



LOCAL CONTENT POLICY & DESIGNATION

MEASURES TO ENSURE COMPLIANCE AND VERIFICATION

DATE: 11 MARCH 2020
PRESENTATION TO THE PORTFOLIO COMMITTEE ON
TRADE AND INDUSTRY

PRESENTATION OUTLINE

- POLICY AND REGULATORY CONTEXTS
- DESIGNATION PROCESS
- PRODUCTS DESIGNATED
- COMPLIANCE WITH LOCAL CONTENT REQUIREMENTS
- VERIFICATIONS BY SABS
- CHALLENGES ON VERIFICATION

PREFERENTIAL PROCUREMENT REGULATIONS 2017 ON LOCAL CONTENT

- **Regulation 8(1)**: empowers **the dti** to designate specific industries/sectors, where only locally manufactured products that meet the stipulated minimum threshold for local content will be considered.
- **Regulation 8(2)**: organs of state **must** include local content in their bid invites.
- **Regulation 8(3)**: National Treasury must inform organs of state **via circular**.
- **Regulation 8(4)**: allows organs of state to “**self designate**” provided they consult with **the dti** and National Treasury as per Standard for implementation of Regulation 8.4.
- **Regulation 8(5)**: bid that fails to meet the required local content is unacceptable.

REMEDIES FOR NON-COMPLIANCE

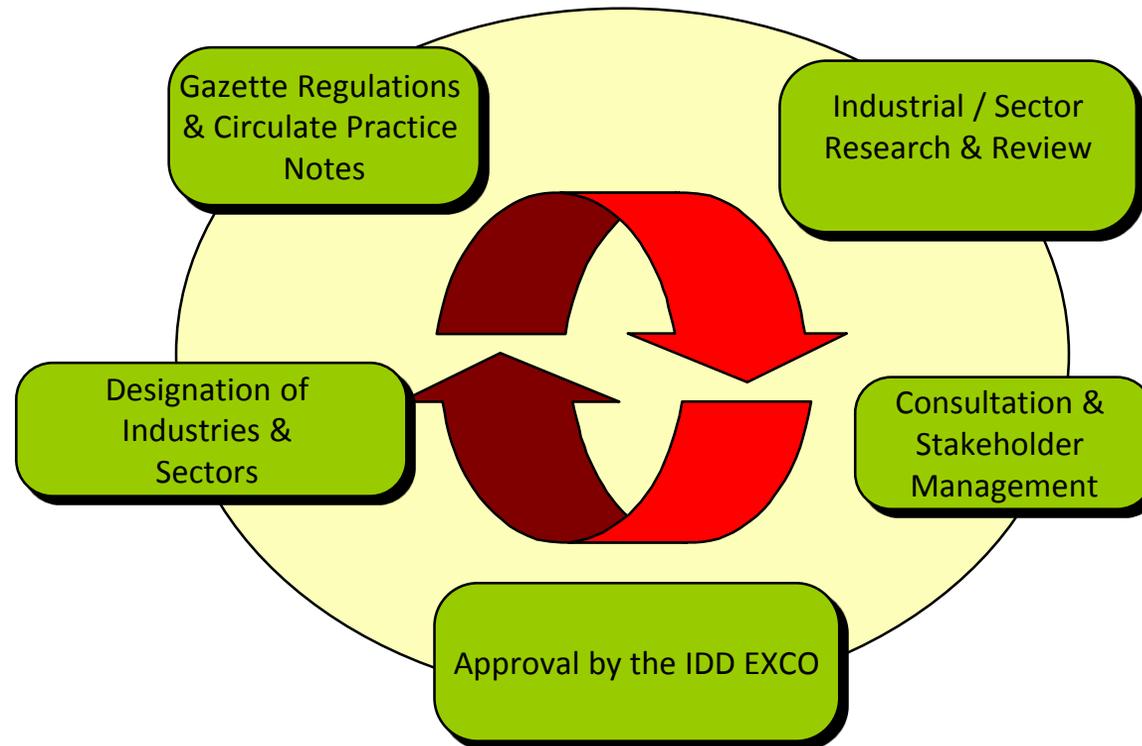
- ❑ A crucial aspect of **Local Content is its verification**, and the South African Bureau of Standards (SABS) has been appointed the verification agency for Local Content in SA.

Section 14 of the PPPFA Regulations: Remedies

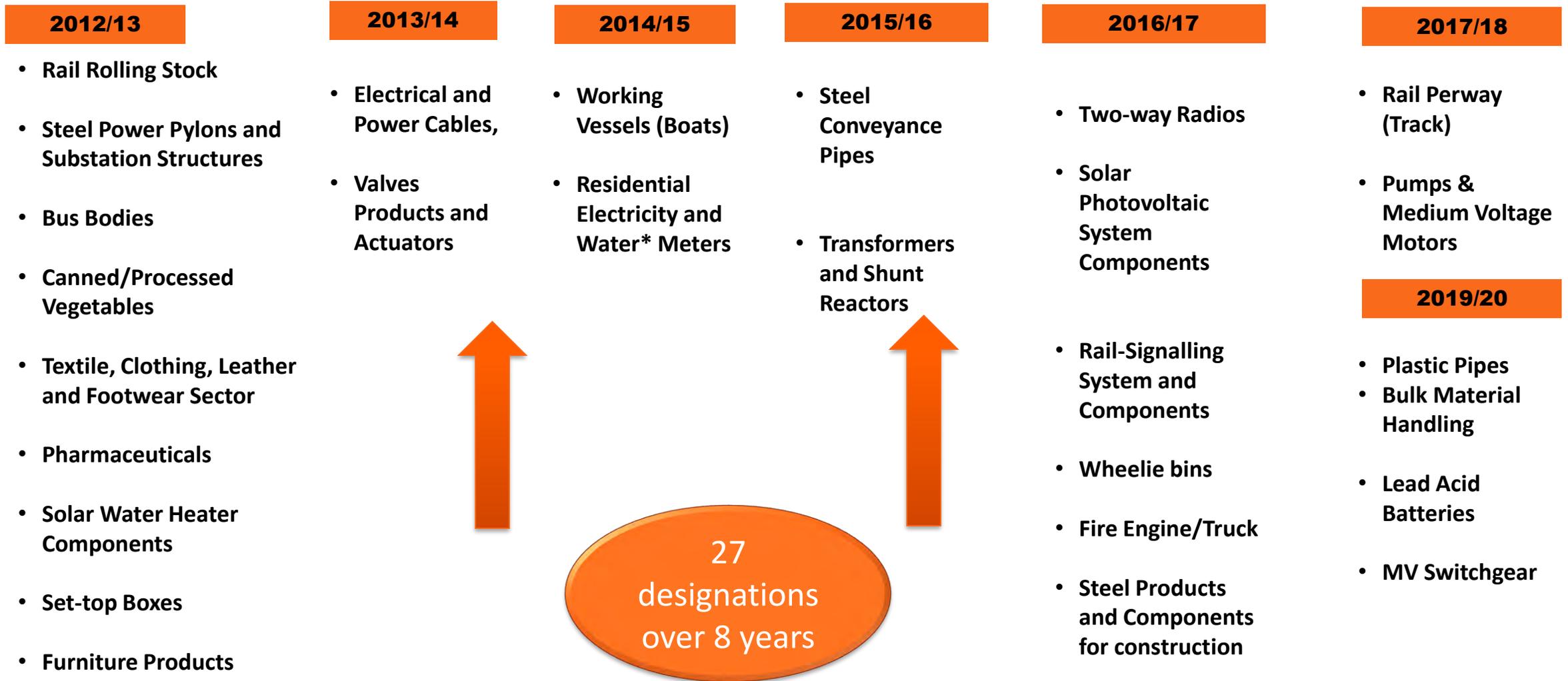
- **14(1) An organ of state must, upon detecting that a tenderer submitted false information regarding BBEE, Local Content or any other matter:**
 - (a) inform the tenderer accordingly;
 - (b) give the tenderer an opportunity to make representations within 14 days;
 - (c) if it concludes, after considering the representations that false information was submitted – disqualify the tenderer or terminate the contract in whole or part and if applicable claim damages from the tenderer.
- **14(2) An organ of state must inform the National Treasury of any actions taken.**
- **14(3) The National Treasury must decide whether to restrict the tenderer for 10 years and publish on website a list of restricted suppliers.**

DESIGNATION PROCESS FLOW

- ❑ **the dti** follows a rigorous research process before a product can be designated for local production.
- ❑ The designation framework requires that there must be evidence indicating that the government buys product which is under distress caused by imports which displace local production and jobs.
- ❑ During the research stage, the designation process involves consultation with the industry (associations and local manufacturers) as well as procuring authorities.
- ❑ The Executive Committee of the Industrial Development Division at **the dti** also reviews the designation proposals and the requests for approval are then forwarded to the Minister of Trade and Industry for approval.



PRODUCTS DESIGNATED FOR LOCAL PRODUCTION



PRODUCTS DESIGNATED FOR LOCAL PRODUCTION

Designated Products	LC Threshold	Date
1. Rail Rolling Stock	65%	16-07-2012
2. Power Pylons	100%	16-07-2012
3. Bus Bodies	80%	16-07-2012
4. Canned/Processed Vegetables	80%	16-07-2012
5. Textile, Clothing, Leather and Footwear Sector	100%	16-07-2012
6. Solar Water Heaters	70%	19-07-2012
7. Set-top Boxes	30%	26-09-2012
8. Certain Pharmaceutical Products	Per Tender	07-11-2012
9. Furniture Products	85%	15-11-2012
10. Electrical and Telecom Cables	90%	08-05-2013
11. Solar Water Heaters	70%	19-07-2013
12. Valves Products and Actuators	70%	06-02-2014
13. Working Vessels	60%	01-08-2014
14. Residential Electricity and Water Meters	70%	01-08-2014
15. Transformers and Shunt Reactors	90%	28-09-2015

Designated Products	LC Threshold	Date
16. Two Way Radio Terminals	60%	30-06-2016
17. Solar PV Components	70%	30-06-2016
18. Rail Signalling System	65%	30-06-2016
19. Wheelie Bins	100%	18-08-2016
20. Fire Fighting Vehicles	30%	21-11-2016
21. Steel Products and Components for Construction	100%	13-01-2017
22. Rail Perway (Track) Infrastructure	90%	13-11-2017
23. Pumps & Medium Voltage Motors	70%	12-12-2017
24. Plastic Pipes & Fittings	100%	16-08-2019
25. Air insulated MV Switchgear	50%	20-12-2019
26. Bulk Material Handling	85%	20-12-2019
27. Industrial Lead Acid Batteries	50%	20-12-2019

MEASURES IN PLACE TO ENSURE COMPLIANCE

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AREAS OF NON-COMPLIANCE TO LOCAL CONTENT REQUIREMENTS

Non-compliance is a complex matter and has different phases:

- Advertisement of tenders with local content (LC) conditions.**
- Submission of correct LC documents by bidders (Standard/Municipal Bidding Documents 6.2 and accompanying annexures).**
- Self declaration of correct minimum thresholds for local production by bidders.**
- Proper evaluation of bids in terms of LC requirements (no points allocated for LC but it is the first hurdle that must be achieved by bidders).**
- Understanding of LC requirements and industrial policy objectives by both Bid Evaluation and Adjudication Committees.**
- Post tender award reporting to the dti by the organs of state (submission of signed Bidding Documents and Annexures).**
- Turnkey projects (design, build, operate and transfer) projects.**

MEASURES IN PLACE TO ENSURE COMPLIANCE TO LCR

- ❑ Industry (including unions and business associations) are encouraged to flag tenders and specifications where local content and production requirements have been transgressed.
- ❑ Specifications for products designated can be done in collaboration with **the dti** to ensure that specifications are set according to functionality (i.e. what the product should do) rather than brand, product type or past practices.
- ❑ Efforts are made through Master Plans to encourage private sector firms to also buy from local producers to strengthen the demand, and capabilities of suppliers to meet global standards, where appropriate.
- ❑ The Jobs Summit included actions to strengthen local procurement from the private sector, including a key role for Proudly SA to engage with firms to support the national effort.
- ❑ Working closely with Proudly SA through the tender monitoring system.
- ❑ **the dti** is working closely with the Office of the Auditor General to scale up the auditing of tenders designated for local production.
- ❑ on 1 April 2019, the amended Public Audit Act (PAA) came into effect. The amended PAA gives the AGSA the mandate to report on material irregularities detected during the audits and to take further action if accounting officers and authorities do not deal appropriately with irregularities.
- ❑ NT issued an Instruction Note (No 2 of 2019/2020) on irregular expenditure effective 17 May 2019, amongst others stating that officials must take effective and appropriate steps to prevent irregular expenditure within their areas of responsibility.

ROLE OF PROUDLY SA IN SUPPORT OF LOCALISATION

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Indicators	Key Programmes
<p>Public sector intervention in support of designations</p>	<ul style="list-style-type: none"> • Tender monitoring system developed, targeted at all tenders issued by organs of state. The system is currently linked with 763 websites. • Public Sector Procurement Forums established at Provincial level. • An MOU concluded with SALGA and the activities include access to be given to educate Speakers, Mayors, Municipal Managers, CFOs, CPOs and other procurement officials on the local content provisions.
<p>Private sector targeted interventions in support of the designation</p>	<ul style="list-style-type: none"> • Database of local products and services, with recruitment of members intensified in designated sectors. • Road shows in the form of Business forums are undertaken in all nine provinces with the primary aims of educating the private sector.
<p>Financial Support to ensure that Proudly SA logo becomes the first 'mark' of local manufacturing</p>	<ul style="list-style-type: none"> • Funding has been made available to Proudly SA to enable it to implement its activities, including marketing activities, resuscitating the Buy Back SA campaign, and implementation of a robust compliance system which enables Proudly SA to properly certify companies that make their products locally.
<p>Off-the-shelf purchases: promotion of bar codes of all locally manufactured and packaged consumer goods</p>	<ul style="list-style-type: none"> • Retailers are engaged to ensure that they support local manufacturers and increase their levels of locally made products sold in their respective retail stores. • EDCON committed to increase locally made stock to be over 50%. • Woolworth, Mr Price and Foschini Group have localisation strategies.

ROLE OF PROUDLY SA IN SUPPORT OF LOCALISATION

- The public sector tender monitoring system.
- The system monitors tenders issued by all organs of state and advertised on online websites.
- Currently linked to over 763 websites (entity websites and NT mandatory online platforms/sites).
- Continuously search for tenders issued for designated products (sectors) using keywords.
- Assist state organs with compliance to local content provisions of the PPPFA.
- Advertised bids are forwarded to **the dti** to intervene when tenders are issued and not after tenders are awarded or contracts are concluded.
- Value-add for Proudly SA members as they are notified of tenders related to their offerings (and in their areas of operation – locality).

LOCAL CONTENT VERIFICATION BY SABS

POST AWARD REPORTING: BIDS REPORTED FROM MARCH 2015 TO FEBRUARY 2020

- The allocation of R22 million made by **the dti** to finance the roll out of local content verification contributed significantly in improving the level of verification.
- SABS Local Content division has been able to conduct 55 verification and visited more than 374 tier 2 and tier 3 suppliers in the process.
- Only 15 projects are still under way resulting in 70 projects in total.
- Of the R22 million allocated by **the dti**, R17,7 million has been expended and the balance of R4,3 million will be expended by the end of the current financial year.
- Out of all the tenders reported since implementation, 74% in value of tenders have been verified.
- The number of tenders verified is however very low, reported to be less than 10%.

POST AWARD REPORTING: BIDS REPORTED FROM MARCH 2015 TO FEBRUARY 2020

- ❑ The table below details the number of tenders awarded and reported to **the dti** since inception of local production and content and the number of tenders reported in the current financial year (April 2019 to February 2020).
- ❑ The table also reflect the number of tenders verified in each of the designated sectors.

Designated Products	Signed Standard Bidding Documents Submitted to the dti	Total Value per Sector R'000	No. of Companies Verified	Tenders for the period April 2019 to February 2020 R'000
Textiles & Clothing Products	549	2 946 365.26	21	9 013.00
Furniture Products	230	208 314.00	13	23 393.00
Electrical & Telecom Cables	96	1 984 753.00	8	77 433.00
Canned & Processed Veges	23	697 950.41	4	-
Valves & Actuators	25	299 882.60	8	3 172.00
Rail Rolling Stock	4	49 547 227.00	4	-
Set top boxes*	1	4 300 000.00	3	-
Power Pylons	11	2 253 000.00	3	-
Solar Water Heaters	14	456 922.00	12	10 669.00
Steel Products	16	423 047.33	5	72 041.33
Busses	3	806 600.00	1	-
Working Boats & Vessels	3	4 299 195.00	2	-
Transformers	42	4 490 126.16	3	10 126.16
Construction	38	3 389 382.00	-	3 211 369.00
Total	1 055	76 102 764.76	87	3 417 216.49

* One tender but different suppliers appointed as a panel by USAASA

Source: Dept of Trade & Industry & SABS: Local Content databases, 2018



LOCAL CONTENT VERIFICATION CONDUCTED IN THE CURRENT FINANCIAL YEAR (2019/2020)

- ❑ Eleven designated sectors/products were prioritised.
- ❑ SABS Local Content division managed to conduct verification on 55 tenders and only 15 projects are still under way resulting in 70 projects in total:

#	Designated Sector	Number of Tenders Selected
1	Rail Rolling Stock	4
2	Furniture	13
3	Frozen Vegetables	4
4	Electric Cables	8
5	Electricity Metres	2
6	Steel Power Pylons	1
7	Transformers	3
8	Steel Structures	4
9	Textiles	21
10	Valves	8
11	Vessels	2
	TOTAL	70

LOCAL CONTENT VERIFICATION CHALLENGES

- Manipulation of the bid price to meet local content thresholds.
- Non compliance to the local content requirements once the tender has been awarded (e.g. placing of orders).
- Inadequate funding of local content verification.
- Anti-competitive behaviour by some manufacturers (e.g. inflated prices given to non-manufacturing bidders).

PROGRESS MADE IN LOCAL CONTENT IMPLEMENTATION

LOCALISATION PROGRAMME IN THE TRANSPORTATION SECTOR

OEM	PROGRESS
Rail	<ul style="list-style-type: none">• Manufacturing of Rail Rolling Stock systems and components (locomotives, electric multiple units, wagons, and coaches)• Manufacturing of Rail Infrastructure systems and components (signalling, perway, and over head track equipment)• Maintenance & refurbishment of Rail Infrastructure & rolling stock
Automotive	<ul style="list-style-type: none">• Manufacturing of motor vehicles• Manufacturing of motor cycles• Manufacturing of components
Marine	<ul style="list-style-type: none">• Building & repair of ships• Building & repair of working boats/vessels• Building & repair of pleasure / sporting boats
Aerospace	<ul style="list-style-type: none">• Manufacturing of components for aircraft and space craft

PROGRESS MADE IN LOCAL CONTENT IMPLEMENTATION

Steel Industry

Large Bore Pipes

- ❑ AMSA had engagements with Water SOEs, in the exercise of ensuring local steel amongst the value chain. Two successful trials were made in 2017 and 2018, with direct procurement of 28kt and 29kt Hot Rolled Coil respectively from AMSA (100% local steel), for the purpose of manufacturing of pipes. These initiatives supported Rand Water in ensuring security of steel, stability of steel prices during the procurement period and optimisation of their value chain.

Rail Rolling Stock

- ❑ Transnet Engineering (TE) for Locos and Wagons, TE consistently requests information from AMSA about product availability during design phase and prior to procurement phase; and formally request local sourcing to its downstream value chain suppliers. The initiative has supported the local industrialisation of a high strength steel grade (S460) between the two entities for Locomotives; and a dialogue is ongoing for the development of a S550MC steel grade for Wagons. TE has also specified local steel grade TH400 for its newly designed Pan African bogie, to be exported across the continent.
- ❑ Gibela Rail for the purpose of passenger fleets manufactured in Nigel. AMSA has actively supported Gibela in localising the major portion of steel products that were previously imported for their manufacturing scheme (converted to best local solution). This initiative is productive and AMSA sees consistent local procurement from Gibela through the value chain.

PROGRESS MADE IN LOCAL CONTENT IMPLEMENTATION

Pharmaceuticals

- ❑ Biovac was awarded the lion's share of the EPI vaccines tender in 2019 which resulted in 318 direct, permanent jobs being sustained as well as the tech transfer arrangements for PCV13 and the Hexaxim vaccines.

Medical Devices

- ❑ A new local black-owned condoms manufacturer (**SA Health/Latex South Africa**) was established as a result of the industrialisation strategy linked to the national condom tender (RT74-2018).
- ❑ **Medtex** has begun the manufacture of the first locally manufactured Nitrile (Latex-free; Powder-free) examination as well as latex surgical gloves.
- ❑ **Hospifurn**, a local manufacturer of hospital beds and equipment were awarded the contract for 4000 beds as part of Presidential Initiative (that included school desks, hospital linen, nursing staff etc.). Fifteen, new previously unemployed people were employed as part of this. 2000 beds awarded to Hospital Equipment Manufacturers who share their premises which are being manufactured by Hospifurn as well.
- ❑ More than 90% of the previous and current Surgical Sutures tender was awarded to local manufacturers which includes black-owned companies. **Clinisut**, one of the awardees was also featured in Discovery's 'How it's Made'.

PROGRESS MADE IN LOCAL CONTENT IMPLEMENTATION

Transformers

- ❑ **Wilec, Makareng Electrical Industries** (Pty) Ltd employs 410 people and has benefited from designation of Transformers in the following manner:
 - ✓ Has installed and commissioned Hurco VM60 CNC workstation to cover all insulation components for MV motors and Eskom generators up to 900 MW.
 - ✓ Replaced old equipment with new at a cost of R60m as there is policy certainty and enforcement from **the dti**.
 - ✓ Designation has saved 80 jobs in Wilec that would have been lost due to imports.
 - ✓ Employ an additional 24 graduates, 70% black females, who will be trained in Europe and Japan to operate this specialized and modern plant.
 - ✓ Secured export orders into Ethiopia, Tanzania, Zimbabwe and Australia to the extent that exports rose from 10% to 35% of revenue in 18 months.
- ❑ These investments will make the local transformer industry more competitive.

WAY FORWARD

- ❑ Over the MTEF period, **the dti** has made available an additional R20 million to support the SABS Local Content Verification function.
- ❑ There is a need to develop an alternative non-financial local content declaration method (e.g. legally binding self declaration in the bidding documents attested to by the Commissioner of Oaths).
- ❑ Enforcement of local content reporting (submission of signed SBD/MBD and Local Content Declaration Annexures) by the organs of state.
- ❑ Closer working relationship by **the dti**, National Treasury, SABS, SARS, ITAC, Office of the AG, Law Enforcement Agencies, PSA, Industry Associations and Unions in monitoring local content implementation.
- ❑ The Public Procurement Bill creates an opportunity to strengthen compliance on local content and the leveraging of public procurement to support transformation, economic and industrial development.



THANK YOU

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