



Black Information Technology Forum

Submission to
The ICT Empowerment Charter Working Group

September 2003

Transforming the ICT Sector

The Black Information Technology Forum believes that the South African Information and Communication Technology industry will drive ingenuity and entrepreneurship throughout the African continent. This will be achieved if - and only if - the industry is transformed to enable black South Africans to take the initiative in shaping its future, and growing and sharing its wealth.

This document sets out BITF's imperatives on how this can best be achieved.

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Contents

1:	Background on BITF	Page 3
	1.1 Process in formulating this submission	
2:	The DTI Strategy	Page 5
3:	BITF's view on proposed ICT Charter	Page 7
4:	BITF recommendations on scorecard issues	Page 8
	4.1 Direct Empowerment	
	4.1.1 Equity Ownership	
	4.1.2 Management	
	4.2 Human Resources and Employment Equity	Page 9
	4.2.1 Employment Equity	
	4.2.2 Skills Development	
	4.3 Indirect Empowerment	Page 11
	4.3.1 Preferential Procurement	
	4.3.2 Enterprise Development	
	4.3.3 Residual	
5:	Conclusion	Page 13



1: Background on BITF

The Black Information Technology Forum (BITF) was launched in Cape Town in 1995 to propel black individuals into the mainstream of the Information and Communication Technology (ICT) industry.

A Gauteng branch was formed in 1997 and the forum became a national organisation in 1998. Currently there are branches in Gauteng, KwaZulu Natal, Western Cape, Limpopo, Eastern Cape and Mpumalanga serving the interests of 2 400 members. Efforts are being made to establish branches in Northern Cape and North West Province.

It is the largest organisation representing the interests of black people in South Africa's ICT industry and has considerable credibility with government bodies.

BITF aims to:

- ✍✍ Empower members with technical and business skills;
- ✍✍ Make BITF members significant role players within the ICT sector;
- ✍✍ Improve access to technology for historically disadvantaged communities;
- ✍✍ Actively influence policy-making forums, and
- ✍✍ Promote the status of historically disadvantaged individuals and communities in the ICT sector.

BITF focuses on two programmes:

- ✍✍ One which seeks to facilitate the development of skills throughout the technology sector and foster internships and experiential training by engaging corporate South Africa and multinationals, and
- ✍✍ The ABC Programme that promotes governance and provides a framework that guides the implementation of black economic empowerment.



Alignment with Government:

- ✍✍ As a stakeholder, BITF made a significant contribution to the drafting of the Preferential Procurement Policy Act for Black Economic Empowerment (BEE), at the invitation of the Department of Public Service and Administration (DPSA);
- ✍✍ BITF is playing a fundamental role in developing the ICT Charter as part of the ICT empowerment working group which is supported by the Department of Communications (DOC), Department of Trade and Industry (DTI) and the DPSA;
- ✍✍ BITF executive members serve on the DTI's BEE Advisory Committee and the ISET SETA;
- ✍✍ BITF executives have a permanent seat on the Government Information Technology Officers' Council (GITOC), and
- ✍✍ BITF responded to the Convergence Colloquium and provided input to the process through a joint submission with the South African Communication Forum (SACF).

1.1 Process in Formulating this Submission

BITF views this submission as the first of many inputs to the ICT Empowerment Charter Working Group as it seeks to gather information that will help to formulate the BEE strategy for the industry.

To gather input from BITF members a series of workshops was held in the Western Cape and Gauteng to:

- ✍✍ Achieve participation in the construction of the charter, address challenges, explore relevant ideas and issues, and create a shared vision of the South African ICT industry;
- ✍✍ Provide an opportunity for clarification and further exploration of existing ideas under the seven main headings in the draft ICT BEE scorecard;
- ✍✍ Vote to determine which issues need to be the key focus, based on the intended outcome of the charter, and which areas can be allocated as less important, and
- ✍✍ Seek additional ideas, issues, concerns and strategic initiatives that may fall outside the seven key categories.



The Participatory process was used to ensure all contributions were heard and there was equal participation through working teams and the larger groups. The output from these workshops informs most of this submission.

This output will also be forwarded to all members who participated and to those who did not, either because they were unable to attend or because there was insufficient time to hold a workshop in their province before the ICT Empowerment Charter Working Group Indaba on September 16 and 17, 2003.

BITF will seek further input from members to the ongoing efforts to develop the ICT Empowerment Charter through post-Indaba workshops.

2: The DTI Strategy

The policy objectives of the Department of Trade and Industry's strategy for Broad-Based Black Economic Empowerment as published in March 2003 state that its successful implementation will be evaluated against the following objectives:

- ✍✍ A substantial increase in the number of black people who have **ownership and control** of existing and new enterprises;
- ✍✍ A substantial increase in the number of black people who have **ownership and control** of existing and new enterprises in the priority sectors of the economy that the government has identified in its microeconomic reform strategy. The ICT industry is one of these industries;
- ✍✍ A significant increase in the number of new **black enterprises, black-empowered enterprises and black-empowered enterprises;**
- ✍✍ A significant increase in the number of black people in **executive and senior management of enterprises;**
- ✍✍ An increasing proportion of the ownership and management of economic activities invested in **community and broad-based enterprises** (such as trade unions, employee trusts and other collaborative enterprises) and **co-operatives;**



- ✍✍ Increased ownership of land and other productive assets, improved access to infrastructure, increased acquisition of skills and increased participation in productive economic activities in **under-developed areas** including the 13 nodal areas identified in the Urban Renewal Programme and the Integrated Sustainable Rural Development Programme;
- ✍✍ Accelerated and shared economic growth, and
- ✍✍ Increased **income levels** of black persons and a reduction in income inequalities between and within race groups.

This strategy is underpinned by four key principles:

Black Economic Empowerment is:

- ✍✍ Broad based;
- ✍✍ An inclusive process;
- ✍✍ Associated with good governance, and
- ✍✍ Part of South Africa's growth strategy

DTI SCORECARD

The DTI BEE strategy includes a proposed scorecard that aims to bring a measure of standardisation to the definition and measurement to the process. It allows for a measure of flexibility so it can be adapted to the particular circumstances of specific sectors or enterprises.

Core Component of BEE	Indicators	Weighted score
Equity ownership	% share of economic benefits	20
Management	% black persons in executive management and/or executive board and board committees	10
Empl. equity	Weighted employment equity analysis	10
Skills development	Skills development expenditure as a proportion of total payroll	20
Preferential procurement	Procurement from black owned and empowered enterprises as a proportion of total procurement	20
Enterprise development	Investment in black-owned and empowered enterprises: 5% of total assets	10
Residual	To be defined by sector/enterprise	10
Total		100



3: BITF's View on the Charter

Government has declared ICT a priority industry and, as such, needs an empowerment charter to set policy guidelines, code of conduct, standards and monitor these initiatives. The special focus on this industry is given impetus by President Thabo Mbeki's South African and international Presidential Advisory Council on ICT.

In support of this BITF believes that BEE is imperative to the sustainable growth of the South African economy in an attempt to correct the socio-economic structural deficiencies of the past.

Given the dynamic nature and peculiarities of the industry BITF will explore various processes to transform it, but will be mindful of the DTI's guidelines and scorecard as part of the process.

BITF IMPERATIVES

The Charter must:

- ✍✍ Define fronting and condemn it;
- ✍✍ Take cognisance of the anticipated DOC investigation into the demographics of the industry, which will give a valuable segmental view of the current state of the industry;
- ✍✍ Segment the industry to reflect the many permutations including telecommunications, broadcasting, media and IT. Within IT it is also important that further segmentations such as hardware, software, developers, integrators, consultants and other natural segmentations be considered;
- ✍✍ Set definitions, targets and timelines that will guide the charter in achieving transformation;
- ✍✍ Create empowerment across the entire value chain within the ICT sector. It is therefore critical that black ownership, management and skills be considered not only in the low value chain of products and services, but also in the high end;
- ✍✍ Apply the above stated objectives in high-end business consulting, IT architecture services, cutting-edge technologies and services, etc; success of black representation in cabling must be more than the digging of holes and planting of poles to wire a fixed or GSM network;



Define a strategy to establish new enterprises that have their roots in being black-owned, black managed and black engendered and thus not requiring transformation or empowerment. These include:

1. Business Consulting Services
2. Distributors
3. Large Systems Integrators
4. Mid-Sized Integrators
5. SMMEs.

A snapshot of the industry shows there are no black-owned enterprises listed on the JSE Securities Exchange's IT sector and only three listed black-empowered companies. While this is not an accurate measure of black empowerment in the sector, as many entrepreneurs prefer not to list their companies, it is an indication of the level of participation.

4: BITF's recommendations on scorecard issues

The recommendations are listed in the order the headings appear on the DTI scorecard and are not ranked according to the importance given them by BITF members.

4.1: Direct Empowerment

4.1.1 Equity Ownership

- ?? Ownership of assets by black South Africans is a key imperative and cannot be replaced by other instruments, such as equity equivalents or special purpose vehicles. Fronting shall not be tolerated.
- ?? For foreign companies to operate in South Africa local ownership requirements similar to those of the Telecommunications Act should be considered for the Charter. This is gazetted as a minimum of 30%.
- ?? Ownership should apply to all segments of the industry and through the entire value/supply chain.



- ?? Ownership must be broad-based and, by implication, should address poverty alleviation and rural development.
- ?? An independent body must be established to monitor and regulate compliance within the framework of the Charter.
- ?? A special BEE Fund must be established to finance the acquisition of equity from established companies in the IT industry.
- ?? Minority shareholder interests must be protected through board appointments and voting rights.

4.1.2. Operational Management and Control

- ?? Within the next two years in excess of 30% - and in five years 50% - of the following positions:
 - Chief Executive Officer
 - Chief Operating Officer
 - Chief Finance Officer
 - Chief Information Officer,
 - Business Development executives**must** be held by black people.
- ?? Companies must have written strategies clearly setting out leadership development programmes, mentoring and succession planning to enable the above.

4.2: Human Resources and Employment Equity

4.2.1 Employment Equity

- ?? The Employment Equity Act has failed to have an impact on the sector's demographics, thereby limiting the potential for black people, the disabled and youth to proceed up the employment ladder in the industry.
- ?? Quotas and timeframes must be included and, more importantly, enforced for the Act to become effective. The



rigorous application of the Mining Act serves as a good example of how this can be achieved within industries.

- ?? Employment Equity must be reflected at all levels of companies. Succession planning and mentorship programmes are key enablers in achieving employment equity targets.

4.2.2 Skills Development and Training

This was seen by BITF's members as the most crucial area needing attention in the industry.

- ?? Current legislation and training bodies are ineffective in delivering the appropriate skills to the industry timeously. Revisions of the mandate and operations of these bodies should better align them with industry needs.
- ?? Research is necessary to determine the dynamic training needs of the industry to ensure that training occurs throughout the value chain and provides the labour market with the appropriate skills set.
- ?? Appropriate mechanisms should be put in place to enable SMMEs and SMEs to benefit from the intention of the Skills Development Act.
- ?? The Charter should set training targets, and should appoint an independent body to benchmark training standards, and monitor and enforce these.
- ?? Skills transfer should be a pre-requisite in the awarding of tenders.
- ?? Training must happen at all government and corporate levels and across the value chain, from learnership to leadership development.
- ?? Targets should be set for mandatory internships because they are the most effective way to give practical value to education.



4.3: Indirect Empowerment

4.3.1 Preferential Procurement

- ?? Measures must be put in place to expose and eliminate fronting. BITF's ABC programme can play a pivotal role here in certifying and monitoring BEE-accredited companies to ensure business opportunities are channelled to black-owned and empowered businesses.
- ?? Current preferential procurement legislation must be extended to the private sector and enforced. Local content, assembly and resources must be represented by black companies and recognised as a criterion in procurement policies.
- ?? Ensuring profitable local criteria will ensure that profits are re-invested into local R&D that will spur the growth of South Africa's intellectual property. The motor industry is an example of how this grew local capability, capacity and innovation.
- ?? Multinationals must be encouraged and pressured to amend their global procurement strategies to channel spend through local sector companies.
- ?? Multinational vendors must accept payment in local currency.
- ?? Government should be a role model and set aside 20% to 25% of its procurement for SMMEs and, in addition, 50% to 60% should be procured through BEEs.
- ?? Companies operating nationally must seek to give procurement opportunities to local BEEs in various regions and endeavour to transfer the necessary skills in support of that transaction.
- ?? A condition of State-owned enterprises obtaining tenders must be their commitment to uplifting SMMEs through skills transfer and enterprise development in all provinces.



4.3.2 Enterprise Development

- ?? Fronting in enterprise development will not be tolerated.
- ?? Partnerships must drive enterprise development through the entire supply chain by transferring skills and business knowledge that are essential for sustainable growth.
- ?? The ICT industry must fund the growth of enterprises through mechanisms such as revenue levies, offset by concessions and tax rebates. Equally important is the investment in financial and business practise education for emerging entrepreneurs.
- ?? There is a need to simplify the process by which emerging black entrepreneurs gain access to financial support.
- ?? In a mentor/protégé relationship there should be clearly stated agreements detailing the terms and conditions of engagement, which must include timelines, repayment of loans, equity swap and an exit plan. These agreements must be structured to prevent cashing in on empowerment deals without sustainable empowerment being created.

4.3.3 Residual

- ?? The Charter must encourage the growth of ICT capabilities outside the major metropolitan areas – through procurement and skills transfer opportunities and by taking technology into rural and township schools.
- ?? Steps must be taken to raise schoolchildren’s awareness of IT as a career option. IT should be included in the curriculum.
- ?? Corporates and the industry need to develop at least 300 undergraduate bursaries at universities and technikons each year to address the critical shortage of skilled professionals.



5: Conclusion

Within the next decade the South African ICT industry will be dramatically changed. Black business and entrepreneurial skills will have been allowed to triumph, and locally developed intellectual property, capabilities and resources will have made major contributions to the growth of wealth and widespread empowerment of all South Africans.

This transformed industry will power ahead to bridge Africa's digital divide and enable South Africa to profitably participate in global markets.

But, the ICT Empowerment Charter will be a key enabler in transforming the industry only if terminology is clearly defined, and targets and timelines to achieve its objectives are set and enforced.

Implementing the terms of the charter will take determination, courage and imagination by all participants in the ICT industry.

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