



Presentation to Portfolio Committee on Public Enterprises

*Legislative compliance of contractors and subcontractors in
advancing government's economic imperatives of job
creation, skills development and promotion and support of
local businesses.*

21 August 2012

Introduction

Eskom's Approach to Supplier Development and Localisation

Overall Performance and Compliance Management

Key Messages

- Procurement was one of the key focus areas identified at the August 2011 Eskom Board Breakaway.
- One of the key issues raised in this regard was that Eskom must take proactive steps to put measures in place to ensure that it maximises the benefits to previously disadvantaged individuals from its procurement and not only complies with current regulations.
- Eskom has made significant strides in achieving its targets and has implemented a focused delivery strategy to support the required organisational step change to
 - Create sustainable long term revenue certainty for black business and thereby enable long term operational sustainability; and
 - Move beyond the government's minimum requirements insofar as transformation is required.

Transformation of Procurement and Supply Chain

Eskom's approach to Supplier Development and Localisation



- 1 Concepts
- 2 Key Deliverables
- 3 Policy Shifts
- 4 Implementation

Skills development

- 1 Create a strategic plan for the talent pipeline
 - Set achievable targets by considering available and scarce skills
 - Cascade targets to all activities/ functions
- 2 Leverage existing institutional knowledge

In 2007, Eskom agreed to develop and implement a CSDP as an alternative means of achieving the goals of the National Industrial Participation Programme (NIPP).

Supplier development and localisation

- 3 Be selective about which suppliers to develop and what approach to use
- 4 Focus dedicated resources on value-adding supplier development activities
- 5 Develop suppliers sustainably to operate competitively and independently
 - Phased approach with export focus
 - Clear targets and milestones

Subsequently in 2008, Eskom formulated its CSDP Plan to build a foundation for industrialisation

Industrialisation

- 6 Secure government's support where necessary (e.g., creating incentives, infrastructure investment)
- 7 Leverage multinationals to facilitate technology transfer

Eskom's current approach is captured in its **Supplier Development and Localisation Plan (2011-2013)**

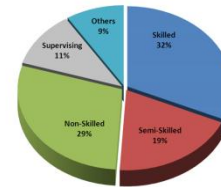
Local Content Spend in New Build

From the inception of the respective new build projects, the total local content committed by suppliers amounted to **R75.2 billion**, which is **63%** of the R121 billion aggregated contract value.

At the **end June 2012**, the accumulative local content actual spend was **R35.4 billion**, which is **47%** the total local content committed.

Job Creation in New Build

From the inception of new build projects to **end of June 2012**, there were **30 893** individuals working on the different new build projects sites. Close to **14 704** individuals (**48%** of the total jobs created in new build projects) were employed from the local districts where the projects are taking place.



51% of the individuals working on the different new build project sites consist of skilled and semi-skilled workers.

Investment in Skills Development by Suppliers

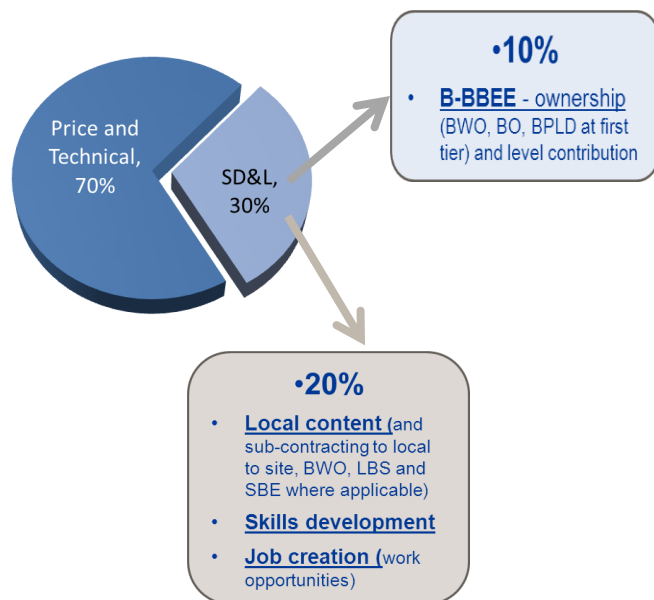
Project	Target	In Training	Completed
Medupi	2027	899	662
Kusile	2715	781	1630
Ingula	231	83	75
Power Delivery	2029	556	1002
Plant & Equipment	224	23	1782
Total	7226	2342	5151

The majority of training takes place in the following disciplines: **Boilermakers, Coded Welders, Riggers, Fitters, Technicians, Laboratory Technicians and Quantity Surveyors.**

Investment in Plant by Suppliers

Since the inception of the CSDP in June 2008 till the end of June 2012, a total actual investment spend in plant by suppliers is **R718 million**, which is **60%** of the committed value of R1,2 billion over the life of the respective contracts.

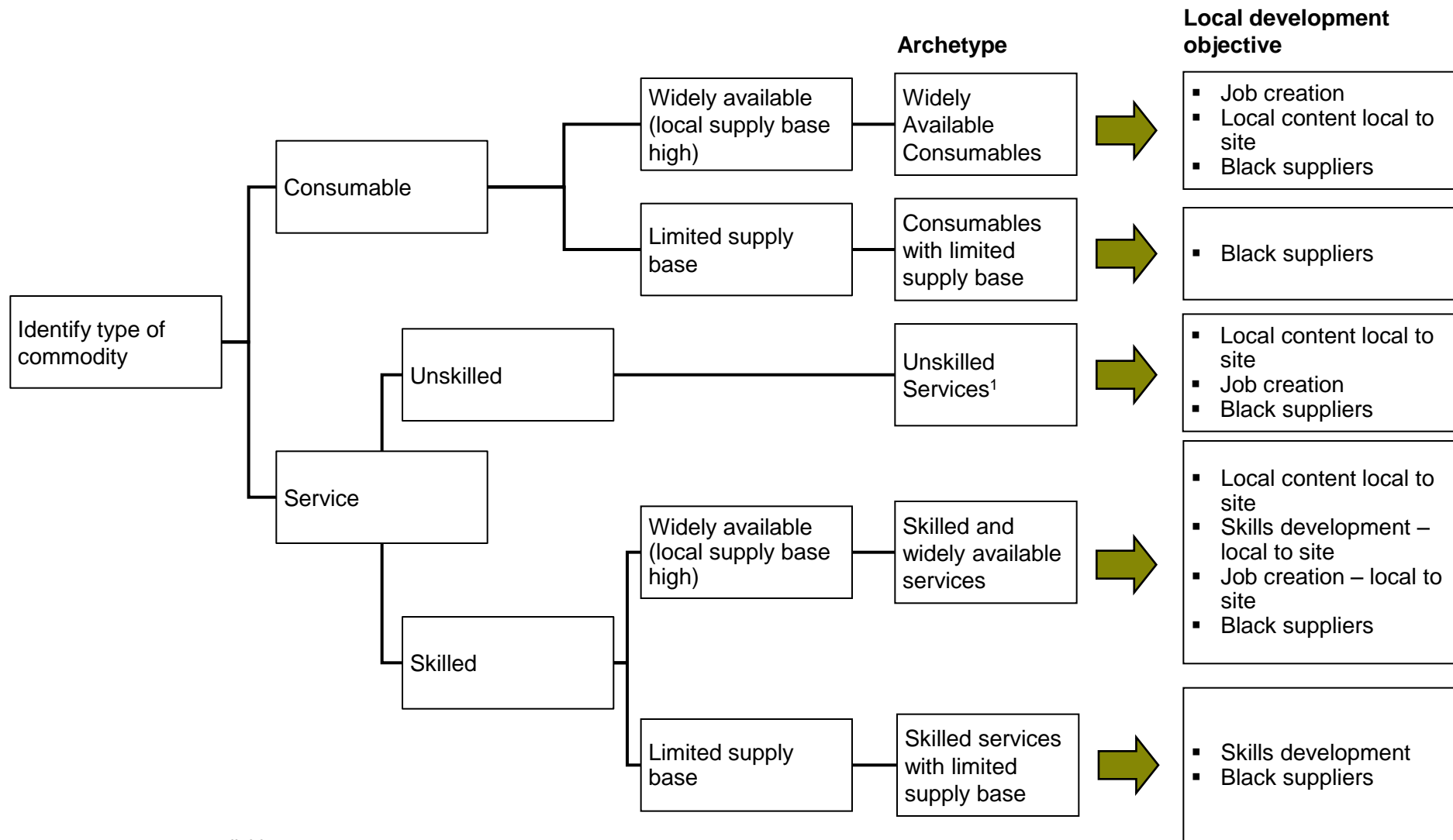
The evaluation criteria now contains an increased SD&L evaluation score allocation in the overall scoring to ensure all dimensions of local development are considered:



Enabling mechanisms for achievement of SD&L objectives:

- Hierarchy of Supplier Preference
- Mandatory inclusion of SD&L representatives in all procurement evaluation and adjudication teams, committees and demand forecasting teams
- SD&L is a mandatory component of the evaluation criteria
- Alternative mechanisms: price-matching; set-asides; awarding of additional preference points for defined categories of suppliers
- SD&L matrix is a standard tender returnable
- B-BBEE certificates

Implementation: Classification and Categorisation of Projects and Commodities linked to local development objectives



¹ Assumed to be widely available

Implementation: Socio-Economic Development Targets 2012/2016

		Baseline plans for 2011	2012	2013	2014	2015	2016
SKILLS DEVELOPMENT	Learner's pipeline						
	Total number of learners in the pipeline	4 950	5 735	5 907	5 979	5 990	6 100
	As % of Eskom's permanent headcount (norm is 8–10%)	11.80%	15.00%	15.50%	15.70%	15.30%	15.60%
	Thereof number of new apprentices enrolled		1 000	1 020	1 040	1 050	1 100
	Artisans and Engineers						
	Total cumulative number of artisans and engineers qualified		1 640	3 330	5 060	6 830	8 940
	Thereof artisans		840	1 710	2 600	3 510	4 450
	Thereof engineers		800	1 620	2 460	3 320	4 490
	Own employees						
	Percentage of employee workforce undergoing training	80%	80%	81%	82%	83%	84%
Investment spending in skills development	R758m	R850m	R875m	R890m	R900m	R920m	
JOB CREATION	New jobs in construction	34 449	38 520	39 963	38 369	41 518	40 545
	New jobs in maintenance		400	800	1 200	1 400	1 800
	New jobs in operations		100	200	300	350	500
YOUTH DEVELOPMENT	Youth interns that can be taken up for a one-year stint as set out below	200	2 100	5 000	5 000	5 000	5 000
	Thereof graduates experiential training (intake per year)	200	1 050	2 500	2 500	2 500	2 500
	Thereof matriculants trade skills training (intake per year)	0	1 050	2 500	2 500	2 500	2 500
	Targeted outcome per year (number of matriculants trades qualified)		0	840	2 000	2 000	2 000
PROCUREMENT	Local sourcing contracts placed	50%	52%	55%	57%	59%	60%
	B-BBEE performance	60%	70%	75%	80%	85%	90%

Transformation of Procurement and Supply Chain

OVERALL PERFORMANCE



- 1 Overview
- 2 Performance Drivers
- 3 Year on Year Comparison
- 4 Compliance Management

Comparative Performance - FY11 vs. FY 12

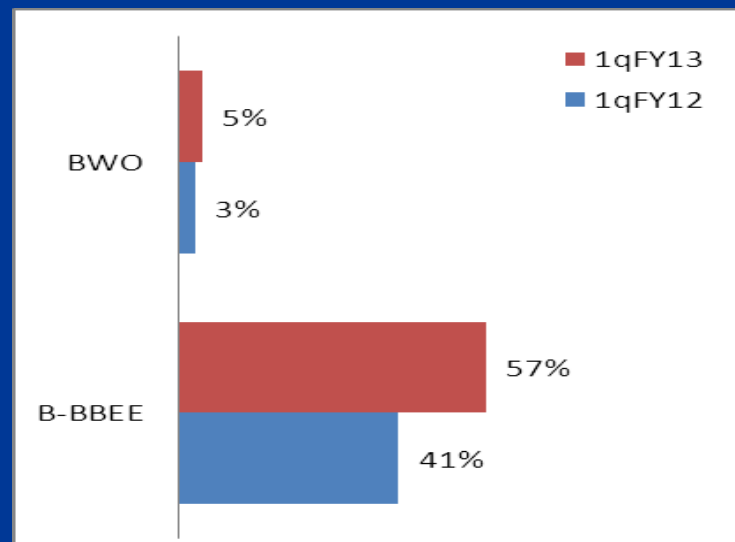
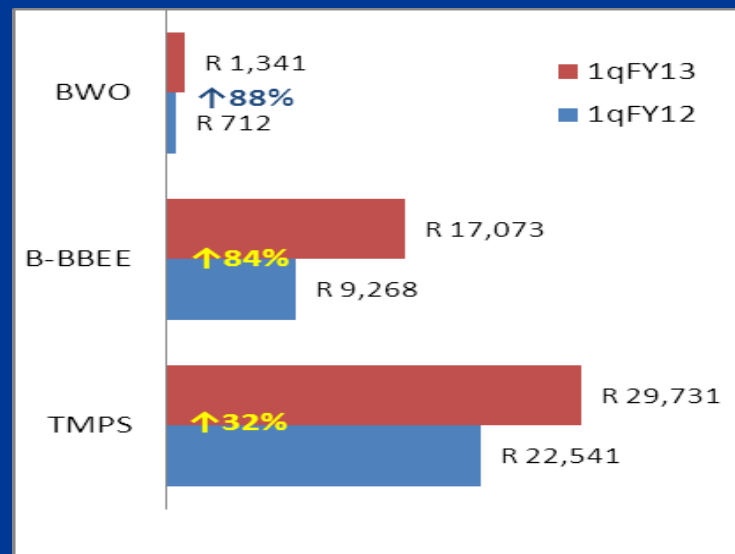
		FY11 (end March 2011)		FY12 (end March 2012)	
Indicator	Unit	Target	Actual	Target	Actual
B-BBEE as % of Total Measurable Procurement Spend	%	50.0	52.4	60.0	73.2
BWO as % of Total Measurable Procurement Spend	%	6.0	4.3	8.0	3.3
BO as % of Total Measurable Procurement Spend	%	9.0	8.0	20.0	14.6
QSE/EME as % of Total Measurable Procurement Spend	%	10.0	8.0	10.0	8.4
Skills Development (Youth Programme)	number	n/a	n/a	5735	6 794
Jobs Created (since inception)	number	n/a	21 477	25437	28 616
Local Content in new build (commitment)	%	50.0	79.0	52.0	75.3
Industrialisation (since inception)	R'million	1 180	608	1 202	648

	B-BBEE	BWO	BO	QSE/EME
FY 12 ACTUAL (Rand Value)	R 72 134 543 215	R 3 270 864 174	R 14 375 679 270	R 8 247 523 766

B-BBEE Performance YTD June 2012 compared to June 2011 improved by 16%

- The year on year comparison indicates that the initiatives put in place to bolster socio-economic performance last year are yielding results;
 - The TMPS rand value increased by 32% from the Q1FY12 to Q1FY13, while B-BBEE and BWO grew more than 80%.
 - The B-BBEE performance in Q1FY13 has increased by 16% when compared to Q1FY12

Q1FY12 vs. Q1FY13





Pfisterer investment of R25m in plant in KZN

- Plant that saw global manufacture of 275kV insulators move to RSA
 - Previously manufactured in Switzerland
- Investment complete and first production units rolled off production line



Powertech has invested R22 million

- Increase local capacity of Power and Distribution transformers.
- Increase in quality and reliability of product addressed.



Babcock has spent R24 million in insulators & Line Hardware

To date an amount of R 24 millions has been invested on the following:

- Forging Hammer & Furnace Machines
- Shot Blasting Machines
- Stringing Equipment
- Earthmoving Equipment



Sulzer SA, a local manufacturer of feed pumps, has grown significantly

- Sulzer South Africa subcontracted for the production of **96** pumps (36 BFP, 24 CEP, 36 boosters) for Medupi and Kusile
- **45%** of contract has local content commitments, including manufacture of castings and rotating components
- Manufacturing capacity investments by Sulzer expected to be **~R60m**
- Sulzer revenues increased significantly since 2007

Eskom Contractors:

Local Suppliers' development across a variety of different industries



- Opened a new **coil shop** at its Alrode machine factory, in Johannesburg, in December 2009, to better meet local and global demand. This green Longmeadow facility, will house about **1000 ABB employees**

ACTOM

- Locally builds the busbars for 90% of South Africa's power stations and had recently received the **order from Alstom** for the Medupi busbars, for which it had built a **manufacturing facility** in Boksburg

ACTOM

- Built a dedicated **plant for assembly of the PIX** switchgear at its Knights, which is due to commence operation by mid-2010, covering a floor area of 1000 m2. The company has spent around **R21m** over the past two years in establishing the PIX assembly plant, extensions to its indoor switchgear plant and an additional mini-sub plant



- **Sarens** Opened a **depot to supply cranes** for the construction of Medupi
- Intends to **invest in skills development** of people from Lephalale



- Wuxi has made a commitment to build a manufacturing facility in SA.



- Have increase local content from **30% to 65%**
- January 2011 to have **100%** local content, thus have the fist panel built 100% locally
- Employed additional **6** employees to meet Eskom orders.
- **Six** personnel from Eskom to travel to China for training

Eskom has enabled the capacity growth of power line supplier - **Babcock Ntuthuko**

Success profile

- Skills development X
- Localisation X
- Industrialisation X
- Job creation



How did Eskom help this supplier?

- Eskom initially awarded the company a **R55m** contract
- Company went through **Eskom-assisted skills development training**
- Eskom then awarded a 5-year contract worth **R458m** across multiple product lines
- **Babcock Ntuthuko** committed to expand capacity from **80 tons** before contract to **150 tons** and used this commitment to **plan its training and investment strategy**

Why is this an Eskom local development success story?

-  Spent **R99k** on **training 13** personnel on **technical skills**
-  **Invested R20m** to **increase local** manufacturing plant **capacity**
-  **Increased capacity** to meet demand by:
 - **20%** in **tower manufacturing**
 - **50%** in **aluminium casting**
 - **60%** in **hardware**

Eskom has enabled localization by Hitachi Power Africa

Success profile





- Skills development X
- Localisation X
- Industrialisation x
- Job creation X

HITACHI
Inspire the Next

How did Eskom help this supplier?

- Awarded the Boiler Contract, **R38.5 billion**
- Hitachi committed to a Localisation Investment programme of R904 million for the Medupi and Kusile Boiler Works Contracts. An amount of **R1.092 billion** has already been committed to investment.
- Hitachi committed to train **1400** Artisans and **60** Engineers.

Why is this an Eskom local development success story?

-  Local Content is above target, at **65,2%**
-  The local content % of the main Subcontracts are approximately MRP 95%, DBT 83%, Steinmuller 86%, Intervolve 96%, Howden 80%, Actom 80%, KOG 100%, Mitak 95%, Aerotherm 100%, Clyde Bergemann Africa 80%, Arminco Projects 80%, Rula Materials Handling 80%, Steval Engineering 100%, Vaal Triangle Lubricants 100% and Ventrите International 100% at 30 December 2010.
-  By end of December 2010, already injected an amount of **R118m** into the local economy in Lephalale and the greater Waterberg District. Of this amount, **R16m** has been spent on BWO suppliers and **R24m** on SMEs
-  Jobs created totalled **3 413** by end of 2qFY11

Eskom has enabled the capacity of steel producers at Southern African Institute for Steel Construction (SAISC)

Success profile



- Skills development X
- Localisation X
- Industrialisation X
- Job creation



How did Eskom help this supplier?

- Eskom Capital expansion, Medupi and Kusile
- The Steel industry has invested hundreds of millions of Rand in facilities, plant and equipment to increase the available capacity in South Africa
- The metals and steel construction industry complies with most of the criteria required of a “centre of excellence” and it is recognised as a “niche industry” in the overall CSDP.
- SAISC has participated with private industry in establishing a Draughting Training School

Why is this an Eskom local development success story?

-  **Cosira Engineering** - New work-shop with modern materials control systems
-  **DSE** - Doubled the size of the existing workshop by installing new workshops, new equipment and improved work flow
-  **Genrec** - (main Hitachi contractor) Doubled capacity in works by converting heavy engineering bays, installation of new equipment and revised methods
-  **Tubular Construct** - Installed **R150m** of new production equipment
-  **Steinmuller** - New 27000 m² facility for ducting and other plate work to be done locally, incl technology such as flue gas desulphurisation to be provided

Compliance Management and Monitoring

Contractual stage

- Supplier Development & Localisation (SD&L) obligations are incorporated in contract documents at **contract execution**. An **implementation schedule/plan** with SD&L commitments is completed by the supplier and both Eskom and the supplier are party to this schedule which is part of the contract documentation.
- This **Implementation Schedule/Plan** outlines all the **deliverables and timelines/milestones** of execution – typical areas covered: (a) Local content; (b) Local to site; (c) 2nd Tier Suppliers; (d) Skills Development and (e) Job Creation.
- Industrialisation plan which is based on the value of the contracted would also be completed in the event of it being an agreed upon obligation.
- A reporting template is provided to the Supplier for reporting on a pre-determined intervals, e.g. quarterly basis, measured from the start of the contract.
- **Valid B-BBEE certificates** are required at contracting stage to prevent non compliance
- Regular **compliance monitoring** of the supplier's B-BBEE status is undertaken throughout the duration of the contract.
- Where applicable, the **Migration Plan** forms part of the implementation plan for BEE non Compliant Suppliers identified through the monitoring process.
- **Monitoring and Reporting** occurs throughout the life of the contract.

- **Monthly Monitoring and Evaluation** cycle implemented as per Implementation Plan
 - Monitoring team consists of SD & L monitoring team and the Project Management team at site
 - Random sampling of suppliers is undertaken for site visits reviews
 - Reviews comprise of interviews of both the sub-contractors, skills development and job creation candidates.
 - Bi-Annual Audits are conducted on all contracts that have SD&L objectives and this is conducted by independent assurance audit firms.
- In the event that contractors do not perform according to the approved implementation plans, **non performance penalties** are implemented.
- Contract cancellation becomes the last resort.

- Increased focus on level 1-4 BEE compliant entities
- Targeted procurement for black-owned entities (BWO, BYO and BPLWD)
- Policy shifts implemented in line with government's socio-economic imperatives
- Key learnings incorporated into current approaches to procurement programmes
- Identification of qualified service providers within the targeted groups is a key focus area
- Monitoring and Evaluation for compliance to SD&L obligations embedded in contract management cycle