improving local employment and quality job creation. It includes a wide range of non-financial services that help entrepreneurs start new business and grow existing ones.

4.0 Response based on the IC³ Matrix quadrants

Based on the supplier-buyer power, industrial complexity, risk and the length of procurement period, the supplier is expected to formulate a SD Proposal to identify the opportunities that they will pursue. Ideally the SD response should address factors that are specific to the applicable quadrant of the IC³matrix.

Transnet has identified a number of opportunities which may aid a supplier in formulating their response based on each quadrant. Each of the opportunities identified by the supplier should have a direct or indirect effect on the value it creates for the country in order to maximise the socio-economic impact.

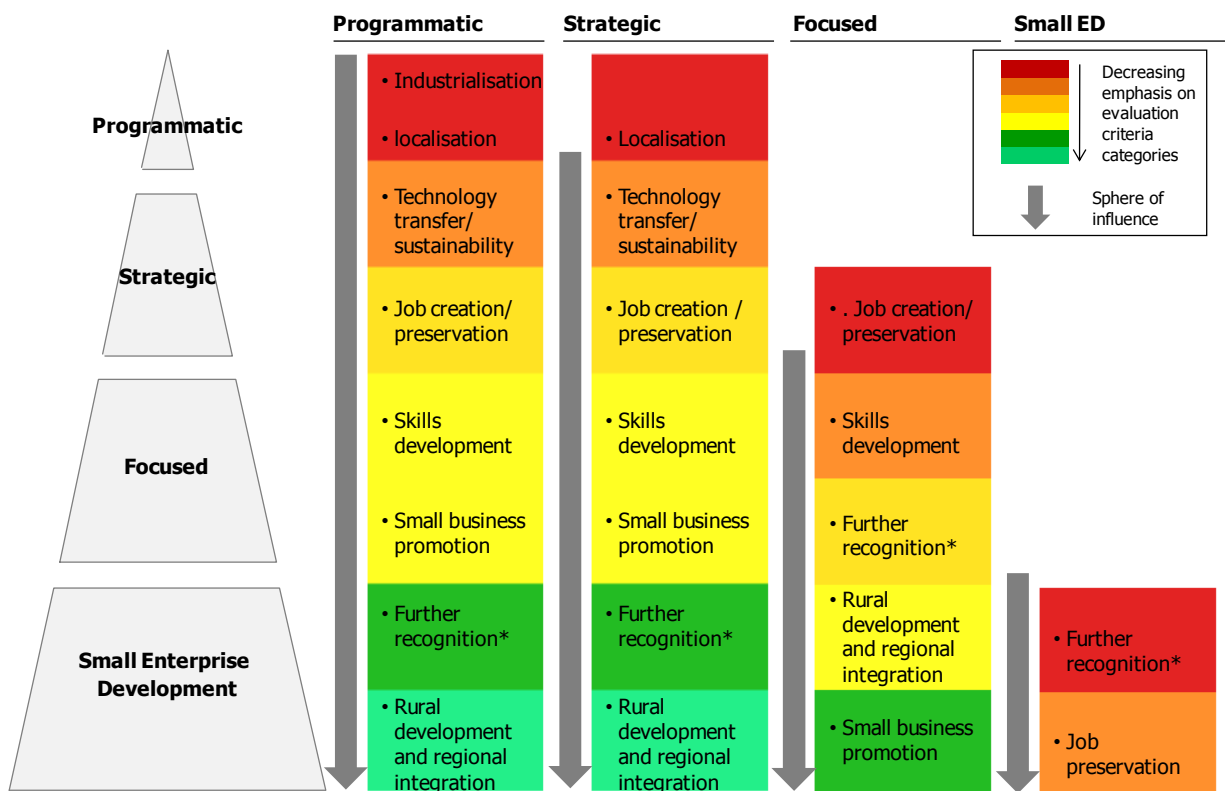


Figure 2: Transnet value capture through supplier influence

4.1 Programmatic

The strategic objective of Programmatic transactions is to assist Government to achieve their industrialisation objectives through the development of the local supplier base to increase the cost efficiency of fleet procurement, support and maintenance. In order to satisfy this objective a number of focus areas and key outcomes have been identified:

Programmatic Focus Areas

- Technology transfer,
- Skills development related to the manufacturing process and the industry,
- Development of new technology and innovation,
- Investment in plant, and
- Development of local companies should be aligned to empowerment objectives.

Key Outcomes

- Industrialisation/localisation,
- Technology transfer, and
- Skills development

4.2 Strategic

The main objective of Strategic transactions is to leverage local downstream suppliers through large-scale SOE procurement in order to develop a competitive local supplier base. In response to these objectives the following are the specific focus areas and key outcomes applicable:

Strategic Focus Areas

- Transfer of technology and innovation to local suppliers from foreign OEM's,
- Skills development related to the industry, and
- Development of local companies should be aligned to empowerment objectives.

Key Outcomes

- Localisation,
- Increased technology transfer,
- Skills development, and

- Job creation/preservation.

4.3 Focused

Focused initiatives assist local suppliers to improve their performance, enhance their existing production and skills capabilities and emphasis is placed on benefiting previously disadvantaged individuals and rural development. In order to satisfy these objectives a number of focus areas and key outcomes have been identified:

Focused Focus Areas

- Developing a local supplier base that supports preferential procurement outcomes,
- Developing skills within the specific industry,
- Creating opportunity for job preservation, and
- Reducing income inequality in specific regions.

Key Outcomes

- Empowerment,
- Skills development,
- Rural development, and
- Job creation/preservation.

4.4 Small Business Development

Enterprise Development (ED) objectives are centered around assisting local suppliers to improve their skills by placing increased emphasis on benefiting previously disadvantaged individuals and rural development in line with the Broad-Based Black Economic Empowerment (BBBEE) strategy, of with the following focus areas and key outcomes have been identified:

Small Business Development Focus Areas

- Providing small businesses with opportunities and preferential trading terms, increased focus on black woman-owned enterprises, focus on the youth, people with disabilities and region specific initiatives, and
- Empowering previously disadvantaged individuals to create their own businesses resulting in quality job creation.



Key Outcomes

- Empowerment,
- Rural development,
- Skills development, and
- Job creation/preservation.

Based on these focus areas and key outcomes, a supplier would need to actively focus on the quadrant-specific requirements in order to maximise the potential trade benefit for Transnet, South Africa and themselves. In doing so value can be created across all lines of reporting resulting in continued relations.

5.0 Supplier Development Category Definitions and high level descriptions:

5.1 Industrialisation

Refers specifically to industrial capability building that will result in globally leading capabilities grown within South Africa.

Criteria	Description
Value of investment in plant	Quantification of the monetary value invested in machinery, equipment and/or buildings as a result of this tender
Percentage of local content utilised in the investment of plant	Percentage value invested in machinery, equipment and/or buildings that are sourced from local companies
Reduction in import leakage	A percentage indication of the increase in locally supplied products and therefore the resultant decrease in imports as a result of the contract
Potential increase in export content	The percentage increase in exports that will result from increased industrial capability locally in relation to the award of the contract

TRANSNET



port terminals

5.2 Localisation

Refers specifically to industrial capability building that focuses on value-add activities of the local industry through manufacturing or service related functions.

Criteria	Description
Percentage local content	Planned use of local parts as a percentage of the total contracted items
Value of local parts in relation to the bill of materials	Planned monetary value of the local parts utilised in the bill of materials (as a percentage of the total spend)
Value spent on local suppliers	Planned percentage monetary value spend on procurement of goods and services from SA suppliers
Number of local suppliers in the supply chain	Number of South African suppliers that are to be utilised in the fulfilment of the contract

5.3 Technology transfer/sustainability

Technology improvements are intangible assets with significant economic value. The supplier should be measured on the plan to transfer knowledge and IP to contribute towards capability building of the local supply base which ultimately leads to improved efficiency and capability. Plans to assist in this by a supplier must be assessed as this will enable the local supply base to export, thereby decreasing capital leakage.

Criteria	Description
<p>Technology transfer including:</p> <ul style="list-style-type: none"> • Methods of manufacturing • Introduction of new technologies • IP transfer (number and value) 	<ul style="list-style-type: none"> • Introduction of a new/ improved method of manufacturing • Provision of new technologies <ul style="list-style-type: none"> • For processes • ICT • The provision of patents, trademarks and copyrights
<p>Number of local suppliers to be evaluated for integration into the OEM supply chain</p>	<p>An indication of the number of South African suppliers that the tendering OEM plans to evaluate for possible inclusion into their supply chain, should they meet the requirements</p>

5.4 Skills development

Indicates the company's commitment to education and if that fits in with targeted groups (artisans, technicians, etc.). Consideration needs to be directed towards the adequate quality and value of skills to allow for better evaluation in line with Government's objectives.

Criteria	Description
Number of downstream supply chain individuals to be trained including: <ul style="list-style-type: none"> • Number of artisans trained • Number of technicians trained • Number of black people trained • Total number of people trained 	Number of individuals that the supplier plans to train in the local industry over the contract period; training undertaken in the previous year will be taken into account
Number of company employees to be trained	Number of individuals within the company (in South Africa) that the supplier plans to train over the contract period; training undertaken in the previous year will not be taken into account as past employee training appears in the skills development pillar of the BBBEE scorecard; criteria broken down as for industry training above
Certified training (yes/ no)	Compliance with local and/or international skills accreditation
Rand value spent on training	Total planned monetary value spend (as a % of contract value) on skills development/training for the contract period within the industry; money spent in the previous year will be included in year 1 to make allowance for suppliers who have just completed a training drive within the industry



<p>Number of bursaries/ scholarships (specify field of study)</p>	<p>The number of higher education bursaries/scholarships provided in the previous year and planned for the length of the contract</p>
<p>Number of apprentices (sector must be specified)</p>	<p>The number of apprentices that the company plans to enlist during the course of the contract</p>
<p>Investment in Schools in specific sectors e.g. engineering</p>	<p>The monetary value that the supplier is prepared to invest in the development and running of schools to increase technical skills development</p>

5.5 Job creation/preservation

Allows assessment of government's objectives to increase labour absorption focusing on unskilled workers and the youth.

Criteria	Description
Number of jobs created including:	Number of jobs to be created during the period of the contract
<ul style="list-style-type: none"> New skilled jobs created 	Jobs for people who have undergone training in and/or outside the work environment and in possession of a minimum level of secondary qualification
<ul style="list-style-type: none"> New unskilled jobs created 	Jobs for people who have not undergone any formal training or of whom no minimum level of education is required
<ul style="list-style-type: none"> Number of jobs created for youth 	Jobs created for individuals aged 16 – 30 years
<ul style="list-style-type: none"> Number of jobs created for black people 	Jobs created for individuals aged 16 – 30 years

5.6 Small business promotion

These criteria give an indication of the company's commitment to developing small business in line with NGP and BBBEE requirements.



Criteria	Description
Percentage procurement from: <ul style="list-style-type: none"> • QSEs • EMEs • Start-ups 	Refers to the planned procurement from small business as a % of the total planned procurement spend
Non-financial support provided to small business	Suppliers will be given a point for each non-financial ED support that they are planning to give to small business e.g. Professional support; employee time allocated to assisting small business
Financial support provided to small business	Suppliers will be given a point for each financial ED support initiative that they are planning to undertake during the contract period e.g. Shorter payment terms; interest free loans
Joint ED initiatives with Transnet	The number of ED initiatives that the supplier will jointly run with Transnet: <ul style="list-style-type: none"> • That are aligned to Transnet's objectives • That are non-financial in nature

5.7 Rural development/integration

The suppliers planned use of local labour and business will contribute to Governments NGP objectives and result in supply chain efficiencies. Commitment to rural development will result in the alleviation of poverty and thereby contribute to development objectives. The development must be sustainable in order to have a long-term and meaningful impact.

Criteria	Description
Number of local employees	Number of people employed from within the town/city of operation



Value spent on local business	Monetary value spent on business within the town/city of operation
Proximity of business to operations	The locality of the business in relation to operations, preference is given for regional (provincial) locality
Number of rural businesses to be developed	The number of rural businesses that the supplier plans to develop as a result of the contract
Value of development to local community (sustainable)	The monetary value spent on rural community development that will result in long-term social improvements

6.0 Market intelligence assistance

Suppliers with limited knowledge of the local market, supply base and its capabilities may require assistance in identifying local suppliers and the development needs in order to develop the SD proposal. The United Nations Industrial Development Organization (UNIDO) supplies a benchmarking service in South Africa which will be able to assist suppliers in identifying potential local suppliers with which to work. In addition to this, the service will provide insight as to the type of support that these local suppliers require in order to become more competitive. UNIDO's benchmarking tool gives insight into the performance levels being seen in suppliers businesses and the practices used to deliver the products or services being offered. The benchmarking tool focuses on:

- Performance data relating to:
 - Financial performance
 - Customer data
 - Processes
 - Learning & growth
- Company's current business situation
 - Plans for the business and capabilities to manage their fulfilment
 - Ability to generate business
 - Employee relationships



- Developing new markets
- Developing products and services
- Managing money

The UNIDO benchmarking tool provides a basic framework through which an understanding of the local market can be established. Whilst the list of criteria may not be exhaustive, suppliers are free to meet with UNIDO to further understand how they can work together to develop a deeper understanding of the market and the SD opportunities available.

7.0 Reference to Government policy documents

NIPP: http://www.thedti.gov.za/industrial_development/nipp.jsp

IPAP2: <http://www.thedti.gov.za/DownloadFileAction?id=561>

CSDP: <http://www.dpe.gov.za/res/transnetCSDP1.pdf>

NGP: <http://www.thepresidency.gov.za/pebble.asp?relid=2323>

8.0 Other Reference websites includes

References	Website
Department of Public Enterprise (DPE)	www.dpe.gov.za
United Nations Industrial Development Organisation (UNIDO)	www.unido.org/spx

Glossary of words:

Broad-Based Black Economic Empowerment (B-BBEE): A South African legal requirement that require all entities operating in the South African economy to contribute to empowerment and transformation

Enterprise Development (ED): An element contained within the B-BBEE scorecard whereby a Measured Entity can receive recognition for any Qualifying Enterprise Development Contributions towards Exempted Micro-Enterprises or Qualifying Small Enterprises which are 50% black owned or 30% black woman owned. Enterprise Development Contributions consists of monetary and non-monetary,



recoverable and non-recoverable contributions actually initiated in favour of a beneficiary entity by a measured entity with the specific objective of assisting or accelerating the development, sustainability and ultimate financial independence of the beneficiary. This is commonly accomplished through the expansion of a beneficiary's financial and/or operation capacity.

Industrial Policy Action Plan II (IPAPII): The implementation plan for the National Industrial Policy Framework (NIPF) which details key action plans (KAPs) and timeframes for the implementation of industrial policy actions in line with the NIPF.

Integrated Supply Chain Management (iSCM): Refers to an integrated "one supply chain management" strategy within Transnet which has been developed with Centres of Excellence (COEs) with cross-functional teams comprising divisional and corporate task team members, to deliver value through improved efficiencies and compliance with the regulatory environment.

New Growth Path (NGP): Developed by the Economic Development Department tabled in January 2010 frames a new approach to unlocking economic growth by knitting together the IPAP2 as well as policies and programmes in rural development, agriculture and, sciences & technology, education, skills development, labour, mining and beneficiation, tourism and social development with the aim to target limited capital and capacity at activities that maximise the creation of decent work opportunities. Key indicators include: Quality job creation, Youth employment, Labour intensive growth, and Equity.

Original Equipment Manufacturer (OEM): Refers to a manufacturing company that owns the intellectual property rights and patents for the equipment it sells and services.

Socio-economic Development: Refers to development which addresses social and economic aspects such as job creation, poverty reduction and increased national value add and which not only focuses on the business's financial bottom line.

State Owned Enterprise (SOE): Refers to Government-owned corporations. They are legal entities created, and owned, by Government to undertake commercial activities on behalf of an owner Government, and are usually considered to be an element or part of the state. They are established to operate on a commercial basis.

Supplier Development (SD): Improving the socio-economic environment by creating competitive local suppliers via Enterprise Development, CSDP and other initiatives such as Preferential Procurement. This



results in a supply base that can eventually be competitive to market its goods on the international market leading to increased exports.

The United Nations Industrial Development Organization (UNIDO): A specialised agency of the United Nations. Its mandate is to promote and accelerate sustainable industrial development in developing countries and economies in transition, and work towards improving living conditions in the world's poorest countries by drawing on its combined global resources and expertise.