

MEMORANDUM

To: Eskom Officials

Reference

From: Ms Jainthre Sankar, Chief Procurement Officer(Acting)

Date: 15 February 2022

SUBJECT: IMPLEMENTATION OF STANDARD SUPPLIER PAYMENT TERM POLICY

PURPOSE

The purpose of this memo is to inform officials that the Supplier Payment Term Policy (240-165040111) shall become effective on 01 March 2022. Officials are requested to acquaint themselves with the contents of the Policy and ensure compliance.

IMPLEMENTING THE POLICY

1. The applicable limit (the threshold) as determined by the CFO is R100 000 000.00 (One Hundred Million Rand).
2. In terms of Clause 10.5.3 of the Supplier Payment Term Policy, an alternate payment term may be approved on written request to the CFO or his delegee.
3. Relevant procurement officials must ensure that tenders issued to the market contain an appropriate clause which draws bidders' attention to the revised payment term. An example of such a clause could be:

ATTENTION: Eskom's standard payment term for all contracts valued above R100 000 0000 (One Hundred Million Rand), including VAT, is 60 days. Bidders are requested to bear the revised payment term in mind when submitting bids and concluding contracts.

4. The calculation to be applied when evaluating alternative payment proposals is:

$$FV = PV * (1 + i)^n$$

where FV is the future value or the equivalent number of days from invoice tender price;

PV is the present value;

^ means to the power of;

i is Eskom's average cost of borrowing and

n is the number of days the tendered payment term needs to be adjusted by in days, divided by 365 days.

IMPLEMENTATION OF STANDARD SUPPLIER PAYMENT TERM POLICY

Practical example:

- For tender evaluation purposes tender prices will be adjusted to a 60 day from invoice equivalent pricing
- Using Eskom's average cost of funding as disclosed in its most recent financial statements, rate assumed to be 9.8%.
- Supplier A bids R100 using a term of 30 days from invoice;
- Supplier B bids R105 using a term of 60 days from invoice; and
- Supplier C bids R101 using a term of 45 days from invoice.
- The bids of A and C will need to be adjusted to 60 days from invoice using Eskom's average cost of borrowings.

Adjusted bid prices:

- Accordingly, the adjusted bids for A and C are as follows:
- A's equivalent bid is $100 * (1+0.098)^{(30/365)} = 100.77$
- C's equivalent bid is $101 * (1+0.098)^{(15/365)} = 101.38$

Result: Supplier A's 60 day equivalent price is the lowest

5. The Policy is targeted at new contracts and shall not apply retrospectively. Payment term changes to existing contracts require agreement between the parties.
6. The Policy will become effective on 1 March 2022.



COMPILED BY: RESHMA MAGHOO
CONTRACTS ADVISOR

DATE: 24/02/2022

IMPLEMENTATION OF STANDARD SUPPLIER PAYMENT TERM POLICY



SUPPORTED: MS JAINTHREE SANKAR

CHIEF PROCUREMENT OFFICER (ACTING)

DATE: 28 February 2022



APPROVED: MR CALIB CASSIM

CHIEF FINANCIAL OFFICER

DATE: 28 February 2022