

Speeches

KEYNOTE ADDRESS BY VICE ADMIRAL (Ret) MUDIMU (CHAIRMAN OF ARMSCOR) AT THE ARMSCOR SUPPLIER OPEN DAY HELD ON 19 MAY 2016

Programme Director,
Your Excellency Ambassador Pheko,
Esteemed members of the Armscor Board present here today,
Chief Executive Officer of Armscor, Mr. Wakeford and your team,
Mr Dean Mogale, Chairman of AMD,
Mr Nemahangala, Director General in the Department of Military Veterans,
Mr Simphiwe Somdyala, CEO of Masisizane Fund Members of the AMD and the defence industry in general,
Ladies and Gentlemen,

Although these days I don civilian apparel and I try my hand at business in retirement, my first love is and my upbringing has been in the military. I say this in order to pave the way for my starting point to this discussion, by considering the words of Military Historian, Carl Von Clausewitz [1780 – 1831], On War, Book 1, Chapter 3 and we quote:

"Rather than comparing war to art, we could more accurately compare it to commerce, which is also a conflict of human interests and activities".

And so, Programme Director, although it may not be immediately clear to the casual observer; very few professions intersect as profoundly as the military and business. This is a historical and present day fact of life. Both the military and business have driven the development of nation states over millennia and both require a heightened sense of foresight and resilience from those who participate in them. The waging of war and the starting of a business require the same kind of visioning, planning and energy. It goes without saying then, that like the military, business is not for everyone. In the military, engagement with your counterparties may mean life and death and in business, there are always casualties too.

It should come as no surprise that the word "strategy", which is better known for its use in business language, has its origin in military history.

While the waging of war against other nations was (some may argue still is) a commercial enterprise from which a nation may profit, so too empowering SMME's for global competitiveness is the modern way in which each nation seeks to secure the livelihoods of its people. Without its soldiers and entrepreneurs, no nation can hope to stand shoulder to shoulder with others as an equal, a competitor, a great contributor to global affairs. Indeed, it has been demonstrated in Africa that with the advent of peace brought about by the deployment of African Union Peace Keeping Forces, a period of relative prosperity and stability has reigned in the affected regions.

Programme Director, the theme for this gathering i.e. "Empowering SMME's for Global Competitiveness" could not have come at a better time in the history of this country. For far too long, we have looked to the major industry players to help us with the eradication of poverty, the creation of jobs and the payment of taxes to the fiscus so that we may improve and grow our infrastructure and better the lives of our people. In the defence environment, where billions of rand are spent on acquiring major combat systems, the reliance on the big multinationals and a few locally listed entities may have had its merits.

But history has proven that it is not by growing the big players that you can improve the life of the ordinary entrepreneur. Just as it is important to look after the soldier by properly provisioning for him/her, so too it is important to look after the entrepreneur. This is because in the final analysis, it is the soldier, the entrepreneur, the common vendor in the street who makes all the difference as a force multiplier within their own environment and consequently throughout society as a whole.

Ladies and Gentlemen, according to a report by the United Nations Development Program Report, aptly titled

"Small Business is Big Business – A UNDP Perspective on SMME Development in South Africa", November 2014 and we quote at page 3:

"There can be no doubt that the South African economy needs radical structural transformation. Not only does growth need to accelerate, it needs to be inclusive, sustainable and equitable. SMME development can and must be at the centre of this transformation, because its impact can be massive. And that is why small business must be seen as big business in South Africa".

This report was issued prior to Moody's last downgrading of South Africa and the subsequent negative outlook confirmed on 06 May 2016. However all is not lost, because Moody also confirms that South Africa's rating reflects Moody's view that the country is likely approaching a turning after several years of falling growth.

Following on the back of Moody's report has been the President's pronouncement of the need to accelerate inclusive growth and in this regard, to set up a joint fund with business to support small businesses. This fund, according to reports, is focused on providing venture capital type funding targeted especially at black entrepreneurs. The private sector has already raised around one billion rand towards the initiative and Government is expected to match this contribution. The ultimate goal is to see the fund expanded to a budget of ten billion rand. Indeed, the UNDP report referred to earlier, attributes the failure of SMMEs to blossom in South Africa to a number of factors, including inadequate access to finance (which the fund will hopefully address), limited market access, poor business skills and networks, insufficient research and development and limited engagement of the private sector.

So far we have spoken about SMMEs in general and anybody who has had the opportunity to peek into the lives of entrepreneurs in the defence sector will tell you that not only are their problems unique, with high barriers of entry, but the sector is largely neglected in terms of support and is bundled together with other unrelated sectors for what is often limited and in some cases inappropriate interventions.

The DTi has diagnosed the problem as follows and we quote:

- "Shortage of large development programmes to build the technology and skills pipeline and accelerate knowledge transfer between the knowledge generating entities and manufacturing industry.
- Limited participation of locally owned companies in key strategic technological areas and;
- A limited aerospace and defence industry support programme, including export support, compliance with international standards and skills development".

The DTi has also identified the following opportunities in response to the challenges referred to above, and we quote:

- "Unlocking niche export markets and partnerships;
- Providing tailor-made solutions to selected export markets;
- Leveraging Government and State-Owned Companies' acquisitions and maintenance of defence related products to expand local capability and boost local manufacturing, both by participating in off-set programmes and building further on global supply value chains and;
- Development of niche capabilities and technology programmes".

We tend to agree with the view that the defence sector needs specialist funding with appropriately tailored solutions to meet their unique needs. This must be seen against the background that SMMEs will typically not have the balance sheet to meet large export orders and the banking sector has in turn been reticent in its support of SMMEs. Development Finance Institutions have similarly been lacklustre in their support for SMMEs, often expecting securitisation arrangements as would typically be required by commercial banks. Exports require volume in order to make consignments economical. They also require insurance, a healthy cash-flow and an intimate knowledge of target markets. SMMEs by their nature do not have such capabilities

It is with this understanding in mind that Armscor is together with the AMD and other potential role-players exploring the possibilities and modalities of a Defence Industry Fund. In this regard, one of our Board members, Dr Khanyile, has been tasked to interact with all relevant role players to ensure that this funding

delta is filled within the applicable legislative and administrative framework. You will bear witness to other partnering initiatives by Armscor to fast-track SMME funding later today.

Ladies and Gentlemen, Armscor has also begun with the process of government to government work, wherein Armscor receives and seeks to meet the requirements for defence materiel from our country's partners in Africa and throughout the world. In this arrangement, Armscor harnesses the capabilities of South African companies, especially SMMEs, in meeting the full spectrum of those requirements. This means that while the contracting party is Armscor, South African SMMEs become sub-contractors. In this way, products emanating from SMMEs are exported by Armscor without the SMMEs having to comply with the full gamut of export administrative requirements, thus providing a necessary outlet for their products at a limited administrative cost to them. This will apply equally to the work that Armscor intends to do for the United Nations, in respect of their peacekeeping work.

Additionally, Armscor has a world-class Quality Assurance Service that it offers to everyone, from multinationals, to countries across the world and yes, to you as a service provider wishing to offer services or products for export or locally. This value-add service can enhance your product acceptability in the market place and we stand ready to assist any way we can.

Programme Director, to further support its efforts at SMME development, Armscor interrogates its major suppliers on how they benefit SMMEs in their contracting models for projects placed on them by Armscor. This is a standing item on the agenda of the Board and Project Hoefyster provides the perfect example for this. As one of the major projects for the coming years, Armscor requires that it be updated on every facet of the sub-contracting processes to ensure that SMMEs benefit as much as possible while obtaining access to knowledge transfer and skills development opportunities.

Armscor has also noted the regulatory minefield that it must traverse to make SMME support and BBBEE a reality. This minefield consists of a myriad of laws and regulations which, while well-meaning in their intent, impede transformation in their application. To overcome this minefield, Armscor has together with the AMD and other role players embarked on the development of a Defence Industry Charter. The purpose of the Charter will be to provide a sector specific transformation tool that can be used to create access to major tendering opportunities for SMMEs and black business in general. It is hoped that this process will be concluded towards the end of this year.

In addition to all the other efforts I have mentioned, Armscor is also required to manage the Defence Industrial Participation of Government. This is an offset programme aimed at ensuring that there is local benefit for systems acquired on behalf of the DOD. This benefit can take the form of skills transfer, capability creation or through life support for the project under which the DIP credits were earned. In the administration of this programme, Armscor ensures that SMMEs and black owned and managed enterprises benefit. Unlike previously, when the affected company chose how to discharge the DIP obligation, Armscor has through policy initiatives ensured that the program is directed in a manner that is consonant with our development needs as a country and the defence sector in particular.

Ladies and Gentlemen, despite our best efforts to ensure deeper and wider SMME participation in the tenders that we issue, there are certain disconcerting observations that Armscor has made and which we would like to put before you for your consideration. The first of these is that in the process of adjudicating tenders, we note that many companies respond to our Request for Information and even participate in supplier briefing meetings as part of the tendering process. However, only a few of those companies actually submit tenders and even fewer make it to the finishing line. The question that has not been satisfactorily answered is why this is so? One school of thought suggests that the Request for Information is so broadly stated that most companies realise only at the stage of the Request for Offers that they would not be in a position to meet the requirements of the tender, hence the reduced number of offers. Another school of thought suggests that the Request for Offers is configured in such a manner that it unnecessarily excludes potential service providers, either in terms of technical requirements or delivery milestones. Please mull over this issue and let us know in the course of this interaction, what the reasons for this state of affairs may be, either in terms of your own experiences or as part of your general understanding of the environment in which you operate.

The second of issue that we would like your advice on is whether the method of advertising defence materiel tenders is sufficiently accessible to you as a service provider. Is the Armscor tender bulletin, which is published on the Armscor website sufficient? Are there other methods of communication that you believe would be more appropriate to draw as many responses as possible?

Please note that we also publish our procurement needs i.e. non-defence materiel requirements on the National Treasury E-Portal. This is intended to provide a wider audience to our operational needs and you are encouraged to peruse that E-Portal regularly.

The third issue that we would like your advice on is whether as service providers, you are aware of the registration requirements that Armscor applies to its suppliers for inclusion in its database and whether there are any unnecessary barriers for such registration. As you will be aware, registration with the Companies and Intellectual Property Commission (CIPC) and SARS are legislated requirements that cannot be waived. We have called this meeting precisely because we want to know what we can do for you so that you may succeed and in that way, help South Africa succeed.

The fourth and final issue that we wish to raise with you is one of a collective voice. As the Armscor Board, we have regular meetings with the Board of the AMD. These meetings are geared to ensure synergy between ourselves and our service providers in terms of deal pipelines, performance against budgets and other matters of mutual interest. While recognising that the freedom to associate as 15 enshrined in our Constitution also entails the freedom not to associate, one cannot discount the benefits of a collective voice, such as a single point of communication and bargaining power. We would accordingly urge that SMMEs who are not part of AMD devise a way through which they can realise the benefits of this collective voice that we have spoken of. How this may be most conveniently done is a decision that the affected companies will have to take. However, we really look forward to hearing more voices representing SMMEs in the defence environment as that will help us to be more responsive to their needs. We would on that basis, formalise and regularise our engagements, just as we do with the AMD.

Programme Director, these are some of Armscor's responses to the problems of SMME development in the defence sector as identified earlier on. We realise that as an entity, we can only do so much to contribute to the achievement of the much needed growth. The rating agencies have had their say. The President and the Minister of Finance have provided the platform in which our response to development is premised. We have the capacity as an industry to contribute meaningfully to a better investment grading going forward. We dare not fail in this regard.

Programme Director, Armscor enjoys the unique position of sitting between the soldier and his/her needs and the entrepreneur in the defence sector. Both must play their part in the development of our national project. Working together to find new ways of doing things and ensuring that the playing fields are equal, we will go a long way in guaranteeing our success as a country and as a people.

To conclude, Ladies and Gentlemen, the biggest highlight on Africa's defence calendar is, as you know, AAD 2016. This will taking place from 14 – 18 September 2016. You all urged to present yourselves and your products there for the world to see. I look forward to meeting each and every one of you there. And let me point out that success is not just achieved by producing workable solutions to the problems that beset the world. Success is achieved when you make the world aware of its problems and how only you possess the unique solution to those problems.

In the words of the famous author, publisher, activist and businessman, Marcus Garvey [1887 – 1940] and I quote:

"There is no force like success, and that is why the individual makes all effort to surround himself throughout with the evidence of it; as of the individual, so should it be of the nation".

I thank you.