

ICT BEE CHARTER

REPORT OF THE COMMISSIONS ON IT, TELECOM, ELECTRONICS, BROADCASTING, SIGNAL DISTRIBUTION AND MARKETING

Commission Report – IT Sub-sector, Commission Chair: Cheslyn Mostert Rapporteurs: Josias Molele and Tumelo More

Broad challenges and sub sector characteristics:

- The IT industry due to its positioning in the global economy is exposed to competition, making developing economies at risk of losing market share.
- Critical issues identified were skills development and funding.
- No common understanding of BEE.
- Government i.e. SOEs such as Arivia.Kom, acts as a major competitor when tendering for business.
- Fronting and sub-contracting in the IT sector remains a challenge especially where some big white companies continue to use sub-contractors in order to avoid the targets of BEE and skills development.
- Control of IT industry is still mostly vested in big business and multinationals creating an unstable power dynamic.
- Tendency for centralisation of IT around mainly urban areas. There is sector and regional differentiation.
- Black companies tend to be operating at the lower end of the value chain.
- Lack of investment in ICT training results in poaching.

The status of BEE in the sub-sector?

- Little progress, IT companies are yet to transform. The few BEE companies that exist focus on government business, with limited private sector business.

- The number of professionals in the sector is about 12,000 in total, again with only a very few being black.
- In other provinces BEE in IT is practically non-existent or has minimal visibility
- Participation of women in the sector remains an issue.

Obstacles to BEE participation in the sub-sector:

- Lack of strategies around coaching, mentoring and training remains a problem in trying to build IP capacity of companies coupled with reluctance of employers to take risk on entry-level staff. Industry is dominated by white males who are not willing to share their intellectual muscle.
- Failure to monitor and assess employment equity plans and to enforce legal requirements.
- Multinationals hold global contracts, which are enforced in South Africa, making it impossible to force those companies to adhere to BEE.
- Cost is an issue but not a determining factor in implementing BEE as a moral and economic imperative.
- Some clients embrace BEE only when there is an established firm behind the project. BEE companies on their own are not accepted and given major projects.
- Limited implementation of preferential procurement.
- South Africa has insufficient incubation hubs, enterprise development mechanisms, for IT companies, which are starting up.
- A major hindrance to ownership is funding, while within the sector there are sufficient funds.

Key BEE interventions, should include:

- HRD is very important – big white companies should be encouraged to transfer skills and embark on mentorship programmes for SMME/BEEs. Clear objectives and deadlines must be specified and penalties attached to these objectives to ensure delivery on these aspects.

- Proposed Ownership of 30% across the value chain supply, including shareholding and operations e.g. large system integrators and multinationals.
- All avenues to access financing for BEE need to be explored e.g. tax relief, reduced interest rates, accessing funds from the National Empowerment Fund.

Leverages/mechanisms to implement BEE in IT sub-sector:

- Take the complexity into consideration when designing the scorecard
- The impact of the converged ICT sector will have to be taken into account.
- BEE should be one of the criteria for the “Proudly South African” endorsement.
- Consider rewarding faster movers by applying a multiplier to their scorecards while applying negative multipliers to slow movers
- Institutional capacity to monitor BEE needs to be explored.
- Charter should be signed by name and company so we can hold key players to their commitments.
- Incentivising, like SABC slogan “It’s the right thing to do” is working better than the big stick approach. We should develop a similar slogan for BEE.
- If you measure it, it is likely to improve. There is a need for frequent reporting, whistle blowing and exposure of non-compliant companies.
- Pension funds must be allowed to invest in IT.

Commission Report –Telecommunications and VANS Sub-sector

This Commission meeting was quite a robust discussion of the current position of this sector and the factors that need to change.

Some of the key points out of this meeting include the following:

Equity and Ownership

- There is a need for Black Shareholders to take a more serious and active interest in their organizations
- Blacks need to participate more in the operations of these organizations thus ensuring that empowerment is in effect throughout
- Business that are run through Corporations have no sympathy for Black suppliers

Growth

- Growth is definitely linked to transformation
- Transformation is a short term cost but a necessity for the long haul
- Measurement and review
- Is growth a pre-condition for BEE or is it a natural process from BEE success?
- Of 12 million homes in SA, only half have land-lines

Regulation

- The Telecoms industry is a highly regulated one
- A review of the regulator's responsibility is necessary to encourage growth and BEE in the sector
- Synchronisation between regulator and Charter is crucial
- BEE should be the first tier of the license
- Flexibility around cost of licensing and sensibility in regulation required

Targets

- These BEE targets need to be set for foreign and local companies, including listed entities

Developing a Manufacturing Capacity

- Local suppliers of goods and services should be encouraged
- Telkom partnership and procurement of Phone Cards from local company (training, skilling, guidance and support)
- Manufacturing opportunities and requirements should be communicated to smaller companies

USA Fund

- This fund and its objectives need to be reviewed
- Potential to divert this to help BEE development and transformation

Success Stories

- There are some success stories regarding TRUE Empowerment
- Cell C's 40% local shareholding
- Telkom's initiative to procure Phone Cards locally
- These can be emulated onto a broader scale

Commitment

- REAL COMMITMENT is requirement from ALL players in the sector
- These are the hard, difficult but necessary changes that need to go BEYOND the Charter

BEE Threat to SMME

- Charter may negatively affect current White Owned SMME

Commission Report – Electronics Sub-sector (Rapporteur – W.V. Lacey)

Info/Stats

Info/Stats on the size and composition (BEE compliance status) of the industry would assist in the industry's development and in the promotion of BEE. Need to liaise with DTI and other agencies (e.g. EIF) that have started collecting the data.

Competition and Barriers to Entry

- Large/corporate (white) business vs. SME (Black & White)
- Capital intensive nature puts a premium on access to finance
- SME's face all the costs of business compliance
- Local manufacturers face competition from importers. Proudly S.A. is beyond the financial reach of small enterprises

Multinationals (MN's)

- No consensus reached on whether MN's should have to comply with ownership obligations required by domestic businesses
- DTI's BEE Strategy allows MN's to offset '%age ownership' shortcomings with higher scores on other requirements (e.g. managerial, HR)
- SOE' should consider using their large procurement spend to encourage investment initiatives in SA

Skills

- Skills development/upgrading initiatives must not neglect managerial and entrepreneurship development
- Career path planning will have to feature in HR development
- Tertiary institutions should include enterprise management in their curriculum

Preferential Procurement (PP)

- PP policies are not effective
- Tender policies of SOE's do not encourage newcomers (disputed!)
- Need for a monitoring mechanism to ensure accountable procedures
- Note taken of the establishment of Tender Advisory Councils
- SME's must recognise the need to have a PP policy

Networking

There is a need to 'incentivise' local companies on what products/services can be obtained domestically. The use of trade/business associations in networking can fulfil a role

Carrot and stick approach promote BEE

- Agreed we need to find incentives to promote BEE (carrot vs stick approach)
- Stick (e.g. denial of access to tenders)

ICT Charter

Any ICT Charter will have to be developed in the context of similar Charter initiatives (Mining, Finance)

Commission Report – Broadcasting, Signal Distribution and Marketing Sub-sector, Commission Chair: Andy Brown Rapporteur: Zama Mnikina

The commission discussed the value chain in the sector and highlighted the integral nature of the relationship between broadcasting, signal distribution and marketing. Growth and Transformation in the one area would impact on the other and vice versa.

Particularly, transformation in marketing would have a positive impact on the sector and the broader economy. The commission endorsed the participation of this sub sector in the ict charter.

The broadcasting signal distribution sub sectors were unique in that they are regulated and have therefore been governed by various empowerment requirements for some time now. Consequently, most companies in the sub sector have addressed BEE to some degree. This has given valuable experiences, which should help inform the setting of BEE standards and strategies for the future.

The role on the regulator in facilitating sustainable BEE, particularly regarding ownership, was highlighted as a necessary area of focus. Continued engagement with ICASA as it revises its policies on this matter was sited as critical. The commission argued that there must be alignment between what

ICASA is considering and what we are engaging on now in terms of the charter. The commission called for the involvement of ICASA in charter discussions.

The sub sector explained that the regulators and the industry have inadequately addressed Procurement, including content purchasing. It was agreed that it was imperative to:

- Unpack the definition of procurement spend;
- Understand the implications of foreign versus local purchasing;
- Develop guidelines, which would govern foreign purchasing and build in empowerment obligations;
- Develop mechanisms which would support the growth of black owned content providers, by the regulators, the industry and government.

Ownership: the commission noted that much of this was subject to engagements with ICASA.

Broad based ownership; particularly community ownership should be supported through promoting sustainable community broadcasting enterprises.

The noted that the state owned enterprises in the sector could be more aggressive in the manner in which they implemented BEE, the view was expressed that these entities did not automatically qualify as black owned.

Employment equity and skills development should be addressed, there are a number of initiatives particularly in the training sphere and the sector has begun to enhance the role of the map seta.

Access to ict services was highlighted as imperative. Particularly in terms of the extent to which the sub sector can facilitate the growth and sustainability of community broadcasting, through funding, tariff reviews and capacity building.