



2016



## PROCUREMENT PLANS (SIP 3 & 5): Northern Cape Perspective

*ECONOMIC INTELLIGENCE REPORT Q2 (2016/17)*

Research and Development

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Northern Cape

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## 1. Background

Since the dawn of democracy, South Africa is still faced with major challenges of poverty, unemployment and inequality. Through the New Growth Path (NGP) adopted in 2010, government identified infrastructure as a crucial engine to lay basis for higher growth, inclusivity and job creation. Hence the NGP placed infrastructure as the first job driver for the country. The importance of infrastructure in strengthening key value chains across the economy was echoed in 2012, when government adopted the National Infrastructure Plan (NIP). The key aim of the NIP is to transform the economic landscape while simultaneously creating a number of new jobs, and strengthening the delivery of basic services.

According to the NIP, providing infrastructure for the economy and communities is one of the main ways South Africa will realise inclusive and jobs-rich growth. Quality, affordable infrastructure raises economic productivity, permits economic expansion and allows marginalised households and communities to take advantage of new opportunities. Necessarily, the Presidential Infrastructure Coordinating Commission (PICC) was established to coordinate and integrate the long-term infrastructure build in the country. The PICC advocated that implementation of NIP will strengthen domestic demand for local capital goods industries, services and products.

The PICC commenced with spatial mapping of infrastructure gaps, to predict future population growth, projected economic growth and areas of the country which are not served with water, electricity, roads, sanitation and communication. Based on that work, 18 Strategic Integrated Projects (SIPs) were identified and approved for implementation in order to support economic development and address service delivery in the poorest provinces. Each SIP comprises a large number of specific infrastructure components and programmes. The SIPs comprise:

- 5 Geographically-focussed SIPs
- 3 Spatial SIPs
- 3 Energy SIPs
- 3 Social Infrastructure SIPs
- 2 Knowledge Infrastructure SIPs
- 1 Regional Integration SIP
- 1 Water and Sanitation SIP

The underlying principle for these SIPS is advancement of localisation; the more locally produced inputs to build programme uses, the more South Africa will grow its manufacturing industry, businesses and jobs (PICC, 2012).

## 2. Purpose

The main objective of this study is to investigate procurement plans of implementing SIP 3 and SIP 5, particularly focusing on the Northern Cape. The discussions will outline local procurement opportunities that accrue from the two projects and work packages to be undertaken. By understanding these procurement plans, SMMEs in the province can position themselves to benefit from these big infrastructure projects. Ideally, qualifying SMMEs in the province should be given a chance to bid or tender for various procurement opportunities. The ripple-effects of procuring from local suppliers cannot be underestimated.

## 3. Research approach

The Research team requested procurement plans from implementing agents such as the State Owned Entity (SOE) Transnet, with a major role to play in implementation of SIP 3 and 5. In addition, secondary research methods were used to supplement the information given by the responsible implementing agencies. Whilst the study will touch on the broader procurement programmes it will in the main scale information down to provincial level.

## 4. SIP 3 & 5 analysis

The Northern Cape has a substantial mineral resources; iron ore and manganese ore are the most prominent of these. Large mining developments for domestic and export purposes are being investigated and transport requirements are anticipated to grow substantially (Transnet, 2015). The Transnet network serving these commodities follows two distinct routes; Sishen to Saldanha (Iron ore) and Hotazel to Port Elizabeth (Manganese). The second of these consists of three line sections; Hotazel to Kimberley, Kimberley to De Aar, and De Aar to Port Elizabeth.

### **Sishen-Saldanha**

The Sishen to Saldanha railway line is a 861 km long heavy haul, single railway line, which connects iron ore mines near Sishen in the Northern Cape with the Western Cape.

### **Hotazel-Kimberley**

The Hotazel to Kimberley line is a heavy-haul link, consisting of double and single-line sections.

### **Kimberley- De Aar**

Kimberley to De Aar is a general project section that also caters for passenger services.

#### 4.1 SIP 3: South-Eastern node & corridor development

This SIP encompasses the following projects:

- New dam at Mzimvubu with irrigation systems
- N2- Wild Coast Highway which improves access into Kwazulu-Natal and national supply chains
- Strengthen economic development in Port Elizabeth through a manganese rail capacity from Northern Cape
- A manganese sinter ( Northern Cape) and smelter ( Eastern Cape)
- Possible Mthombo refinery (Coega) and transshipment hub at Ngqura and Port and rail upgrades to improve industrial capacity and performance of the automotive sector.

##### 4.1.1 The Manganese expansion project (Northern Cape to Eastern Cape)

As part of SIP 3, anchor projects include a mine and sinter plant in Hotazel in Northern Cape, with plans to develop a Ferro-manganese smelter complex at Coega in Eastern Cape. Transnet is planning to increase the current rail and port handling capacity from 5.5 Million tons per annum (Mtpa) to 16 Mtpa as part of their market demand strategy. The investment totals R26.7 billion and will deliver sustainable export of 16Mtpa by quarter 1, 2019 (Transnet, 2015).

The rail infrastructure comprises the new compilation yards in Mamethwane and Coega (near the Port of Ngqura), new crossing loops and the lengthening of existing crossing loops en-route, maintenance, and operational facilities, and monitoring equipment. The project is going to have a meaningful contribution to the provincial economy. The bulk of the Northern Cape's primary agricultural and mineral produce is generated in localities distant from markets and points of exports (Transnet, 2015).

This and other dedicated lines are also essential for developing good linkages between Ngqura and the main mineral producing areas of South Africa in the Northern Cape and Free State. The improvement of rail links will reinforce the important role the region's harbour play as a transit point for mineral exports.

The project will occur in several local municipalities within the Eastern Cape and Northern Cape. This project is expected to contribute to the local economies through increased government revenue, increased exportation of manganese ore, creation of employment which will lead to increased spending, procurement of local goods and services.

#### 4.2 SIP 5: Saldanha-Northern Cape development corridor

South Africa has extensive iron ore mines in the Sishen/Postmasburg areas. Mined iron ore is transported from these mines via an 860 km railway line to the port of Saldanha where most of it is loaded on ships for exports. As part of SIP 5 Transnet proposes the expansion of this iron ore export corridor including the port.

The increase in iron ore throughput to 88 Mtpa allows for an increase to about 86 Mtpa in iron ore export from the Port of Saldanha, since about 2 Mtpa will continue to be supplied to the local Saldanha steel works (GIBB , 2013). The project is motivated by South Africa's aspirations to remain a strong competitor in the iron ore export industry and position the country to reap the benefit from increasing market share and revenue generated from iron ore exports.

SIP 5 includes the following projects:

- Integrated rail and port expansion
- Back-of-port industrial capacity ( including an IDZ)
- Strengthening maritime support capacity for oil and gas along African West Coast
- Expansion of iron ore mining production and beneficiation.

## 5. Procurement plans

### 5.1 SIP 3

Procurement in strategic infrastructure projects can drive government imperatives such as transformation, skills development, supplier development and job creation.

Transnet as an implementing agents have various work packages consisting of the following:

- Construction and site infrastructure
- Professional services
- Electrical, Instrumental and mechanical
- Rail supply commodities
- Turnkey commodities

**Table 5.1: Construction and site infrastructure procurement plans**

<b>a. Construction and site infrastructure</b>	
Type of activities and/or commodities	<ul style="list-style-type: none"> <li>• Bulk earthworks</li> <li>• General earth &amp; civil works</li> <li>• Perway civils</li> <li>• General contractor civil work</li> <li>• Facility construction</li> </ul>
Total spend	<ul style="list-style-type: none"> <li>• R6.8 bn</li> </ul>
Supplier development value	<ul style="list-style-type: none"> <li>• R 2.4 bn</li> </ul>
Supplier development target	<ul style="list-style-type: none"> <li>• 35%</li> </ul>

Local content	<ul style="list-style-type: none"> <li>• 100%</li> </ul>
SD and sourcing strategy	<ul style="list-style-type: none"> <li>• Open tender</li> <li>• Supplier development pre-qualification and/or</li> <li>• Supplier development threshold</li> </ul>

Source: (Transnet, 2015)

According to Transnet, R6.8 billion is budgeted for the construction and site infrastructure for SIP 3 (manganese rail expansion from Northern Cape to Eastern Cape). Moreover, R2.4 billion is targeted for supplier development and this present an opportunity for SMMEs (construction and engineering industry) in the Province.

Transnet will drive socio-economic objectives and sustainable social development through targeted supplier development and localisation initiatives embedded in the procurement packages and will deliver an expected 18 500 direct and 14 000 indirect jobs during the construction period (Transnet, 2015). The jobs are spilt between the Eastern Cape and Northern Cape. According to Transnet projections, 10 800 direct jobs and 8100 indirect jobs will be created by this project in the Province during the construction phase.

**Table 5.2: Professional services commodities (Procurement Plans)**

<b>b. Professional services commodities</b>	
Type of activities and/or commodities	<ul style="list-style-type: none"> <li>• Port and Marine</li> <li>• Environmental, plant equipment</li> <li>• Quality assurance</li> <li>• Logistics</li> <li>• Surveying</li> </ul>
Total spend	R0.02bn
Supplier development value	R0.008bn
Supplier development target	35%
Local content	100%
SD and sourcing strategy	<ul style="list-style-type: none"> <li>• Open tender</li> <li>• SD pre-qualification and/or SD threshold</li> <li>• Certain items will be called off of existing contracts</li> </ul>

Source: (Transnet, 2015)

Based on Table 5.2, Transnet will require professional services commodities which will include among others port and marine, environmental, plant equipment, quality assurance, logistics and surveying. For these services Transnet budgeted R0.02bn of which 35% goes towards local supplier development

**Table 5.3: Electrical, instrumentation and Mechanical (Procurement plans)**

**c. Electrical, instrumentation and mechanical**

Type of activities and/or commodities	<ul style="list-style-type: none"> <li>▪ All conveyor system components</li> <li>▪ Mobile cranes and equipment</li> <li>▪ ICT equipment</li> <li>▪ Signalling</li> <li>▪ Transformers</li> <li>▪ Generators</li> <li>▪ Switchgear and sub stations</li> </ul>
Total spend	R1.2bn
Supplier development value	R0.5bn
Supplier development target	35%
Local content	100%
SD and sourcing strategy	<ul style="list-style-type: none"> <li>• Open tender</li> <li>• SD pre-qualification and/or SD threshold</li> <li>• Certain items will be called off of existing items</li> </ul>

Source: (Transnet, 2015)

During the Manganese rail expansion project, electrical, instrumentation and mechanical services and products will be procured, of which Transnet budgeted R1, 2 billion. This is another work package that SMMEs and other big businesses in the province can benefit from.

**Table 5.4: Rail Supply Commodities (Procurement plans)**

Rail supply commodities	
Type of activities and/or commodities	<ul style="list-style-type: none"> <li>• Rails</li> <li>• Ballast</li> <li>• Sleepers</li> <li>• Fastening</li> <li>• Turnout</li> </ul>
Total spend	R0.8bn
Supplier development value	R0.2bn
Supplier development target	25%
Local content	56%
SD and sourcing strategy	<ul style="list-style-type: none"> <li>• These procurement strategies have been approved for rails, ballasts, sleepers, fastenings and turnouts</li> <li>• Items will be called off from the contracts that will be put in place</li> </ul>

Source: (Transnet, 2015)

According to Transnet commodities such as rails, ballast, sleepers, fastening and turnout are vital for the successful implementation of the project and for these commodities, R 0, 8 billion was budgeted and 25% goes towards supplier development.



**Table 5.5: Turnkey Commodities (Procurement Plans)**

<b>Turnkey commodities</b>	
Type of activities and/or commodities	<ul style="list-style-type: none"> <li>• Tipplers</li> <li>• Stackers</li> <li>• Reclaimers</li> <li>• Ship loaders</li> </ul>
Total spend	R1.0bn
Supplier development value	R0.4bn
Supplier development target	35%
Local content	15-20%
SD and sourcing strategy	<ul style="list-style-type: none"> <li>• Open tender</li> <li>• SD pre-qualification and/ or SD threshold</li> <li>• Local content will be requested through downstream supplier development</li> </ul>

Source: (Transnet, 2015)

Based on Table 5.5, R1, 0 billion has been budgeted for the procurement of tipplers, stackers, reclaimers and ship loaders.

## 5.2 SIP 5

Similar to the operational activities and procurement mandates in the SIP 3, SIP 5 is also by and large a mining and mineral resources driven Strategic Integrated Projects. Because of the current commodity price impasse, some of the projects within the SIP 5 had to be scaled down due to the increased disinvestment in the mining sector, particularly, the Kathu Supplier Industrial park. As outlined in Table 5.6 below, the provincial projects within SIP 5 are at this stage either at feasibility/bankable feasibility or the procurement/contracting/operational phase.

**Table 5.6.**

Project	Stage	Estimated Value [R'm]	Spent to date [R'm]	Estimated Jobs
<b>Ibhubesi Gas Field</b>	Pre-feasibility	21120	1.5	77
<b>Iron Ore Port Expansion</b>	Pre-feasibility	3400	47.1	TBC
<b>Iron Ore Rail Upgrade</b>	Pre-feasibility	21700	273.4	TBC
<b>Niewehoop Transmission Line</b>	Feasibility	1300	0	750
<b>Juno-Gromis Transmission Line</b>	Feasibility	2200	0	1170
<b>Upington</b> <b>Strengthening</b>	Feasibility	3900	0	1560

<b>Transmission Line</b>				
<b>Vaal Gamagara Bulk water scheme</b>	Feasibility	11280	63.6	2253
<b>Titanium Beneficiation Plant</b>	Feasibility	17000	47	2500
<b>Seawater Desalination plant</b>	Bankable Feasibility	494	23	344
<b>Crude Oil storage tanks</b>	Bankable Feasibility	2000	0	50
<b>Kumba Iron Ore</b>	Bankable Feasibility	21000	560	TBC
<b>Port Expansion for Ship &amp; Rig repair (including Offshore Base)</b>	Bankable/Construction	6500	204	6300
<b>Kathu Industrial Park</b>	Bankable Feasibility	1800	10	2195
<b>Saldanha IDZ</b>	Construction	462	34.7	30
<b>GRI wind Tower Steel fabrication Facility</b>	Operation	300	300	163
<b>Sunrise Energy LPG Project</b>	Construction	800	235	300
<b>Sere Wind Farm</b>	Operation	2460	2409	120
<b>Clanwilliam Dam</b>	Procurement/Construction (incl N7 road diversion)	2172	182	285
<b>Mine Expansion Projects</b>	Bankable/Operations	26432	1780.5	4344
<b>Total</b>		<b>R146 320</b>	<b>R3756</b>	<b>22441</b>

Source: (Industrial Development Corporation(IDC) - Northern Cape Regional Office, August, 2015)

In the overall SIP 5 activities tend to demand high investment input, in terms of the machinery and the financial resources. As such procurement opportunities will also require heavy investments and well established conglomerates to bid for them. The following are however some of the possible area for procurement for SMMEs in the province:

■ Northern Cape Iron Ore Mine Expansions

- Logistical support
- Water supply
- Construction and fitting/fastening of key components in the assembly of the new mine
- Bulk earthworks

- Facility construction
- General contractor civil work
- Perway civils
- Rail Upgrade and Port Expansion
  - Drilling of boreholes
  - Construction of the perway
  - Supply of rails for the rail upgrade
- Vaal-Gamagara Water Scheme
  - The VGS affect the manganese miner expansion plans - thus consistent delivery water will be a must.
- Kathu Industrial Supply Park
  - Procurement of land - will require professional services such as conveyancers and surveyors amongst other which can be sourced locally.
  - The construction of the park will required local established contractors, as well as sub-contractors can be sought in the province
  - Plant and building equipment hire during the construction phases
  - Digging of trenches
  - Installation of electricity supply packages - including the upgrading of substations
  - Logistics - transportation of goods to and from.

## 6. Supplier development programme

The Supplier Development Programme (SD) is an economic growth initiative, initiated by the Department of Public Enterprises (DPE) and supported by Transnet. The main objective of SD is to increase competitiveness, capability and capacity within the South African economy.

Transnet aims to achieve this by transforming its supplier base to support localization and stimulating the growth and development of Black owned qualifying small enterprises and exempt micro enterprises whilst providing job creation and skills transfer for black South Africans.

Capital investment Supplier development focus areas are as follows:

- Job creation,

- Skills development,
- National/regional spend (rural integration),
- Small business development,
- Technology transfer/sustainability
- Job retention

## 7. Conclusion

The expansion of economic infrastructure is to correct the exclusion and marginalisation of vast sectors of the population from the fruits of economic growth. This is why there is renewed focus on infrastructure development in South Africa as these provide an opportunity to redress this situation and the SIP initiatives lend as practical engines. In spite of bulk of the construction activities being completed in SIP 3, this SIP still presents a number of opportunities to strengthen the supplier development efforts in the province, such as logistical support, water supply, construction and fitting/fastening of key components in the assembly of the new mine, bulk earthworks, facility construction, general contractor civil work and perway civils. Whilst procurement opportunities in SIP 5 will require heavy investments and stand to benefit well established conglomerates more, there still exist similar opportunities as in SIP 3 such as construction, civil work, logistical support and so on. It is worthwhile to state that the commodity price slump has had deterring effects on the implementation of some of the projects, particularly derailed construction of the Kathu Supplier Industrial park.

## 8. Recommendations

The following are the recommendations of this report:

- i. Programmes 2 and 3 share the procurement opportunities with the SMME sector. Similarly these Programmes need to identify possible collaboration areas and share such with provincial and local government stakeholders for intensified SMME support.
- ii. Key stakeholders such as the implementing agents should establish accountable joint structures with provincial and local governments and or occasionally provide status progress on the delivery of the programmes to the relevant programmes to ensure SMMEs do not forgo possible benefits of these SIPs. Such status update sessions should ensure SMMEs receive pertinent information about tendering opportunities.

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## Annexure A: SIP 3 Programme Schedule



