Umgeni Water

Black Economic Empowerment Policy
## PROCUREMENT FROM BLACK COMPANIES

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BLACK ECONOMIC EMPOWERMENT POLICY

1. DEFINITION

BEE is an integrated and coherent socio-economic process, located within the context of the country’s national transformation programme, namely RDP. It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confers ownership, management and control of South Africa’s financial and economic resources to the majority of its citizens. It seeks to ensure broader and meaningful participation in the economy by black people to achieve sustainable development and prosperity.

2. PURPOSE

The purpose of this document is to outline Umgeni Water’s Black Economic Empowerment Policy with the aim to advance the company’s vision of being the number one water utility in the Developing World. This policy will serve as a guide that forms the basis for a programme that seeks to give preference in the procuring of goods and services and promote entrepreneurship in Black communities, in order to enable such groups to meaningfully participate in the mainstream of the South African economy.

3. STATEMENT OF THE POLICY

Umgeni Water recognises the historical disparity of previously disadvantaged communities and commits to promote BEE enterprises by making procurement accessible to them, through processes which are competitive, fair, transparent, equitable and cost effective. This will be done within the framework of the Constitution of South Africa, the Preferential Procurement Regulations and the Broad-based Black Economic Empowerment Act.

4. OBJECTIVES

This directive forms the basis for a programme of procurement that is commercially oriented. The primary task of the procurement function at Umgeni Water remains unchanged: to find reliable, cost effective suppliers for the enterprise. This means that economic empowerment is viewed as a business imperative aimed at the following.

- To facilitate access to Umgeni Water’s procurement activities by BEEs
- To contribute to economic empowerment both by providing water services and raising the highest possible revenues.
- To ensure that previously disadvantaged individuals achieve full participation and involvement in businesses that support Umgeni Water in the supply of water services.
- To develop and/or establish new, sustainable business with black entrepreneurs, through the procurement process.
- To encourage the establishment of value adding joint ventures between traditional and emerging BEE suppliers, thus giving the latter access to technology, skills and knowledge.

This policy will be expanded in procedures or handbooks providing guidance on implementation.
5. SCOPE

This policy covers all initiatives targeted at BEE such as:

- Affirmative Procurement
- Advancement of women in business
- Advancement of disable people in business
- Advancement of black business

The policy however, does not include all business opportunities awarded to Local Government (Council) owned companies, all tiers of Government and parastatals.

6. BLACK ECONOMIC EMPOWERMENT GUIDELINES

Black Economic empowerment is an integral part of Umgeni Water business strategy and imperatives. Umgeni Water believes that persons are fully empowered only when they have ownership and control of the means of production, equipment, service delivery and capital.

6.1 Affirmative Procurement

Umgeni Water's support for the utilisation of existing and new BEE suppliers is founded upon an aggressive procurement policy modelled on the fundamental BEE imperatives and statutes below:

6.1.1 BEE Imperatives and Statutes

Umgeni Water's affirmative procurement practice will give preference to black economic empowerment considerations amongst its suppliers and will ensure adherence to and compliance with:

- Effective black ownership and equity
- Representation at Board and Executive management level
- Skills development/transfers and mentorship
- Targeted sub-contracting and outsourcing
- Black women and disabled people participation through ownership

6.1.2 Affirmative procurement principles

Umgeni Water's affirmative procurement practices shall observe the following principles:

- Umgeni Water will give preference to new and existing BEE suppliers for all procurement of goods and services as per the procurement policy
- Where applicable, Umgeni Water will confine the procurement of certain goods and services to BEE suppliers only
- Umgeni Water will pay a premium of 10% on the following conditions:
  - The BEE supplier is classified as small as per the Policy's definition.
  - The premium will be paid provided the total price including 10% falls within budget
  - The premium will be paid up to a maximum of 10% more than the lowest tendered price
6.2 BEE classification

The primary criteria will be based on ownership and control of the enterprise and all the other BEE pillars will earn the supplier added points over and above its BEE classification criteria according to ownership:

<table>
<thead>
<tr>
<th>BEE % Ownership</th>
<th>BEE Rating</th>
<th>BEE Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>50.1% Black owned</td>
<td>Black companies</td>
<td>125% of Rand spend</td>
</tr>
<tr>
<td>30.1% Black women owned</td>
<td>Black women empowered companies</td>
<td>125% of Rand spend</td>
</tr>
<tr>
<td>25.1% Black owned</td>
<td>Black empowered companies</td>
<td>100% of Rand spend</td>
</tr>
<tr>
<td>5% Black owned</td>
<td>Black influenced companies</td>
<td>50% of Rand spend</td>
</tr>
</tbody>
</table>

The BEE score refers to the % Rand spend that will be recorded as money spent on BEE.

6.3 Determination of ownership and/or control

Regardless of the size of an enterprise ownership or control is to be determined first.

6.3.1 Close Corporation

In terms of close corporations percentage ownership is determined by funding (working capital) and not owner’s contribution. Black ownership must be accompanied by day-to-day management decisions and sharing in the risk/profit to the extent of their ownership.

6.3.2 Listed Companies

Where a company is listed on the JSE, the ownership criterion is replaced by percentage of Black directors on the board of directors of the company, with only executive directors will be considered.

6.3.3 Public and Private Companies

For a public/private company where Blacks bought a percentage of the shareholding as per Company Act of 1973, as amended, at least ten (10) percent of the loan should have been repaid before the company can be assessed for registration as BEE or legal arrangements should have been made for repayments and the first repayment has been received.

6.3.4 Trusts

Ownership of a trust is determined not by the trustees but by establishing whom the beneficiaries are.

6.4 Points in respect of status of BEE suppliers

Points will be awarded using the information as filled out in the Supplier Evaluation Form attached as Annexure A. A maximum of 6 points will awarded in respect of the following remaining broad based BEE pillars:

1. Control
2. Training and development
3. Employment Equity
4. Preferential Procurement
5. Enterprise development
6. Social development
6.4.1 The awarding of points will be on the following basis:

<table>
<thead>
<tr>
<th>BEE pillar</th>
<th>% Black representation</th>
<th>Points scored</th>
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<tbody>
<tr>
<td>Control</td>
<td>10% Board committees</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Executive management</td>
<td></td>
</tr>
<tr>
<td>Training &amp; development</td>
<td>20% Skills development as a Proportion of total payroll</td>
<td>1</td>
</tr>
<tr>
<td>Employment Equity</td>
<td>10% Employment equity Analysis</td>
<td>1</td>
</tr>
<tr>
<td>Preferential Procurement</td>
<td>20% Procurement from black Owned and black Empowered suppliers</td>
<td>1</td>
</tr>
<tr>
<td>Enterprise development</td>
<td>10% investment in black owned Empowered enterprises</td>
<td>1</td>
</tr>
<tr>
<td>Social development</td>
<td>10% of post tax operating profit</td>
<td>1</td>
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</tbody>
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The successful supplier would however, have to comply in all respect with the adjudication criteria which includes, inter alia, technical evaluation. The rating will be in preference order as per the prospective highest % to be claimed for ownership and the highest number of points scored for the BEE pillars.

7. SUPPLIER ACCREDITATION

Umgeni Water shall ensure that all procurement is made through businesses that demonstrate compliance with all applicable labour, tax and company legislation, including Basic Conditions of Employment Act, Employment Equity Act and the Occupational Health and Safety Act.

All suppliers will be taken through a complete accreditation process to determine their legal compliance and BEE status. Accredited companies will constitute the central database where source lists will be generated for the procurement of goods and services.

8. PRE-REGISTRATION

Umgeni Water’s BEE database records will show the business status of suppliers as follows:

1. BLC: Black Owned Company
2. BWO: Black Women-owned company
3. BEC: Black Empowered Company
4. BIF: Black Influenced Company

This classification testifies to the ownership and control of the BEE Company, but does not imply capability or capacity to do any work or to supply to any standard. The status will be accorded in terms of the Supplier Evaluation Form as submitted by the supplier. The supplier will then be blocked on the database. The block will only be lifted after a thorough accreditation process has been completed.

Each supplier is linked to one or more class codes, and when buyers need a particular item or service, prospective suppliers will be identified using the class code e.g. Registered Supplier or Preferred Supplier in the system. Where the class code implies that certain standards need to be met, e.g. quality, safety or environmental standards, the firm must be qualified according to those standards before it is linked to such a class code.

Only the relevant procurement personnel may qualify a supplier as BEE and register it as such on the database.
9. TREATMENT OF BEE SUPPLIERS

BEE Suppliers will not be treated differently than the norm with regard to quality, expected service level, delivery, or any technical requirements. When new business is being developed, however, the normal financial and commercial evaluation requirements may be temporarily relaxed, if this can be done without substantially endangering Umgeni Water’s interests.

A SME should not be denied listing as a supplier due to lack of a formal environmental policy and quality management system. Where construction, manufacturing or maintenance are involved the supplier will have to be qualified as to capability. In either case development assistance may be required.

Any changes to the make-up of the tenderer or to their Black Empowerment Program that will improve their BEE status but that occur after the tender closing date and time and before order/contract placement will not be taken into consideration in tender evaluation, even if these changes were under consideration at the time of tendering. However, if a supplier loses its BEE status at any time, Umgeni Water must be informed within seven (7) working days.

9.1 Small Black Supplier Procurement Program

A supplier with an annual turnover of R25 million or less and with Black ownership, risk and control of not less than 50% is termed a Small Black Supplier (SME).

9.1.1 Support Program

The support program entails:

- Setting aside, for SMEs only, certain tenders in part or in whole. Large BEE and Other firms will not be allowed to tender.
- Negotiating with SMEs only, using estimated costs as the basis.
- Paying up to 10% price premium.
- Providing Tender Advice Centres with external parties e.g. Ithala Bank or similar functions to provide assistance and training on how to tender.
- Arranging for expedited payment, i.e. within 15 days of receipt of invoice, to SME and start-up Black Suppliers.
- Wherever possible SME suppliers will be awarded contracts for a period of up to 3 years in order to ensure their sustainability and viability. Extension of contracts may also be utilised to ensure such suppliers’ ability to build capacity as well as the creation and maintenance of sustainable jobs.

9.1.2 Progression of Small Black Suppliers

Development assistance will not be given to a SME company for more than 3 years. If a SME reaches the turnover threshold to become a Large Black Supplier during the developmental period, it will automatically be reregistered as a BEE and lose all additional benefits afforded to Small Black Suppliers. To preclude any hardship, a transitional period of not longer than six months may be negotiated.

9.2 Additional Programs

In cases where the above stated mechanisms for various reasons cannot be applied, the following alternatives may be employed to attain the objectives of this directive.
9.2.1 Second Tier Black Supplier Procurement

Prime contractors/suppliers will be required to contract for and procure a stated percentage of the contract value from Umgeni Water’s approved BEE Suppliers by:

- Subcontracting portions of the contract
- Procuring manufactured components/subassemblies
- Procuring consumables/MRO materials
- Procuring services, e.g. transport, insurance
- Procuring professional services, e.g. engineering, design, project management.

The enquiry and tender documentation sent out by Umgeni Water will specify the percentage of the contract value that must be spent in line with the above criteria. This will vary from contract to contract according to the characteristics of the items or service procured. Suppliers who are not willing to comply with this requirement will be eliminated from the tender lists.

Non-compliance with the contractual Black Supplier support requirements may lead to cancellation of the contract and further action.

The percentage of contract value that is specified in the contract will be reported as Black Supplier purchases. Arrangements will be made to provide an audit trail where possible.

9.2.2 Joint Ventures

Joint ventures conforming to the following requirements may be formed with Black Suppliers:

- An approved contractual relationship is established, i.e. a co-operative joint venture
- The BEE Supplier executes work with its own resources and management, proportional to their participation in the joint venture.
- The BEE Supplier shares in the potential risk / profit inherent in the contract proportional to their participation in the joint venture.

9.3 Monitoring system

Monitoring will be performed twice per year for long term contracts, or on the completion date of a contract or order which runs for less than six months. This will be done through audits and interviews and the following will be checked:

- The level of involvement by the BEE partner/s in the control and decision making processes of the business.
- The physical financial transfer, including the proportional share of profit / loss, to the BEE partner/s.
- The transfer of skills, as per the pre-submitted skill transfer document, to the BEE partner/s.
- The operational involvement of the BEE partner/s in the execution of the project.
- The fulfilment of any empowerment obligations, promises or plans done to the BEE partner/s.

A detailed report will be drawn for each audit report and included in the supplier performance file for the record. Any findings or matters raising suspicions about the empowerment of the BEE partner will call for an intense investigation which will be conducted by the Procurement Manager together with the internal audit team. The findings will be reported through the General Manager: Corporate Services to Exco.

9.4 Penalties for Abuse of the Black Supplier Procurement Program

Any supplier or potential supplier that misinterprets the facts in order to gain some advantage using Umgeni Water’s Black Supplier Procurement Program will be penalised by deregistration as a supplier. Misrepresentation includes, amongst other, fronting.
Directors or owners of businesses that have been so deregistered will be listed and Umgeni Water may refuse to register as suppliers any new companies formed by them.

9.5 Annual Expansion of Program
To maximise procurement of products and services from BEE Suppliers the procurement department must:

- Identify and list all items and services procured from Black Suppliers.
- Explore and identify new items and services that can be obtained from Black suppliers.
- Draw up a program for sourcing such requirements from these suppliers. This may include developing new suppliers in terms of this policy.

The formal purchasing process as set out in this and other procurement directives and procedures must be followed at all times

10. PROCUREMENT STRATEGIES

- Advertising available tender opportunities through tender bulleting board, local newspapers, stand exhibition as well as the website
- Promote joint ventures and mentoring programmes with established companies
- Forge joint ventures and promote skill transfers
- Promote subcontracting to Monopolies, sole suppliers and OEM’s (Original Equipment Manufacturer)
- Draw up understandable and less stringent specifications
- Early payments to small Black owned and black empowered suppliers

11. MANAGEMENT COMMITMENT
Umgeni Water’s Management, as managers and as individuals, is committed to the direction given by them in this Directive. The General Managers and Managers personally set the targets for purchases from Black Suppliers and oversee the programs implemented in each Division/Department to ensure success.

12. ACCOUNTABILITY & RESPONSIBILITY
The responsibility at corporate level for corporate policy and the management and co-ordination of corporate resources and of interfaces with the outside world, aimed at maximising the award of business to Black Women-owned, Black and Black Empowering (BEE) Suppliers, vests in the General Manager: Corporate Services and the manager of the Procurement function at Umgeni.

The BEE and Procurement Manager will be accountable for the implementation of this policy.

13. REPORTING
The General Manager will provide reports on BEE to EXCO and thereafter to the Board on the success and shortcomings of the application of the policy.

Purchases, with an audit trail, from all the classes of BEE suppliers will be separately recorded as such and reported monthly to the EXCO via the General Manager Corporate Services.

Both direct and second tier procurement expenditures are reported. Only expenditure paid to Umgeni Water’s accredited BEE sub-contractors may be reported as second tier procurement. Second tier procurement values will be obtained from suppliers. Where doubts arise as to the accuracy of second tier values Umgeni Water may require a certificate from the supplier’s auditors or some other form of proof.
14. REVIEWS

This policy document shall be reviewed and updated with all amendments annually, or as and when legislation changes.

15. DEFINITION OF TERMS

- **Black**: South Africans previously classified as Blacks, Coloureds and Indians.
- **Black Economic Enterprises**: are those enterprises in which black people enjoy ownership and control, and where they participate in the day to day decision making and management of such enterprises.
- **Affirmative Procurement**: a procurement policy which uses procurement to target companies owned by previously disadvantaged individuals to enable their participation in the provision of goods and services.
- **Supplier database**: is a list of accredited suppliers who may be invited at some time to submit tenders to Umgeni Water, linked to certain areas of supply.
- **Contract**: means the agreement which results form the acceptance of a tender.
- **Sub-Contract**: means the primary contractor’s assigning or leasing or employing another legal person to support such primary contractor in the execution of part of a project in terms of the contract.
- **Tender**: means a written offer on the official tender documents forming part of an invitation to tender where the invitation has been dealt with in accordance with the requirements of the general conditions and procedures contained in the procurement procedure.
- **Front**: A supplier is termed a front if:
  - Black partners are given shares without any payment or arrangement thereof.
  - The “Black” company uses the non-Black surrogate company’s infrastructure without making any payment or arrangement thereof.
  - The Black partner makes no meaningful contribution to the day to day running of the business.
  - The Black owners’ shareholding is linked to their employment conditions. i.e. Blacks forfeit shareholding when they cease to be employed by the company.
- **Disability**: means people who have long term or recurring physical or mental impairment that substantially limits their prospects of entering into advancement in business.
- **OEM**: refers to the Original Equipment Manufacturer.

The above definitions are not exclusive, and any other behaviour intended to hide the true nature of ownership and control will be viewed as fronting.