

SASDA

***“The driving forces
behind the Liquid Fuels
Charter”***



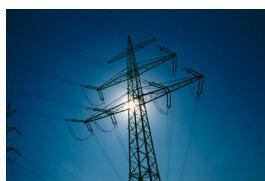
Department of Energy

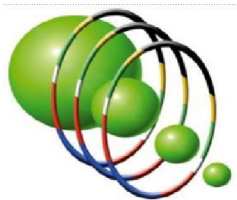
South African Supplier Development Agency (SASDA)

Presentation to the Oil and Gas Indaba - Bloemfontein

Presented by: Ayanda Mjekula

11th August, 2010





The agenda of this presentation



**SASDA's origins
and purpose**



**SASDA's journey
so far**



**SASDA's
challenges**



Looking forward ...



... Where we want to go



SASDA's origins and purpose ...



Key topics in this section:

- The Liquid Fuels Charter
- Procurement
- Supplier development pilot project
- SASDA's creation & mandate
- SASDA's Vision & Mission



The Petroleum & Liquid Fuels Charter was signed in November 2000



- ✚ Redress historical social & economic inequalities;
- ✚ Accelerate empowerment of HDSAs in the Liquid Fuels industry (including targeted groups);
- ✚ Accelerate empowerment of HDSAs in the Liquid Fuels industry (including targeted groups);
- ✚ Stimulate the growth of BB-BEE SMEs in the industry

Platform was therefore laid in 2000 for action and co-operation in order to transform the sector.



Procurement and Historically Disadvantaged South Africans



- ✚ At the time of the LFC adoption, of the R103 billion spend by industry only R3.9m (3.8%) was attributable to HDSA's companies;
- ✚ At least 25% (R25.7billion) of total industry procurement spend should be earmarked for HDSA's companies;
- ✚ Over 10 yrs the R25,7bn translates to R257.5bn procurement spend.
- ✚ SASDA was established to develop a viable supplier support programme



SASDA's Vision: aligned with our mandate from DME*



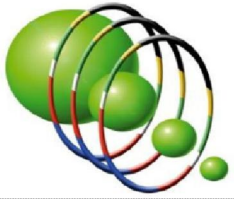
Vision

- ✦ To be a leader in developing globally competitive Black South African Suppliers in the Petroleum sector and in energy related State-Owned Enterprises.



Mission

- ✦ To accelerate the empowerment of Black suppliers through increased access to industry procurement opportunities by:
 - ❖ Actively sourcing suppliers according to industry's requirements.
 - ❖ Developing Black suppliers' skills to meet industry's required standards.
 - ❖ Facilitating Black suppliers' participation in Global procurement.



SASDA's journey so far ...



Key topics in this section:

- ✚ SASDA is designed around the results of the pilot project.
- ✚ Development of service offering.
- ✚ Key performance indicators & results to date.
- ✚ Achievements & milestones



SASDA analyzed the results of the pilot project completed with PetroSA



Our findings

Lack of capacity & ability of SMEs to serve more than one customer

Lack of availability of skills

Lack of access to info regarding business opportunities

Lack of access to capital

Dominant, entrenched incumbent suppliers

Fronting & inefficiencies in duplicating BEE efforts

Perceptions of risk, inferior quality & disruptions to operations

Our conclusions

We needed to facilitate skills training to meet the industry standards

We needed to create a marketplace between buyers, BB-BEE SMEs & financiers

We needed to break down barriers by facilitating credibility and trust between BB-BEE suppliers and customers



We then commenced implementation of our medium term strategy



Our responses

Forged alliances with training service providers

Launched Tender platform

Forged working agreements with Industry

Development of sustainable business model

Which gave rise to the following service offering:

- ❖ **Mentorship & coaching**
- ❖ **Technical support**
- ❖ **Skills training (technical & business)**
- ❖ **Supplier assessment**
- ❖ **Access to raw materials**
- ❖ **Facilitation of Financial support**
- ❖ **Project management**



Initiatives & current projects: SASDA well positioned with solid foundation



Supplier development

- 35 SMEs in process of being developed
- Identification & development of SMME suppliers for Mthombo refinery project underway (local content).

Preferential procurement

- SAPIA members agreed to set aside 25% for bulk fuel transport
- Advanced stages of securing contracts at refineries (high pressure cleaning, tank desludging, etc).

Alternative energy

- Advanced stages to train installers of 400,000 SW geysers
- Nelson Mandela Bay Metro: 100,000
- Ekurhuleni: 300,000
- National roll-out will follow these pilot projects

Access to funding

- Negotiations initiated with national DFI
- Preferential terms (i.e. rate & period)
- Will empower SMEs further

The foundations have been laid, the long term strategy has been completed. SASDA has a launching pad from which to deliver on its mandate. But, we have challenges out of our control ...

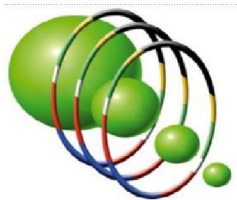


SASDA's challenges ...

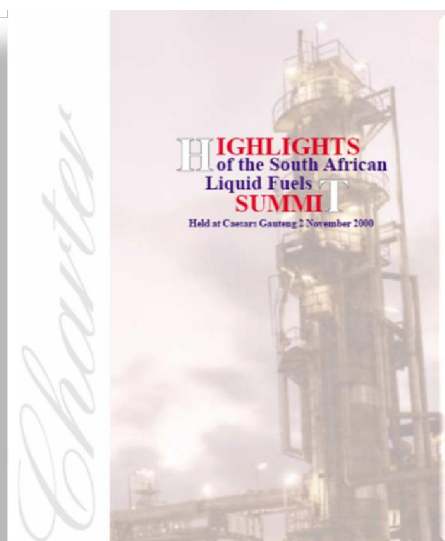


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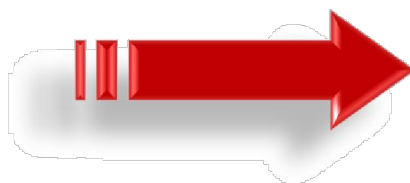
- ✚ The Liquid Fuels Charter in context
- ✚ Diagnosis for lack of transformation in the industry



Transformation in the Petroleum & Liquid Fuels Industry: the context



*How do we TRANSFORM
FROM the Charter ...*



*... TOWARDS the BB-BEE
codes of good practice ...*



*... if SASDA has no authority to enforce compliance and the
perception is that there are no consequences for non-compliance?*



Approach: We developed a framework that addressed the two key impediments to transformation



Obstacles and barriers to transformation facing HDI SMEs

- Skills & experience
- Opportunities
- Capital
- Incumbent suppliers with track records

Risks (real and perceived) facing industry and causing resistance

- Skills & experience
- Incumbent suppliers with track records
- Disruptions to operations
- Drop in quality of goods & services



Diagnosis: Lack of progress in transformation is not a coincidence (1)



Process & outcomes

- ✚ **Sustainable** Supplier development model was developed
- ✚ Presentations were made to SAPIAs:
 - ✚ Transformation committee
 - ✚ Board of Governors
- ✚ All stakeholders expressed a keen interest to both participate and implement the project.
- ✚ When SASDA followed up rigorously with the oil companies' executive and senior management no commitment was forthcoming.

Post-mortem insights

- ✚ Oil companies focus primarily on the equity component of BB-BEE
 - ✚ Easy option
 - ✚ Existing non-BEE suppliers take a minority equity BEE partner to comply
 - ✚ No broad-based empowerment takes place
 - ✚ Barriers to BB-BEE remain in place
- ✚ Oil companies do not want the perceived threat of disruptions:
 - ✚ To operations
 - ✚ To existing suppliers with a track record
- ✚ Oil companies cited matters of confidentiality and competition as a reason for not participating in broad-based empowerment

Bottom line ... NOTHING HAPPENED.



Diagnosis: Lack of progress in transformation is not a coincidence (2)



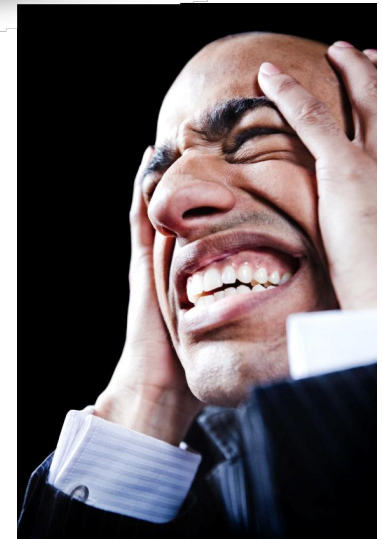
Preferential procurement	• Not broad-based
Enterprise development	• Narrow-based private equity model
Equity ownership	• Over-emphasized
Management control	• Over-emphasized
Skills development	• Not known
Employment equity	• Not known
Socio-economic development	• Not known

CAUSES/OBSTACLES

- Fear of disruptions
- Fear of poor quality
- Don't fix what isn't broken
- Entrenched industry relationships
- LFC has no consequences and is vague
- I don't know how to effect transformation

EFFECTS

- Narrow empowerment
- Incumbent suppliers sell minority stake to BEE partner
- No development takes place
- No access to opportunities for SMMEs





Besides the challenges highlighted above



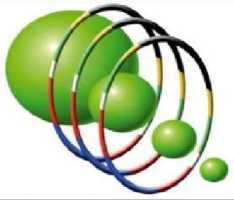
- ✚ The Liquid Fuels Charter in itself is inadequate for effecting transformation:
 - ✚ Makes broad statements of intent without specific indicators for measurement (how will we know how well we're doing?).
 - ✚ There is no enforcement and/or alignment of the Charter to BBBEE codes.
- ✚ Charter review of Feb **2006** the Minister reminded industry that it is far from reaching the LFC target of 25%. **NOTHING HAS CHANGED.**
- ✚ In SAPIA's Annual Report of **2008**:
 - ✚ The Minister in her foreword raised concerns that procurement still requires further attention & laments the inaccessibility of oil companies by HDSA's SMMEs.
 - ✚ SAPIA Executive Director in his report highlighted meeting LFC procurement targets as a challenge for industry.



Besides the challenges highlighted abovecontinues



- ✱ The irrefutable fact is that the Charter's target of 25% **commenced in 2000** and it is to be implemented within 10 years (i.e. by **November 2010**)
 - ✱ The target will not be met
 - ✱ Indication of industry's apathy and possible contempt for the Charter.
- ✱ In AMEF conference of June'09, Industry claimed to have spent 42% with HDSA's;
 - ✱ The 42% includes companies that are mostly not HDSA SMME's
 - ✱ This 42% excludes crude. Estimates including crude at most not exceeding 5% of total procurement spend
- ✱ The Minister, in the same conference, expressed her disappointment that most companies have failed to achieve any meaningful change in procurement spend for HDSA SMME's



Challenges (continued)

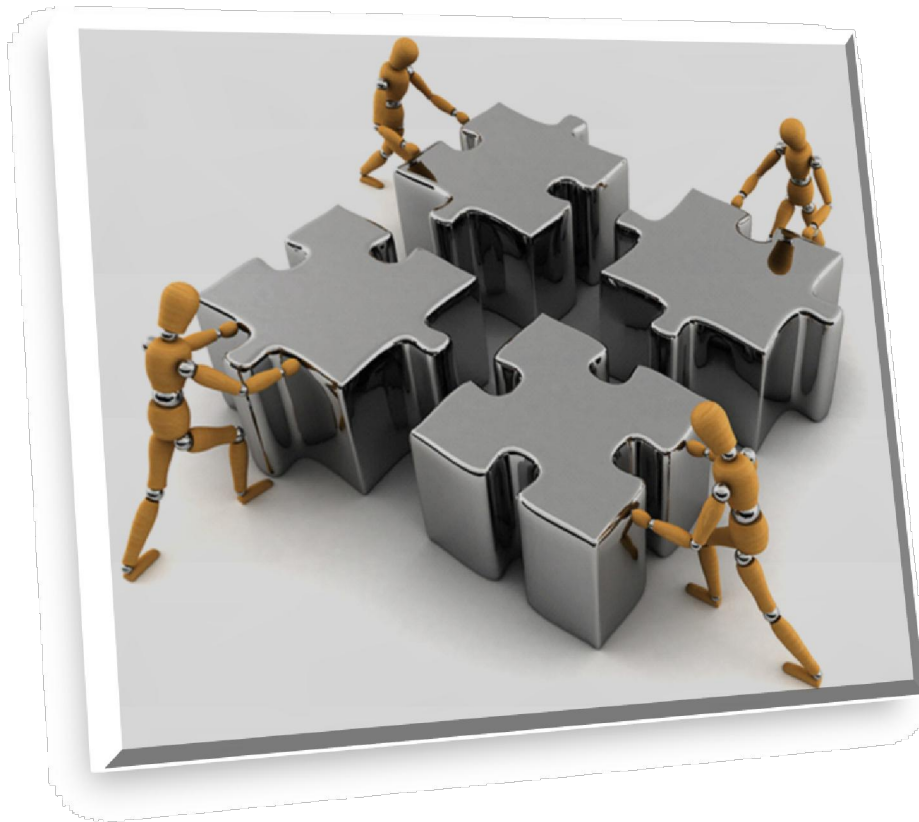


- ❖ LFC procurement has been premised on preferential transactions with companies that have 25% ownership irrespective of other BB-BEE elements. So, narrow empowerment only taken place.
- ❖ Company procurement processes a barrier for effecting the LFC procurement objectives.
- ❖ Lack of a mandate and authority to enforce compliance.
- ❖ Current economic environment has relegated supplier development to back burner.



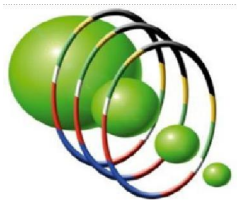


Looking forward ... where we want to go



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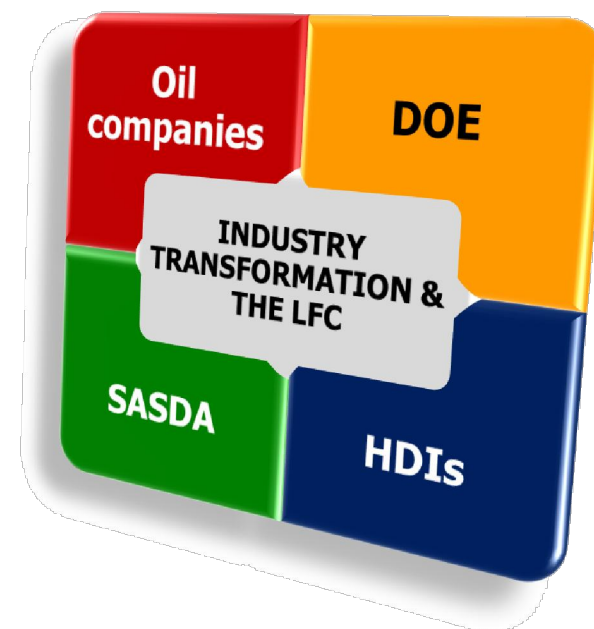
- ✚ We are at a crossroads
- ✚ Proposal and request to engage.



SASDA believes Broad-based transformation can succeed but ...



We are at a crossroads with respect to the LFC ...



... and action from ALL stakeholders is required.



What SASDA is requesting from stakeholders



DOE – Regulatory & Support

- Align LFC with the dti Codes of BBBEE
- Clarity on crude procurement, jet fuel etc as part of value chain be prioritized
- The New LFC to have Measurable targets
- Consequences for non-participation (sanctions, penalties, licenses)
- Set aside dispensation for procurement from HDI SMEs
- Active support for SASDA's programs
- Scorecard Audit of Oil companies

Oil companies & SOEs – Active participation in good faith

- Active implementation in honoring agreements concluded (enforceability)
- Relaxation of barriers to entry & participation in an enabling, supportive culture
- Contributions as per BBBEE scorecard (i.e. prescribed % of NPAT)



Thank you



***Questions and
discussion***