

## **SUPPLIER DEVELOPMENT AND LOCALISATION EVALUATION CRITERIA FRAMEWORK**

### **1. Supplier Development and Localisation Scorecard**

A scorecard approach is used for the evaluation of Supplier Development and Localisation (SD&L) commitments. The SD&L Compliance Scorecard identifies the following criteria for local development contribution:

- a) Local Content
- b) Local Content – Local to Site
- c) Procurement from Large Black Suppliers (LBS)
- d) Procurement from Black Women Owned (BWO) Suppliers
- e) Procurement from Small Black Enterprises (SBE)
- f) Skills Development

The contracting approach and criteria for evaluating job creation and industrialisation are set out in Section 2.8 and 2.9 of this Appendix.

Supplier Development and Localisation (SD&L) as an evaluation criterion will be allocated 20% of the total tender evaluation points, i.e. a maximum of 70% must be allocated for price and technical criteria (including SHEQ), and 20% allocated for SD&L, and 10% for BBBEE.

Participating Suppliers must score a minimum of 60% against the stated targets for SD&L in order to qualify for further tender evaluation. Eskom reserves the right to negotiate with Suppliers regarding their SD&L proposals against stipulated targets.

The applicable local development criteria are determined specifically for each enquiry / tender, and weightings and targets are set for each sub-criterion based on the nature of the assets, goods and/or services (specifications and descriptions) being sourced as well as demand and supply analysis related to the relevant supply market. The SD&L Compliance Matrices with the applicable sub-criteria (provided in an Excel spreadsheet format) must be completed by participating Suppliers. The matrices are used by Eskom as a common comparative base to evaluate suppliers' tenders / offers for purposes of evaluation scoring and competitive ranking.

### **2. Definitions of the Evaluation Criteria**

#### **2.1. Local Content**

This refers to value added in South Africa by South African resources. Where a single contract involves a combination of local and imported goods and/or services, the tendered price must be separated into its components as per the PS5 Price Schedule included as a tender returnable. Local content is total spend less any imported component.

Suppliers will be contractually required to maintain records to certify imported content, for example, bill of materials, expenditure records and income statements.

### **Local Content: Local to Site**

This refers to the proportion of local content that must be provided by Suppliers within an area or boundary defined by Eskom. For a business to be considered local to site, the following criteria may be utilised:

- More than 50+1% shareholding/ownership must be held by an individual(s) who are ordinarily resident of the defined area. A person with ordinarily resident status is a:
  - South African citizen, and
  - Indigenous person who is born in the defined area or who has been a resident for a defined number of years. Proof of residency can be determined by provision of schooling documents, rates and taxes certificates or a letter from a recognised local authority e.g. tribal chief.
- The business must contribute to the employment and skills development of the residents, where the majority (50+1%) of employees come from the defined area or boundary.
- The business must have been trading for a defined period of time.

### **2.2. Large Measured Entity**

Large Suppliers with turnovers in excess of R35m (thirty five million Rand) will be measured against all seven elements of the Generic Scorecard as set out in the B-BBEE Codes of Good Practice.

### **2.3. Procurement from Large Black Suppliers (LBS)**

A Large Black Supplier refers to a Large Measured Entity that is a minimum of a "Level Four Contributor" to B-BBEE.

### **2.4. Procurement from Black Women Owned (BWO)**

An Exempted Micro Enterprise (EME) or Qualifying Small Enterprise (QSE) that is 50% or more owned and effectively managed by Black women.

### **2.5. Procurement from Small Black Enterprises (SBE)**

SBEs refer to an Exempted Micro Enterprise or Qualifying Small Enterprise that is 50% or more owned and effectively managed by Black persons. The turnover limit for SBE is raised to R100 million in the case of contracts involving construction and refurbishment.

### **2.6. Skills Development**

This is the requirement that participating Suppliers commit to train certain individuals in specified trades. The requirement is that the targeted numbers of individuals are provided with sufficient on-the-job and other skills training in the specified trade or discipline to:

- a) Achieve the outcome of passing a trade test and qualifying as an artisan, or the equivalent for any of the required skills and accordingly to be certified to that level or (as applicable); and
- b) Generally be regarded, when there is no industry standard test or certification for the trade or discipline in question, as being employable in that trade or discipline.

## **2.7. Job Creation**

This refers to the number of jobs created by Suppliers as a result of being awarded an Eskom contract, which contributes to the achievement of the localisation objective of alleviating poverty through job creation. Jobs can be defined in terms of the Extended Public Works Programme (EPWP) where.

- Full Time Equivalent (FTE) “job opportunity” is equal to 230 paid working days including paid training days; and
- A “work opportunity” is paid work created for an individual for any period of time.

### **2.7.1. Contracting Approach for Job Creation**

Each participating Supplier must commit to the provision of a number of new jobs and/or work opportunities for previously unemployed persons, and to a number of retained jobs which are “acceptable to Eskom”. No specific evaluation criteria linked to evaluation scoring are set for the number of new jobs and/or work opportunities for previously unemployed people and to the number of retained jobs committed, but the commitment is contractually binding upon award of a contract, and may be further negotiated with Suppliers whose proposed offers on job creation are deemed acceptable by Eskom. Once included as a contractual obligation job creation targets will be monitored and reported as stipulated on the contract.

For reporting purposes, Eskom will adopt the EPWP definitions for FTE job or work opportunity. Suppliers are required to report on new jobs or work opportunities created as well as retained jobs as a result of the project or contract.

Job creation will be measured against a number of criteria in order to determine if acceptable to Eskom, such as:

- The overall number of people the supplier intends to employ on a project or in carrying out the supply.
- The number of “previously unemployed” people who will be employed for the project or contract. Time periods for each occupation category to be defined.
- The number of “previously unemployed” people who will be employed in the organisation in the course of the first year and for the full duration that the project or contract will last for. Time periods for each occupation category will be defined.
- The ratio of skilled, semi-skilled and unskilled personnel will be employed as a result of the project or contract. Eskom will evaluate this against its internal models of the “ideal” ratio for a similar project or contract.
- In addition to the new jobs and/or work opportunities to be created for the project or contract, the Supplier is to further confirm the jobs that will be created in other areas of the organisation and business.
- The Supplier is required to demonstrate how the staffing of the project or contract indicates their willingness to achieve job creation. The Supplier may compare staffing on the project or contract to other comparative projects undertaken in the past five years to show job gains.
- The number of jobs to be “retained”, which may otherwise have been lost, if the tender is not awarded. The Supplier must substantiate this response.
- The Supplier is required to provide full details of the staffing levels required from sub-contractors and the number of previously unemployed people that subcontractors will be required to employ, and to describe other ways in which the issues in this section will be passed on to sub-contractors.
- The Supplier is to demonstrate how it has considered adopting a “labour intensive” approach to the project or contract, and the net job gains achieved by doing so.

## **2.8. Industrialisation (Investment in Manufacturing Plant)**

Eskom, as a State-Owned Entity, align its procurement processes with the South African Government's purchasing policies. The South African government's Department of Public Enterprises ("DPE") has introduced a CSDP (Competitive Supplier Development Programme) aimed at developing sustainable industry in South Africa. A key driver of CSDP is to ensure that investment and any technical support is directed towards enhancing supply capacity and capability within the industry or sector of operation of Eskom rather than in the wider South African economic context.

Against the above background, Eskom committed itself to the development and implementation of CSDP in general, with the aim of increasing the competitiveness, capacity and capability of its local supply base. This in turn should further the long-term commercial interests of Eskom by:

- Improving the competitiveness of the services being provided by Eskom;
- Increasing the security of supply for Eskom;
- Providing the potential advantages of local supply versus imports; and
- Increasing the potential for collaborative partnerships and innovation for local conditions.

Improving the capacity and competitiveness of the local supply base will also contribute to the local development goals of shared growth, employment creation, poverty reduction and skills development.

No specific evaluation criteria impacting on overall evaluation scoring and competitive ranking are set for investment in manufacturing plant, but Eskom reserves the right to negotiate with participating Suppliers regarding their proposals in this regard. Eskom's agreement on the Supplier's final investment in manufacturing plant will serve as a pre-condition to contract award which Eskom may choose to waive at its sole discretion.

Suppliers are required to submit a proposed commitment plan (as detailed in Table 3) in terms of the investment in manufacturing plant as a tender returnable. The commitment plan, once agreed upon, becomes a contractual obligation and will be monitored and reported as stipulated in the contract.

**Table 3: Industrialisation (Investment in Manufacturing Plant) Commitment Plan**

The following areas must be addressed in the Supplier's Investment in Manufacturing Plant Commitment Plan in order for the Supplier to meet the minimum requirements for submission of such a plan that will be accepted and signed off by Eskom:		
Supplier Name		
SD & L Investment Requirement		Submission
<b>1</b>	<b>What is the supplier's strategic plan with regards to:</b>	
1.1	How localisation is incorporated in the long term objectives	
1.2	How local manufacturing is integrated in the total value chain	
1.3	How do you plan to address localisation in the different supplier tiers	
1.4	How do you plan to use the local supply capability for export markets	
<b>2</b>	<b>Investment</b>	
2.1	What is the total investment as a result of the interventions?	<ol style="list-style-type: none"> <li>1. Describe the investment</li> <li>2. List the cost of the investment</li> <li>3. Show the main components of the investment with cost allocation</li> <li>4. Show the time line and milestones of the investment</li> </ol>
2.2	Who will provide the funding - Provide details of percentage breakdown in case of more than one funding source	
<b>3</b>	<b>What are the objectives of the industry development plan, detailed down to component level?</b>	
3.1	What new local manufacturing industries and technologies are planned to be developed?	
3.2	What existing local manufacturing and technology capabilities will be expanded?	
3.3	What is the rationale for introducing new capacity or enhancing existing capacity?	
3.4	Explain the rationale for specific industry selection	
3.4.1	Show contract components that will be locally supplied and imported.	<ol style="list-style-type: none"> <li>1. What components of the contract will be sourced locally from local suppliers</li> <li>2. What components of the contract will be imported</li> </ol>
3.4.2	How much and when will you procure from the local facilities for current and global needs? Detail the incremental procurement.	<ol style="list-style-type: none"> <li>1. What percentage of the contract value will the locally purchased components form</li> <li>2. What components of the contract will be imported</li> </ol>
<b>4</b>	<b>Classify and quantify the jobs that the supplier will create as a result of the interventions throughout the total</b>	<ol style="list-style-type: none"> <li>1. List the types and number of jobs that will be created as the result of the investment</li> </ol>

STRATEGIC

REALTED TO CURRENT CONTRACT

	value chain	
5	Classify and quantify the skill sets to be developed and enhanced as a result of the interventions throughout the total value chain	1. List the types and number of skills that will be created as the result of the investment
6	Sustainability of increased local manufacturing – e.g. what happens after the build programme?	1. Describe how will the investment be sustainable beyond the current contract

### 3. Monitoring and Reporting of SD&L Commitments

Monitoring and reporting of supplier performance will be further set out within the contract between Eskom and the Supplier. Suppliers need to keep accurate records and provide Eskom with reports on their actual delivery against local development criteria as per contractual commitments over the duration of the contract. The contract will address remedies for default.

Reporting of local content will be up to, but is not limited to, second tier level.

### 4. SD&L Contribution Matrix Description

The Supplier Development and Localisation Compliance Matrix provides the total score achieved on SD&L as an evaluation criterion which will be added to the scores achieved against other evaluation criteria in order to determine the Supplier's total score and competitive ranking in the tender.

Table 1: Supplier Development and Localisation Compliance Matrix

Criteria	Weight (%)	Total Target (%)	Proposed Target (%)	Total Overall Weighted Score
Local Content to South Africa				
Local Content Local to Site				
Procurement from LBS				
Procurement from BWO				
Procurement from SBE				
Skills Development				
<b>Total Score</b>	<b>0.00%</b>			
	<b>Total Supplier Development and Localisation Score</b>			<b>0.00%</b>

- **Weight (%):** The relative importance that Eskom attaches to Local Content and Skills Development criterion.
- **Total Target (%):** Eskom's stipulated target for spend on local suppliers. Suppliers may be required to contract for and procure a stated percentage of the contract value from Eskom-approved Black suppliers by subcontracting portions of the contract. Procurement from LBS, BWO and SBE indicates the part of the local content value that will be supplied by Black suppliers. Local Content comprising Local-to-Site and Procurement from LBS, BWO and SBE criteria is calculated as a proportion of the Local Content to South Africa target.
- **Proposed Target (%):** Proposed procurement spend on local suppliers. To be completed by the Supplier.
- **Total Overall Weighted Score:** The total weighted score achieved by Suppliers against stipulated Eskom targets. The weighted score is calculated as (Weight\*[Proposed Target/ Total Target]).



## 5. SD&L Compliance Scorecard – Calculation Example

### Example: Typical SD&L scorecard depicting the targets and weightings

Criteria	Weight	Target	Proposed*	Calculation	Score
1. Procurement from LBS	20%	20%	15%	$[(15/20)\% \times 20\%]$ % x $[(15/51)\%]$	4.4%
2. Procurement from BWO	15%	15%	10%	$[(10/15)\% \times 15\%]$ % x $[(15/51)\%]$	2.9%
3. Procurement from SBE	15%	15%	12%	$[(12/15)\% \times 15\%]$ % x $[(15/51)\%]$	3.5%
4. Local Content	25%	51%	15%	$[(15/51)\%]$ x 25%	7.4%
5. Skills Development	25%			No calculation required here as this score is transferred across from the Skills Development Target schedule.	
SD&L Total: (20% of total score on evaluation)	100%				[18.2] (total score) + Skills development score

\* **Note:** The target for LBS, BWO and SBE is a percentage of the total target local content. If the local content proposed by the Supplier is less than the target local content the target for LBS, BWO and SBE is nevertheless still calculated on the basis of a combination of the target local content and the supplier's proposed local content.