

**MINISTRY OF DEFENCE & MILITARY VETERANS**

**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**2353. Mr S J F Marais (DA) to ask the Minister of Defence and Military Veterans:**

(1) With reference to page 128 of the 2015-16 annual report of the Armaments Corporation of South Africa (Armscor), (a) what are the (i) details of and (ii) justification for Armscor’s application of a 25% black equity selection criterion as a requirement for supply chain management in contravention of the Preferential Procurement Policy Framework Act, Act 5 of 2000, as amended, (b) what steps have been taken by (i) her and/or (ii) Armscor to address the R13,2 million incurred as a result of the specified policy and (c) how did the transactions established by the specified policy benefit (i) Armscor and (ii) the SA National Defence Force;

(2) whether the specified transactions have been regulated yet; if not, why not; if so, what are the relevant details? NW2688E

**RESPONSE**

1. Armscor applied the 25% Black equity requirement as a selection criterion until September 2014 when the application of this criterion was discontinued. The objective of this strategic intervention was to address the dire transformational challenges facing the local defence industry.

 When Armscor introduced the qualifying BEE requirement, the Preferential Procurement Policy Regulations were not applicable to Schedule 2 and 3 Public Entities. In 2011, National Treasury introduced the revised Regulations which became applicable to, inter alia, schedule 2 public entities and these entities were however granted exemption until 7 December 2012 for implementation of the Regulations. Armscor aligned its policy with the revised Regulations immediately but retained the 25% black equity ownership requirement.

 Discussions were then started with the National Treasury, through which National Treasury was made aware of Armscor’ s policy of 25% black equity ownership requirement. Whilst in discussions with the National Treasury and in the process of applying for exemption subsequent to those discussions, the Auditor General declared monies spent on contracts which were subject to the 25% BEE requirement irregular expenditure.

The 13.2 million reported represents expenditure incurred during the 2015/16 financial period as a result of contracts placed during the period that the 25% black equity requirement was applied.

(2) The expenditure incurred while applying the 25% black equity criterion was condoned by National Treasury on 19 July 2016. The 25% black equity ownership requirement application resulted in some previously disadvantaged groups or persons entering the economic stream through participation in the acquisition/procurement contracts funded from the SDA, GDA and Armscor operational expenditure. To this end, this intervention has made strides in changing the ownership landscape in the South African defence industry.

Finally, the application of the 25% black equity ownership qualifying requirement has to an extent amongst others assisted in seeking to establish and retain sovereign and strategic capability for the benefit of the SANDF in local empowered entities.