



ECONOMIC DEVELOPMENT GUIDELINE DOCUMENT

[March 2015]

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Note

For the purposes of this document, any reference to a/the “**Concessionaires**” shall be construed to mean a reference to a Respondent (in terms of this RFP) and/or to a successful Respondent (to whom the concession is to be awarded), as so indicated by the context hereinafter.

1 WHAT IS ECONOMIC DEVELOPMENT?

The ECONOMIC DEVELOPMENT (**ED**) Programme is an initiative of the Department of Public Enterprises (**DPE**) supported by Transnet. The aim of ED is to increase the competitiveness, capability and capacity of the South African supply base where there are comparative advantages and potential for local or regional supply. This can be achieved through skills transfer, as well as building new capability and capacity in the South African supply base. In addition, ED has its roots grounded firmly around the transformation of South Africa and the empowerment of previously disadvantaged individuals and enterprises.

2 BACKGROUND AND GUIDANCE ON THE ECONOMIC 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 negatively impacted 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 National Development Plan (**NDP**) 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 ED effort is closely aligned to the NDP objectives and as a result we are able to fulfil our 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, SHEQ regulatory compliance and improving customer service.

The combined objectives of Transnet and Government will 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 economic opportunities for the participation of previously disadvantaged groups.

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 the sustainable growth of capability and capacity in South Africa's 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 people of South Africa. As a result this State Owned Company (**SOC**) is able to fulfil its responsibility as the biggest link in the South African freight logistics chain whilst complementing the objectives of Government.

3 **TRANSNET'S ECONOMIC DEVELOPMENT OBJECTIVES AND FRAMEWORK**

To aid its implementation of ED, Transnet has adapted an existing framework from the DPE. This framework allows for a basic set of principles to be applied to appropriately target ED initiatives. ECONOMIC DEVELOPMENT initiatives aim to assist local concessionaires in developing their competitive advantage through increasing their capability and capacity potential. Hence the framework has been termed the Increased Competitiveness, Capability and Capacity (**IC³**) ECONOMIC DEVELOPMENT Classification Matrix.

This framework encapsulates the types of ED opportunities which Transnet currently considers effective and allows Transnet to move its ED structure away from a dynamic policy environment towards a framework that is designed around general ECONOMIC DEVELOPMENT objectives. This enables Transnet to adopt a standard structure but also allows the flexibility to reconsider emphasis on certain aspects as objectives change. The IC³ Matrix (refer to Figure 1 below) categorises ED opportunities in 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 concessionaire-new business development manager power, industrial complexity, risk and the length of procurement period.

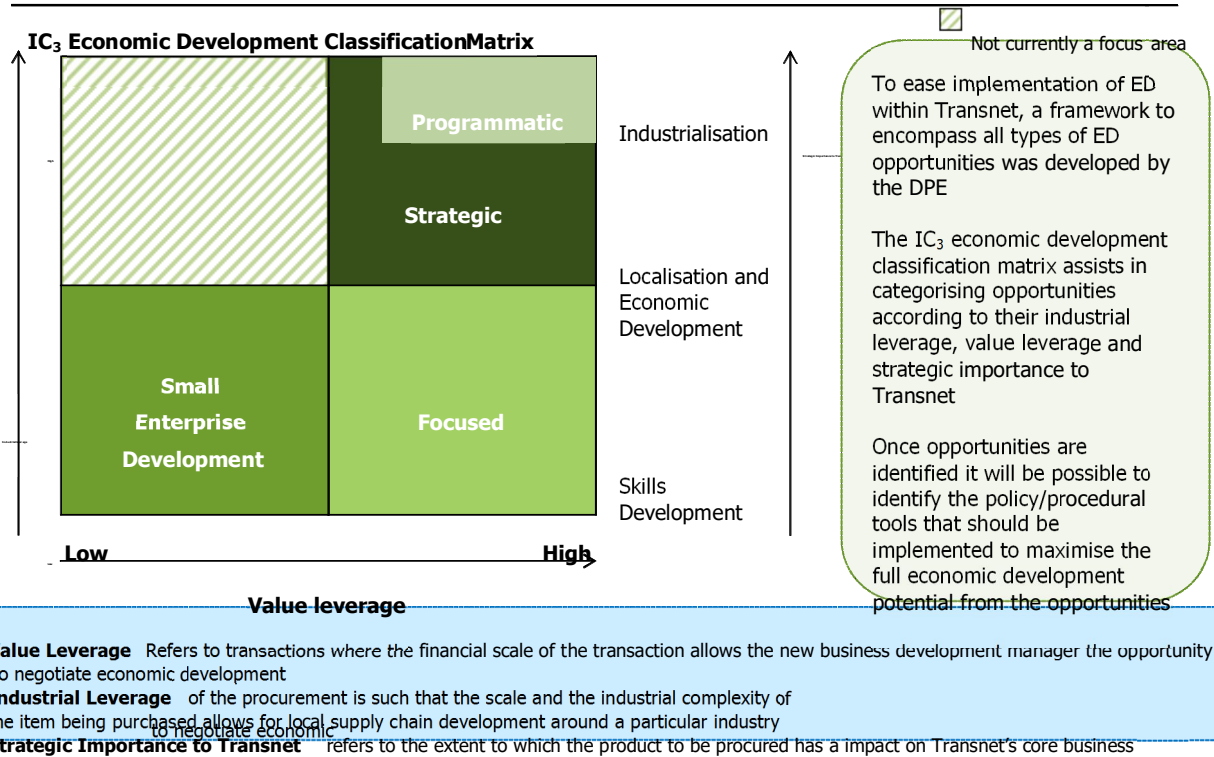


Figure 1: The IC³ ECONOMIC DEVELOPMENT Classification Matrix

In order for Concessionaires 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. Collaboration between the SOC 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 Transnet's objectives by increasing the competitiveness, capability and efficiency of local concessionaires. 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 ECONOMIC DEVELOPMENT, with a focus on investment in technology or skills to 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 concessionaires 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 concessionaires 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 RESPONSE BASED ON THE IC³ MATRIX QUADRANTS

Based on the concessionaire-new business development manager power, industrial complexity, risk and the length of procurement period, the Concessionaire is expected to formulate a ED Plan to identify the opportunities that it will pursue. Ideally the ED Bid Plan should address factors that are specific to the applicable quadrant of the IC³ matrix.

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

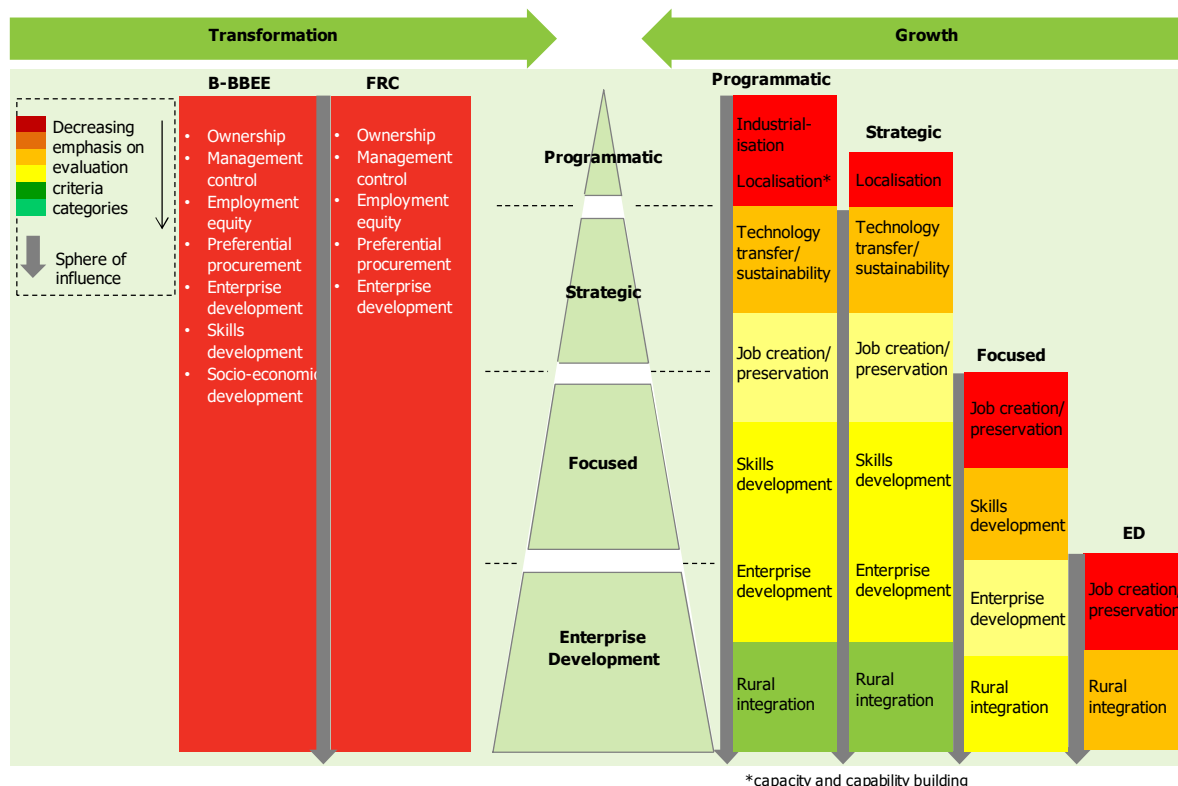


Figure 2: Transnet value capture through supplier influence

4.1 Programmatic

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

4.1.1 Programmatic Focus Areas -

- Industrialisation
- Capability and capacity building in South Africa
- Technology transfer
- Skills development related to the manufacturing process and the industry

- Development of new technology and innovation
- Investment in plant
- Development of local companies aligned to empowerment objectives

4.1.2 Key Outcomes -

- Industrialisation
- Manufacturing capability and capacity building
- Technology transfer
- Skills development

4.2 Strategic

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

4.2.1 Strategic Focus Areas -

- Capability and capacity building in South Africa
- Transfer of technology and innovation to local concessionaires from foreign OEM's
- Skills development related to the industry
- Development of local companies aligned to empowerment objectives

4.2.2 Key Outcomes -

- Increased S.A. manufacturing capability and capacity
- Increased technology transfer
- Skills development
- Job creation/preservation

4.3 Focused

Focused initiatives assist local concessionaires to improve their performance, enhance their existing production and skills capabilities with emphasis being 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:

4.3.1 Focused Focus Areas -

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

4.3.2 Key Outcomes -

- Empowerment
- Skills development
- Rural development

- Job creation/preservation

4.4 Small Business Development

Enterprise Development (**ED**) objectives are centred around assisting local concessionaires 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 (B-BBEE) strategy. The following focus areas and key outcomes have been identified:

4.4.1 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
- Empowering previously disadvantaged individuals to create their own businesses resulting in quality job creation

4.4.2 Key Outcomes -

- Empowerment
- Rural development
- Skills development
- Job creation/preservation

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

5 ECONOMIC DEVELOPMENT CATEGORY DEFINITIONS AND HIGH LEVEL DESCRIPTIONS

5.1 Industrialisation

Industrialisation refers specifically to industrial development that will result in globally leading capabilities 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 RFP
➤ Percentage of the investment of plant purchased in South Africa	➤ 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 award of a 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 a contract

5.2 South African Capability and Capacity Building

South African capability and capacity building refers specifically to industrial development that focuses on value-added activities for the local industry through manufacturing or service-related functions.

Criteria	Description
➤ Value-added manufacturing activity/activities to be undertaken in South Africa	➤ Description of value-added activities to be performed during the contract period in South Africa
➤ Service-related functions to be undertaken in South Africa	➤ Description of service-related functions to be performed during the contract period in South Africa
➤ Number of local suppliers in the supply chain	➤ Number of South African suppliers that are to be utilised in the fulfilment of a contract

5.3 Technology transfer/sustainability

Technology improvements are intangible assets with significant economic value. The concessionaires will be measured on its 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 concessionaires must be assessed to enable the local supply base to potentially export its newly-acquired technological know-how, thereby decreasing capital leakage.

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

5.4 Skills development

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

Criteria	Description
<ul style="list-style-type: none"> ➤ 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 	<ul style="list-style-type: none"> ➤ Number of individuals that the concessionaires plans to train in the local industry over the contract period; training undertaken in the previous year will be taken into account
<ul style="list-style-type: none"> ➤ Number of company employees to be trained 	<ul style="list-style-type: none"> ➤ Number of individuals within the company (in South Africa) that the concessionaires 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 B-BBEE scorecard; criteria broken down as for industry training above
<ul style="list-style-type: none"> ➤ Certified training (yes/ no) 	<ul style="list-style-type: none"> ➤ Compliance with local and/or international skills accreditation
<ul style="list-style-type: none"> ➤ Rand value spent on training 	<ul style="list-style-type: none"> ➤ 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 concessionaire who have just completed a training drive within the industry
<ul style="list-style-type: none"> ➤ Number of bursaries/ scholarships (specify field of study) 	<ul style="list-style-type: none"> ➤ The number of higher education bursaries/scholarships provided in the previous year and planned for the length of the contract
<ul style="list-style-type: none"> ➤ Number of apprentices (sector must be specified) 	<ul style="list-style-type: none"> ➤ The number of apprentices that the concessionaire plans to enlist during the course of the contract
<ul style="list-style-type: none"> ➤ Investment in Schools in specific sectors e.g. engineering 	<ul style="list-style-type: none"> ➤ The monetary value that the concessionaire is prepared to invest in the development and running of schools to increase technical skills development

5.5 Job creation/preservation

Job creation and/or preservation allows assessment of Government's objectives to increase labour absorption, focusing on unskilled workers and the youth.

Criteria	Description
<ul style="list-style-type: none"> ➤ Number of jobs preserved 	<ul style="list-style-type: none"> ➤ Number of jobs which would be preserved through Award of Contract
<ul style="list-style-type: none"> ➤ Number of jobs created including: <ul style="list-style-type: none"> • New skilled jobs created 	<ul style="list-style-type: none"> ➤ Number of jobs to be created during the period of the contract <ul style="list-style-type: none"> • Jobs for people in a specialised field of work requiring a defined training path and / or requisite level of experience in order for them to perform that role. These people could be in

<ul style="list-style-type: none"> • New unskilled jobs created 	<p>possession of a certificate, diploma or degree from a higher education institution.</p> <ul style="list-style-type: none"> • Jobs for people where the field of work does not require extensive formal training or from whom no minimum level of education is required
<ul style="list-style-type: none"> ➤ Number of jobs created for youth 	<ul style="list-style-type: none"> ➤ Jobs created for individuals aged 16 – 35 years
<ul style="list-style-type: none"> ➤ Number of jobs created for Black youth 	<ul style="list-style-type: none"> ➤ Jobs created for Black individuals aged 16 – 35 years

5.6 Enterprise and ECONOMIC DEVELOPMENT

Small business promotion criteria give an indication of the Supplier/Service Provider's commitment to developing small business in line with NDP and B-BBEE requirements.

Criteria	Description
<ul style="list-style-type: none"> ➤ Percentage procurement from: <ul style="list-style-type: none"> • QSEs • EMEs • Start-ups • B-BBEE Facilitators 	<ul style="list-style-type: none"> ➤ Refers to the planned procurement from small business as a % of the total planned procurement spend
<ul style="list-style-type: none"> ➤ Sub-contracting 	<ul style="list-style-type: none"> ➤ Refers to sub-contracting to QSEs/EMEs that are preferably Black Owned, Black Women Owned, Black Youth Owned or owned by Black People with disabilities
<ul style="list-style-type: none"> ➤ Non-financial support provided to small business 	<ul style="list-style-type: none"> ➤ Concessionaires will be credited 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
<ul style="list-style-type: none"> ➤ Financial support provided to small business 	<ul style="list-style-type: none"> ➤ Concessionaires will be credited for each financial ED support initiative that they are planning to undertake during the contract period e.g. Shorter payment terms; interest free loans
<ul style="list-style-type: none"> ➤ Joint ED initiatives with Transnet 	<ul style="list-style-type: none"> ➤ The number of ED initiatives that the Concessionaires 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

Rural development / integration indicates the Supplier's/Service Provider's planned use of local labour and business which will contribute to Governments NDP 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
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➤ Number of local employees	➤ Number of people employed from within the town/city of operation
➤ Value spent on local business	➤ Monetary value spent on businesses 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 Concessionaire 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 MARKET INTELLIGENCE ASSISTANCE

Concessionaires with limited knowledge of the local market, supply base and its capabilities may require assistance in identifying local concessionaires and the development needs in order to develop its ED Plan. The United Nations Industrial Development Organisation (UNIDO) supplies a benchmarking service in South Africa which will be able to assist concessionaires in identifying potential local suppliers with which to work. In addition, this 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'/Service Providers' businesses and the practices used to deliver the products or services being offered. The benchmarking tool focuses on:

- 6.1 Performance data relating to -
 - 6.1.1 Financial performance
 - 6.1.2 Customer data
 - 6.1.3 Processes
 - 6.1.4 Learning & growth
- 6.2 Company's current business situation -
 - 6.2.1 Plans for the business and capabilities to manage their fulfilment
 - 6.2.2 Ability to generate business
 - 6.2.3 Employee relationships
 - 6.2.4 Developing new markets
 - 6.2.5 Developing products and services
 - 6.2.6 Managing money

The UNIDO benchmarking tool provides a basic framework through which an understanding of the South African market can be established. Whilst the list of criteria may not be exhaustive, Concessionaires are free to meet

with UNIDO to further understand how they can work together to develop a deeper understanding of the market and the ED opportunities available.

7 GOVERNMENT POLICY DOCUMENTS

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

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

CEDP <http://www.dpe.gov.za/res/transnetCEDP1.pdf>

8 OTHER REFERENCE WEBSITES

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 beneficiaries 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.
National Development Plan (NDP)	Developed by the National Planning Commission in 2010 and tabled in 2013, the plan 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 Company (SOC)	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.
ECONOMIC DEVELOPMENT (ED)	Improving the socio-economic environment by creating competitive local suppliers via Enterprise Development, CEDP 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.
United Nations Industrial Development Organisation (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.