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Department:  
Trade and Industry  
**REPUBLIC OF SOUTH AFRICA**

Designation of Sectors & Products for Local  
Procurement by Organs of State

**SWH Local Content Workshop & Briefing Session**

**28 August 2013**

**Zakhele Mdlalose & Cathrine Matidza**

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## Economic Challenges

### Consumption-driven growth path

- SA's growth path has hitherto been characterised by consumption-driven sectors growing at twice the rate of its productive sectors.

### Financialisation & import intensity

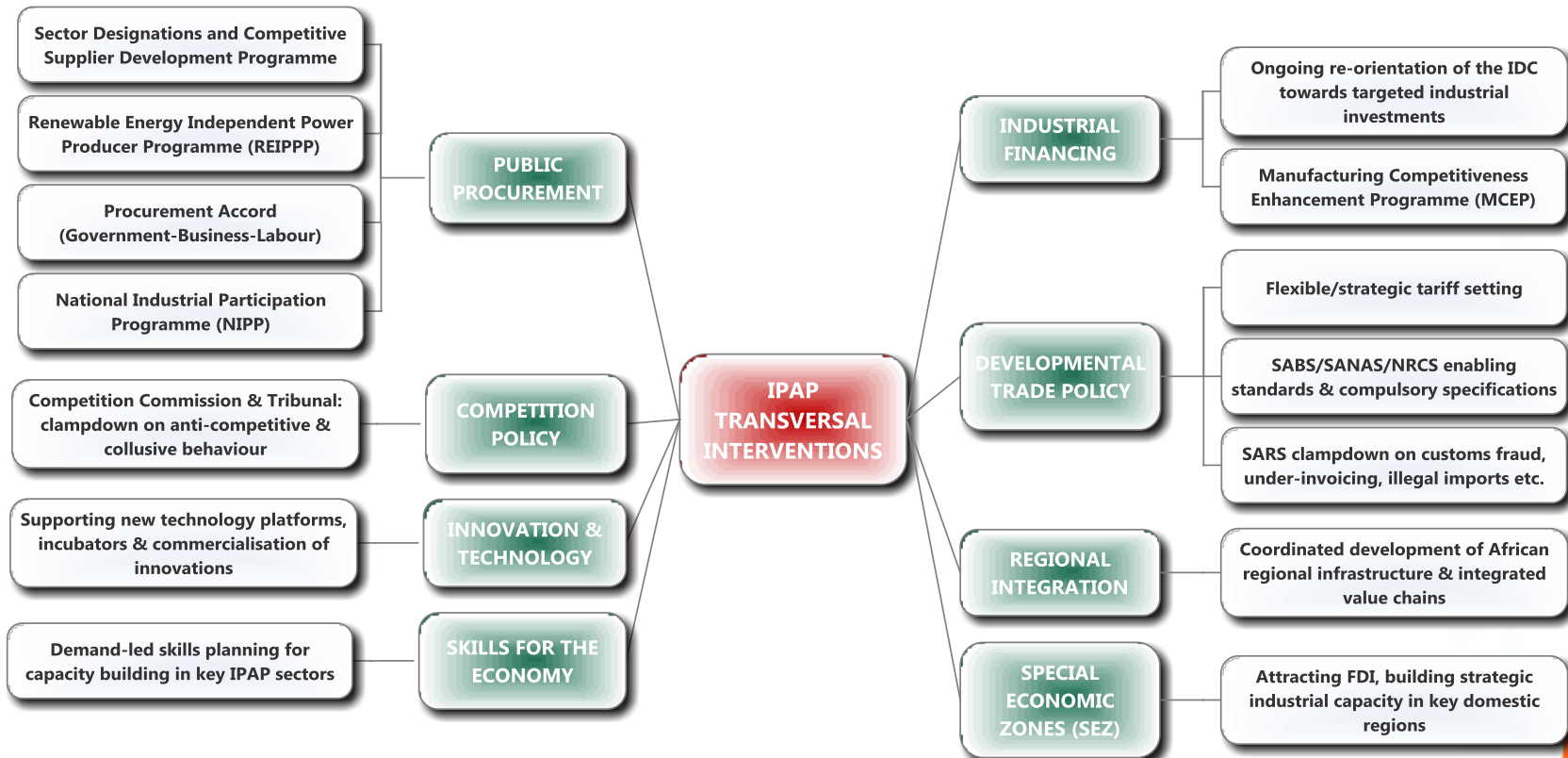
- The economy has experienced extensive financialisation, but the financial sector has not supported productive sector investment; growth has been import-intensive rather than based on growth in the domestic manufacturing sector.

### Structural unemployment

- High structural unemployment has remained a constant, oscillating between 22,5% and 25% on the narrow definition.



## IPAP Transversal Interventions



## Procurement Levers

Cabinet recently recommended the use of a Tier approach to align and strengthen procurement levers of Government

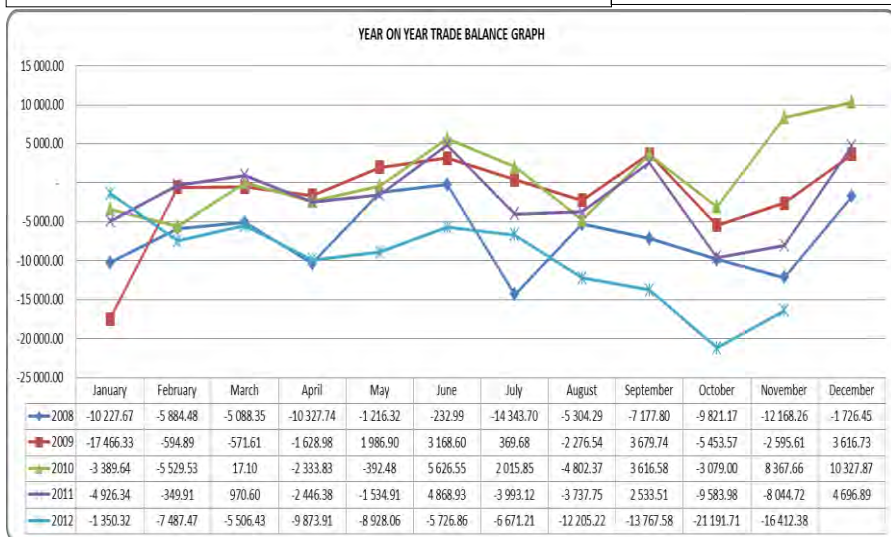
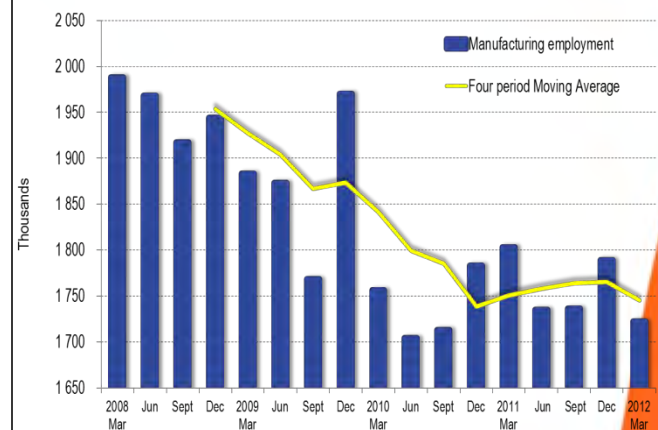
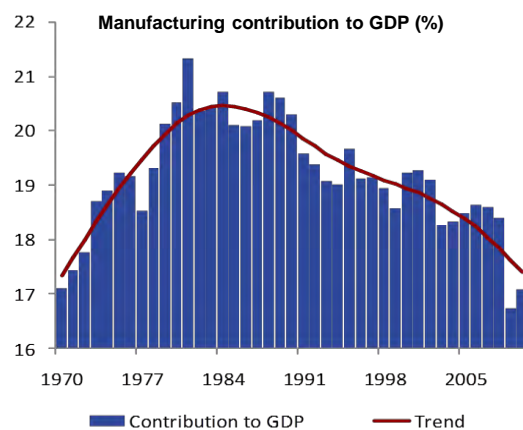
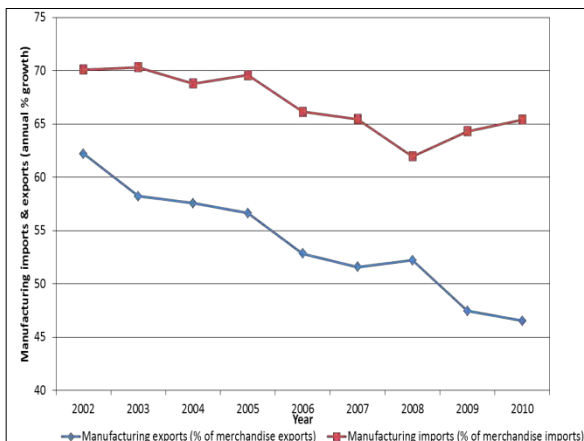
- ☐ Designation & Local Production
- ☐ National Industrial Participation Programme (Direct & Indirect NIPP) (applies where the imported content => US\$10 million)
- ☐ Competitive Supplier Development Programme (CSDP)
- ☐ Local Procurement Accord



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## RSA: Manufacturing challenges & the need for designation



In recent years, South Africa has been posting trade deficits primarily due to deterioration in commodities exports, high imports of fuel and high value added goods.

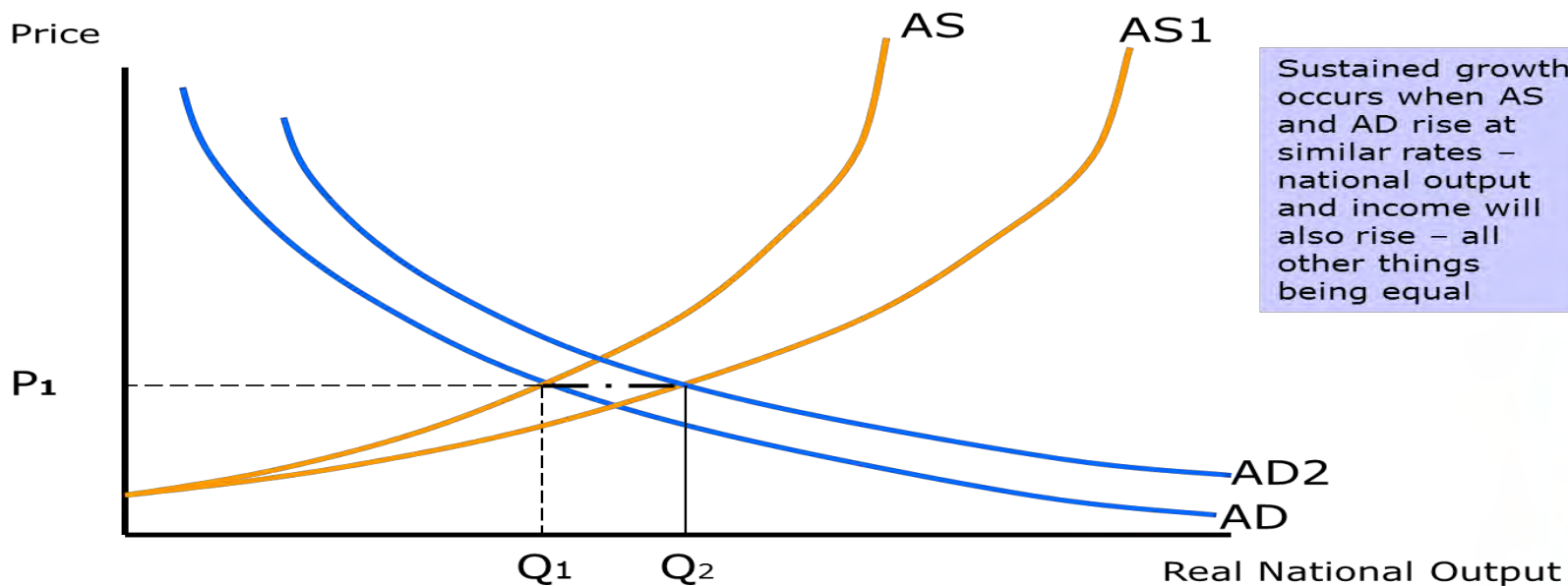
The trade deficit amounted to R15.02bn in April 2013.





## The importance of local production and content

- Goods and services bought from abroad – represents an outflow of funds from South Africa (reduces  $\downarrow$  AD & local AS) – import spending is recorded as negative
- Goods and services sold abroad – represents a flow of funds into the South African economy (raises  $\uparrow$  AD & local AS)



## Arguments in favour of designation

- Leveraging public expenditure
- Supporting economic growth and creation of job opportunities in the country
- Attracting new investments (in particular, foreign direct investments)
- Reducing South Africa's trade deficit
- Overall savings due to lower impact of currency fluctuation (owing to high local content) and faster response time to varying demand.
- Consistency of supply, quality-wise - compliance with SABS - SANS



## Arguments in favour of designation

**Designation provides Public Service (all spheres of government) with means:**

- To effectively leverage on Public Procurement;
- To develop local manufacturing capabilities and capacity;
- To assist in the **development high technical skills base required by the country;**
- To **create and retain sustainable jobs** and to develop the economy of South Africa;

*(Municipalities have economic development units which thrives to meet the above objectives in their jurisdictions –possible partnership)*

## Reform of the PPPFA

- Preferential Procurement Policy Framework Act (PPPFA) was enacted in 2000, and its Regulations promulgated in 2001
- The Regulations were amended in 2011 and new regulations came into effect on 7 December 2011.
- Section 9: Local Production and Content
- Paragraph 9 (1) of the Regulations empowers the dti to designate specific industries where tenders should prescribe that only locally manufactured products with a prescribed minimum threshold for local production and content will be considered
- To give effect to government decisions on public procurement; sectors/products were and are being designated for local production



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ORIGINAL  
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## Designated sectors

Industry/sector/sub-sector	Minimum threshold for local content
Buses (bus body)	80%
Textile, clothing, leather and footwear	100%
Power pylons	100%
Canned / processed vegetables	80%
Rolling stock	65%
Pharmaceutical products (oral solid dosage tender)	73%
Set-top boxes for TV digital migration	30%
Furniture <ul style="list-style-type: none"> <li>Office Furniture</li> <li>School Furniture</li> <li>Base and Mattress</li> </ul>	<ul style="list-style-type: none"> <li>85%</li> <li>100%</li> <li>90%</li> </ul>
Solar Water Heater Components <b>(tank and the collector)</b>	70% <b>(each)</b>
Power and telecommunication cables	90%

## Local Content Calculation Formula

“**Local Content**” means that portion of the tender price which is not included in the imported content, provided that local manufacturing does take place (SABS approved technical specification SATS 1286:2011)

$$LC = \left(1 - \frac{X}{Y}\right) \times 100$$

**Where:**

**X** is the imported content in Rand (ZAR)

**Y** is the tender price in Rand (ZAR)

**Example:**

If the tender price (**Y**) is R100 and imported content (**X**) is R10, then:

$$LC = \left(1 - \frac{10}{100}\right) \times 100 = 90$$

- Prices referred to in the determination of **X** must be converted to Rand (ZAR) by using the exchange rate published by the SARB at 12:00 on the date of advertisement of the bid

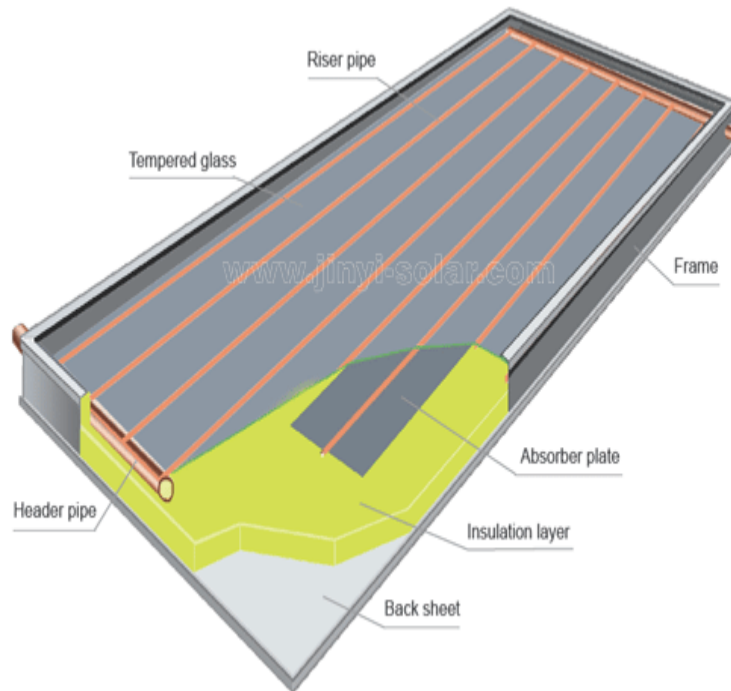
## SWH Designation milestones

**29 January 2013:** the dti announced the designation of SWH components, wherein 70% local requirements for tank and 70% collector are stipulated.

**19 July 2013:** National Treasury signed off the Instruction Note to Accounting Officers of organs of state.

**05 August 2013:** is the effective date for the issued Instruction Note to be implemented.

## Types of Collectors



**Flat plates**



**Evacuated tubes**



## Conditionalities negotiated with Industries

- The standardisation and smoothing of procurement should enable manufacturers and their suppliers to plan strategically for the future and to finalise investment decisions with confidence and certainty
- Local industry must commit to make the necessary investments towards modern manufacturing techniques and industry upgrading
- Local industry should commit to job retention and creation of new job opportunities
- Industry should commit to skills and technology transfer to the local manufacturers
- Industry should be price competitive
- Industry should commit and gear itself towards being internationally competitive



# **Procurement and Local Content Consideration and Documents**



## Location of Local Content Documents

SABS

- Technical specification (*SATS 1286:2011*) on the measurement and verification of local content

DTI

- Guidelines on calculation of local content
- Templates (annexures) for calculation of local content

NT

- Standard Bidding Documents (SBD / MBD 6.2)
- Instruction notes for each designated sector

## Invitation of Bids

- ❑ Bids for all designated sectors/products must contain a specific bidding condition that only locally produced or locally manufactured goods, works and services with a stipulated minimum threshold for local production and content will be considered.
- **Excluded in the designation is mainly primary steel, aluminium and copper used for fabrication of SWH designated components. This is to encourage local manufacturers to seek the best global competitive prices for primary materials hence the competitive imported primary material used in the manufacture of SWH components will be deemed to have been sourced locally for the purposes of calculating local content.**

## Invitation of Bids

- ☐ All the designated requirements must be clearly listed on the SBD/MBD 6.2 and their minimum threshold for local content.
- ☐ Local content declaration should be on item level and not on the overall contract value.
- ☐ **The Declaration Certificate for Local Production and Content (SBD / MBD 6.2) together with the Annex C (Local Content Declaration: Summary Schedule) must be completed, duly signed and submitted by the bidder at the closing date and time of the bid.**

## Invitation of Bids

- ❑ AOs/AAs must clearly stipulate in the bid documentation all the relevant documents
  - SBD/MBD 6.2
  - Annex C: Local Content Declaration (Summary Schedule)
    - **If the bid is for more than one item, local content percentages for each product contained in Declaration C must be declared and used**
  - Annex D: Imported Content Declaration (Supporting Schedule to Annex C)
  - Annex E: Local Content Declaration (Supporting Schedule to Annex C)
  - SABS approved technical specification - SATS 1286:2011
  - DTI's Guidance Document for the Calculation of Local Content



## Procurement Process

- ❑ The Standard Bidding Document (SBD 6.2) is for use by all national and provincial departments, constitutional institutions and public entities listed in schedules 2, 3A, 3B, 3C and 3D to the PFMA
- ❑ The Municipal Bidding Document (MBD 6.2) is for use by all municipalities and municipal entities to which the MFMA apply

### Bid evaluation and award

- **Two stage evaluation process**
  - **First stage: Local content and functionality (if applicable)**
  - **Second stage: Preference point system - BBBEE and price**

### Verification and Record Keeping

- *Random checks to be conducted after award*
- *Records of supporting documents to be kept for 5 years*

## Post Award & Reporting Documents

- ☐ Once bids are awarded, the dti must be notified of all the successful bidders and provided with copies of their SBD/MBD 6.2 & Annex C.
- ☐ Contractors must not be allowed to sub-contract in such a manner that the local is reduced to below the stipulated minimum threshold
- ☐ Where, after the award of a bid, contractors experience challenges in meeting the stipulated minimum threshold for local content the dti must be informed accordingly
- ☐ the dti and SABS to conduct local content verification



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# DECLARATION DOCUMENTS



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## SBD/MBD 6.2

<b>Bid price excluding VAT (Y)</b>	<b>R</b>
<b>Imported content (X)</b>	<b>R</b>
<b>Stipulated minimum threshold for local content (paragraph 3 above)</b>	<b>%</b>
<b>Local content % (as calculated by SATS 1286)</b>	<b>%</b>

This declaration is a prescribed document which includes the local content calculation.



NB The obligation to complete, duly sign and submit this declaration cannot be transferred to an external authorized representative, auditor or any other third party acting on behalf of the bidder.

I, the undersigned, ..... (full names),  
do hereby declare, in my capacity as .....  
of ..... (name of bidder  
entity), the following:

(a) The facts contained herein are within my own personal knowledge.

(b) I have satisfied myself that the goods/services/works to be delivered in terms of the above-specified bid comply with the minimum local content requirements as specified in the bid, and as measured in terms of SATS 1286.

(c) The local content has been calculated using the formula given in clause 3 of SATS 1286, the rates of exchange indicated in paragraph 4.1 above and the following figures:

Bid price, excluding VAT (y)	R
Imported content (x)	R
Stipulated minimum threshold for Local content (paragraph 3 above)	
Local content % , as calculated in terms of SATS 1286	

If the bid is for more than one product, a schedule of the local content by product shall be attached.

(d) I accept that the Procurement Authority / Institution has the right to request that the local content be verified in terms of the requirements of SATS 1286.

(e) I understand that the awarding of the bid is dependent on the accuracy of the information furnished in this application. I also understand that the submission of incorrect data, or data that are not verifiable as described in SATS 1286, may result in the Procurement Authority / Institution imposing any or all of the remedies as provided for in Regulation 13 of the Preferential Procurement Regulations, 2011 promulgated under the Policy Framework Act (PPFA), 2000 (Act No. 5 of 2000).

SIGNATURE: \_\_\_\_\_

DATE: \_\_\_\_\_

WITNESS No. 1 \_\_\_\_\_

DATE: \_\_\_\_\_

WITNESS No. 2 \_\_\_\_\_

DATE: \_\_\_\_\_

## Example: Annex C

### Local Content Declaration - Summary Schedule

<b>Tender No.</b>	GP 00111	<b>Note: VAT to be excluded from all calculations</b>		
<b>Tender description:</b>	30 and 60 seater commuter bus			
<b>Designated product(s)</b>	Buses			
<b>Tender Authority:</b>	Gauteng Purchasing Department			
<b>Tendering Entity name:</b>	Unibody Bus Builders (Pty) Ltd			
<b>Tender Exchange Rate:</b>	USD R 7.00	EU R 9.00	GBP R 12.00	
<b>Specified local content %</b>	80%			

Tender item no's	List of items	Tender price - each (excl VAT)	Exempted imported value	Tender value net of exempted imported content	Imported value	Local value	Local content % (per item)
(C8)	(C9)	(C10)	(C11)	(C12)	(C13)	(C14)	(C15)
GP 00010	30 Seater commuter bus	R 250 000	R 96 000	R 154 000.00	R 25 000	R 129 000.00	84%
GP 00011	60 Seater commuter bus	R 400 000	R 180 000	R 220 000.00	R 31 000	R 189 000.00	86%



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## Annex D

### EXAMPLE

### Details of the Tender & Tenderer

SATS 1286.2011

(D1) Tender No. GP 00111  
(D2) Tender description: 30 and 60 seater commuter bus  
(D3) Designated Products: Buses  
(D4) Tendering Authority: Gauteng Purchasing Department  
(D5) Tendering Entity name: Unibody Bus Builders (Pty) Ltd  
(D6) Tender Exchange Rate:

Note: VAT to be excluded from all calculations

### Exempted imported content

#### A. Exempted imported content

Tender Item no's	Description of Imported content	Local supplier	Overseas supplier	Value as per Commercial Invoice	Exchange Rate	Imports	port of entry	locally incurred landing costs & duties	Total landed cost excl VAT	Tender Qty	Exempted Imported value
(D7)	(D8)	(D9)	(D10)	(D11)	(D12)	(D13)	(D14)	(D15)	(D16)	(D17)	(D18)
GP 00010	Drive Train	MBSA	MB - Germany	\$12 000	R 7.00	R 84 000	R 8 000	R 4 000	R 96 000	400	R 38 400 000
GP 00011	Drive Train	MBSA	MB - Germany	€ 18 000	R 9.00	R 162 000	R 10 000	R 5 000	R 180 000	200	R 36 000 000
(D19) Total exempt imported value										R 74 400 000	

This total must correspond with Annex C - C 21

### Imported by Tenderer

#### B. Imported directly by 1

Tender Item no's	Description of Imported content	measure	Overseas supplier	Value as per Commercial Invoice	of Exchange	Imports	port of entry	locally incurred landing costs & duties	Total landed cost excl VAT	Tender Qty	Total Imported value
(D20)	(D21)	(D22)	(D23)	(D24)	(D25)	(D26)	(D27)	(D28)	(D29)	(D30)	(D31)
GP 00010	Instrumentation	Each	Gearmax USA	\$2 000	R 7.00	R 14 000.00	R 1 800	R 750	R 16 250.00	400	R 6 500 000
GP 00010	Air conditioner	Each	Benteler Ger	€ 300	R 9.00	R 4 500.00	R 1 000	R 500	R 6 000.00	400	R 2 400 000
GP 00011	Instrumentation	Each	Gearmax USA	\$3 100	R 7.00	R 21 700.00	R 1 750	R 800	R 24 250.00	200	R 4 850 000
GP 00011	Air conditioner	Each	Benteler Ger	€ 350	R 9.00	R 4 950.00	R 1 250	R 600	R 6 800.00	200	R 1 360 000
2) Total Imported value by tenderer										R 15 110 000	

### Imported by a 3<sup>rd</sup> Party

#### C. Imported by a 3rd part

Description of Imported content	Unit of measure	Local supplier	Overseas Supplier	Value as per Commercial Invoice	Tender rate of Exchange	Local value of Imports	Freight costs to port of entry	locally incurred landing costs & duties	Total landed cost excl VAT	Quantity Imported	Total Imported value
(D32)	(D34)	(D35)	(D36)	(D37)	(D38)	(D39)	(D40)	(D41)	(D42)	(D43)	(D44)
Sheet steel	tonne	Arcelor SA	Arcelor Belgium	€ 300	R 9.00	R 4 500.00	R 250.00	R 5.00	R 50.00	100	R 480 000
Hinges	each	Ramsar SA	Hinge SA	€ 200	R 10.00	R 2 000.00	R 100.00	R 5.00	R 50.00	1 200	R 90 000
Steel tubing								R 45	R 6 345.00	4	R 25 380
Other - nuts and bolts											R 1 620
i) Total Imported value by 3rd party										R 597 000	

### Other forex payments

#### D. Other foreign currency payments

#### Calculation of foreign currency payments

Type of payment	Local supplier making the	Overseas beneficiary	Foreign currency value paid	Tender Rate of Exchange
(D46)				
Royalty payment for use of patent	Unit			
Annual licence fees - prorated	Unit			
Engineering support	MBS			

### Total imported content

Signature of tenderer from Annex B

Date:

(D52) Total of foreign currency payments declared by tenderer and/or 3rd party

(D53) Total of Imported content & foreign currency payments - (D32), (D45) & (D52) above

This total must correspond with Annex C - C 23





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## Annex E

The tenderer is required to provide details of local content used to deliver the tender.

This is divided into the following broad categories:

- 1) Local products
- 2) Manpower
- 3) Factory overheads
- 4) Admin O/H's and mark-up

EXAMPLE

SATS 1286.2011

### Annex E

#### Local Content Declaration - Supporting Schedule to Annex C

(E1) <b>Tender No.</b>	GP 00111
(E2) <b>Tender description:</b>	30 and 60 seater commuter bus
(E3) <b>Designated products:</b>	Buses
(E4) <b>Tender Authority:</b>	Gauteng Purchasing Department
(E5) <b>Tendering Entity name:</b>	Unibody Bus Builders (Pty) Ltd

**Note:** VAT to be excluded from all calculations

Local Products (Goods, Services and Works)	Description of items purchased	Local suppliers	Value
	(E6)	(E7)	(E8)
	Sheet Steel	Arcelor	R 34,000,000
	Fabric for seats	Galvenor Textiles	R 7,750,000
	Fabric for headlinings	Galvenor Textiles	R 1,250,000
	Welding consumables	ABR Supplies	R 250,000
	Tyres and wheels	Dunlop	R 1,000,000
	Hardware items (nuts, bolts, rivets etc.)	Various local suppliers	R 500,000
	Laser cutting services	Red Hot Cutting	R 245,000
	Other goods & services (small items)	Various	R 5,000

(E9) Total local products (Goods, Services and Works) R 45,000,000 50%

(E10) **Manpower costs** (Tenderer's manpower cost) R 20,000,000 22%

(E11) **Factory overheads** (Rental, depreciation & amortisation, utility costs, consumables etc.) R 15,000,000 17%

(E12) **Administration overheads and mark-up** (Marketing, insurance, financing, interest etc.) R 9,400,000 11%

(E13) Total local content R 89,400,000 100%  
This total must correspond with Annex C - C24

Signature of tenderer from Annex B

Date: \_\_\_\_\_

## Documents for calculation of Local Content

### ☐ Standard bidding document (SBD / MBD 6.2)

- Latest version published by the National Treasury, part of the bid document for all designated products

<http://www.treasury.gov.za/divisions/sf/sc/PracticeNotes/default.aspx>

### ☐ SATS 1286: 2011 (SABS technical specification)

- Standard approach for the calculation of local content
- Can be downloaded from [http://www.thedti.gov.za/industrial\\_development/ip.jsp](http://www.thedti.gov.za/industrial_development/ip.jsp)

### ☐ Guidance document for calculation of local content

- Can be downloaded from [http://www.thedti.gov.za/industrial\\_development/ip.jsp](http://www.thedti.gov.za/industrial_development/ip.jsp)

### ☐ Annexes: C, D & E

- Can be downloaded from [http://www.thedti.gov.za/industrial\\_development/ip.jsp](http://www.thedti.gov.za/industrial_development/ip.jsp)



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# Thank You

**Mr Zakhele Mdlalose :**

[zmdlalose@thedti.gov.za](mailto:zmdlalose@thedti.gov.za) / 012 394 1165

**Ms Cathrine Matidza:**

[Cmatidza@thedti.gov.za](mailto:Cmatidza@thedti.gov.za) / 012 394 5598