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Trade and Industry
REPUBLIC OF SOUTH AFRICA

Designation of Industries, Sectors & Products for Local
Procurement in the Public Sector

Launch of the SABS Local Content Verification Office

5 July 2013

Gallagher Convention Centre



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Purpose

- **Economic challenges and the role of IPAP**
- **Government procurement levers**
- **Rationale for the designation of industries and products**
- **Progress on designated sectors**
- **Conditionalities and expected outcomes in leveraging local procurement**



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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

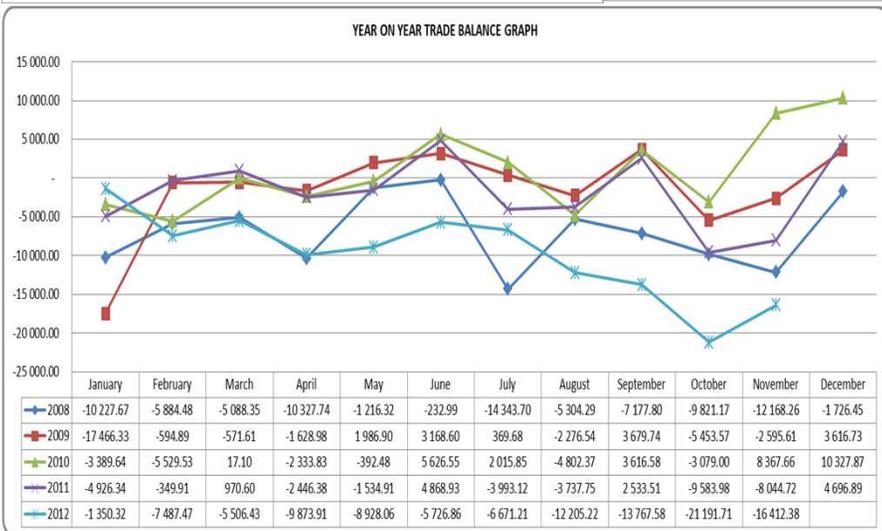
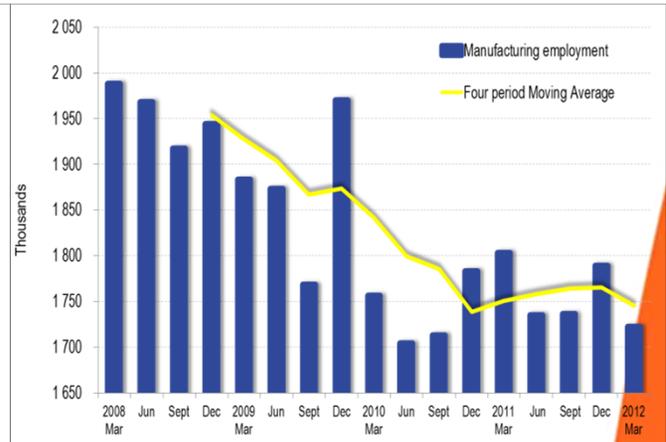
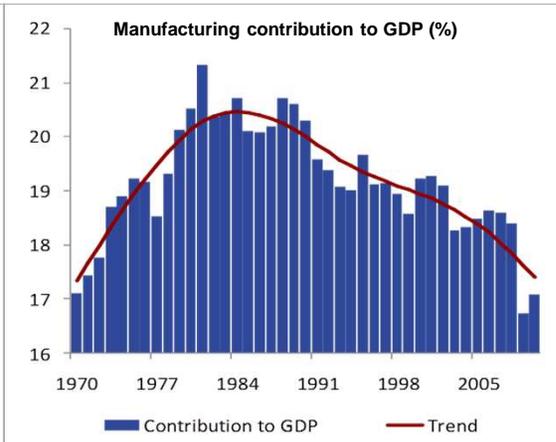
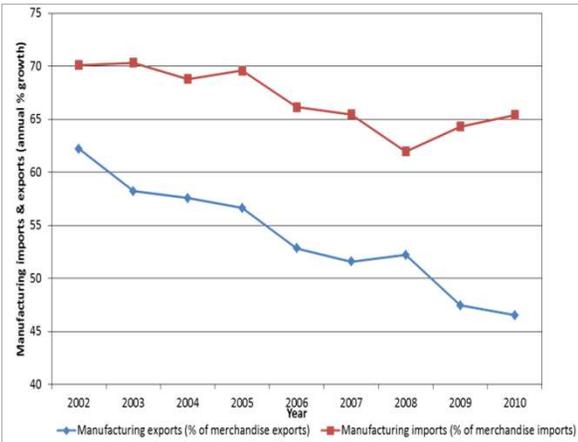
- High structural unemployment has remained a constant, oscillating between 22,5% and 25% on the narrow definition.



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RSA: Manufacturing challenges & the need for designation



In recent years, South Africa 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.

Source: SARS, SARB Databases

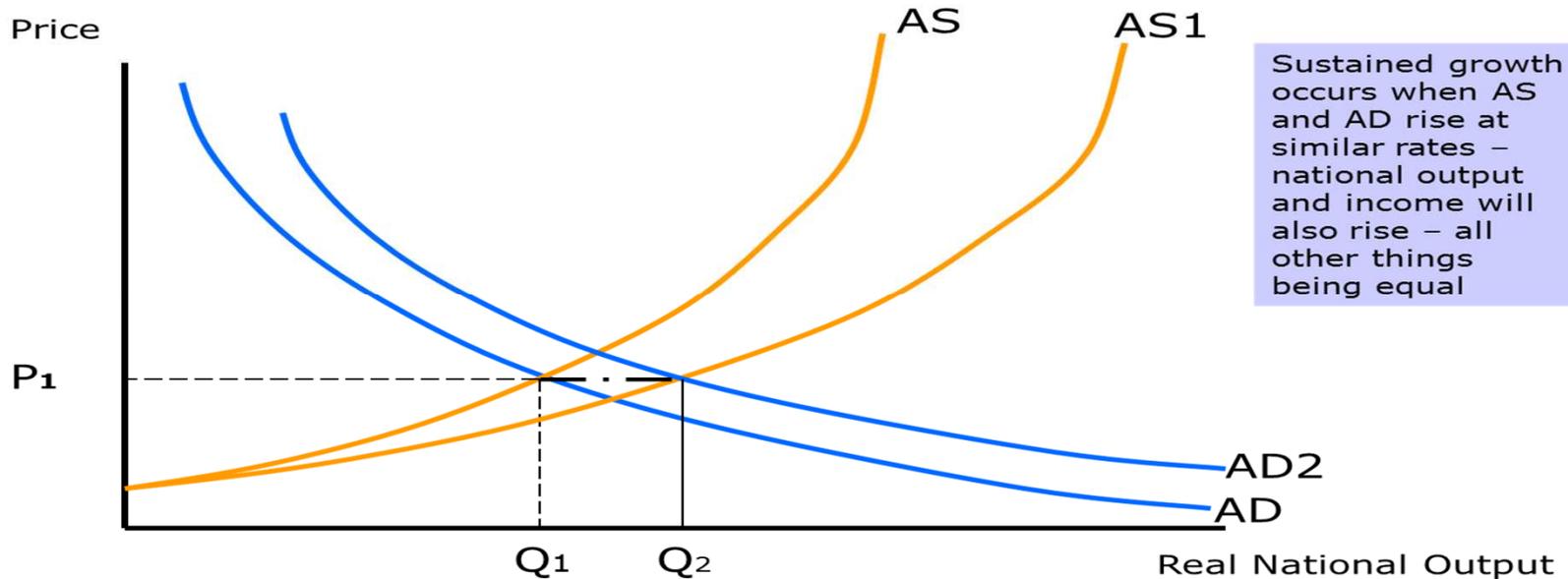


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The importance of local production and content

- 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)





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Arguments in favour of designation

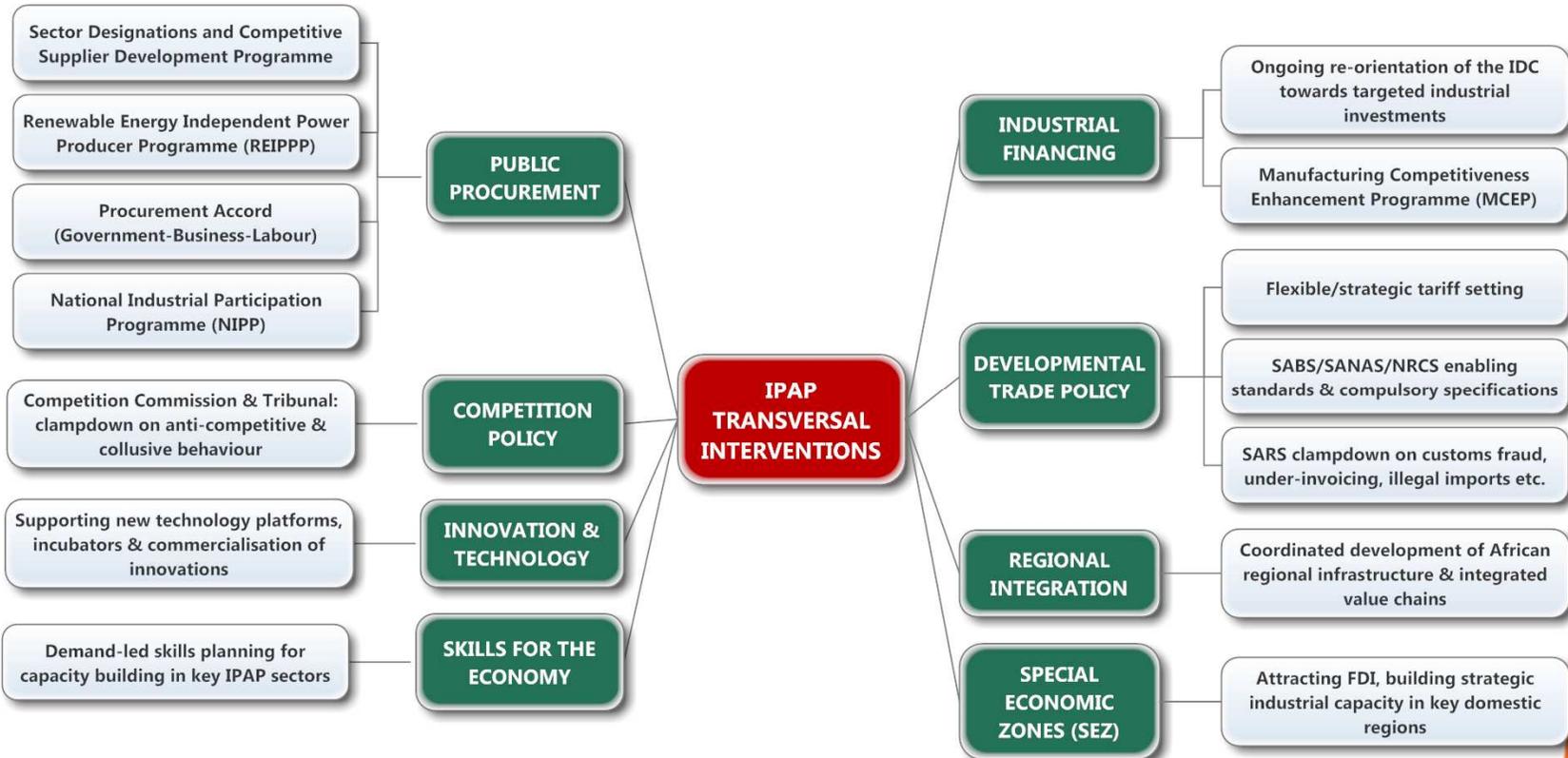
- Leveraging public expenditure
- Supporting economic growth and creation of job opportunities in the country
- Attracting new investments (in particular, foreign direct investments)
- Reducing South Africa's trade deficit
- Overall savings due to lower impact of currency fluctuation (owing to high local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



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IPAP Transversal Interventions





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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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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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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">• Office Furniture• School Furniture• Base and Mattress	<ul style="list-style-type: none">• 85%• 100%• 90%
Solar Water Heater Components	70%
Power and telecom 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:

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



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Progress on Designated Sectors

- **Bus Bodies**

- Mercedes-Benz South Africa: Sandown Motor Holdings has won the tender to provide 134 busses for the phase 1B of the City of Johannesburg's Rea Vaya rapid bus system.
- The City of Cape Town has awarded the tender to provide 40 busses for the extended MyCiti rapid bus routes to Volvo South Africa
- The dti is working with the Cities of Tshwane and Rustenburg in putting together local content requirements in the RFPs for the procurement of busses for rapid bus transit routes

- **Set-top boxes for TV Digital Migration**

- The Dept. of Communication is considering responses to the RFPs for digital set-boxes. This includes PC Board, Connecting Cables, Enclosures and Assembling which must be 100% locally manufactured and produced

- **Textiles, leather and footwear**

- This sector has been designated 100% for local production since 2002. All transversal contracts managed by the National Treasury comply with this requirement
- The dti is constantly reviewing Tender Bulletins to check for compliance in the issuing of tenders for textiles, leather and footwear



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Progress on Designated Sectors

- **PRASA: Fleet Renewal Programme**
 - PRASA has awarded a tender to Alstom for the manufacturing of 7224 coaches to be built between 2015 and 2025.
 - The first test trains are expected to be operation in the first quarter of 2015.
 - The initial phase, starting in 2014, will result in the estimated direct creation of 8088 jobs.
- **TRANSNET: Fleet Renewal Programme**
 - In 2012 Transnet Freight Rail (TFR) advertised an RFP for the procurement of 1064 locomotives as part of the R300 billion capital investment programme over seven (7) years
 - The RFP includes 65% local content requirement
- **Pharmaceutical Products**
 - In 2012, 73% of the contract volume of the Oral Solid Dosage and Transdermal patches (OSD) tender was awarded to the domestic manufacturers
 - The dti is working closely with the Dept. of Health in identifying opportunities for further designation of pharmaceutical products
- **Solar Water Heaters**
 - The dti is working closely with the Dept. of Energy and Eskom on the requirements for local content in the continuing roll-out of SWHs
- **Power and Telecom Cables**
 - The dti is working closely with Public Entities in IDZs on the requirements for local content in cables as part of infrastructure development



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Conditionalities for leveraging local procurement

- 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
- The emphasis of verification is not only on compliance but on regulatory quality to promote and protect health, safety, environment, and to enhance the functioning of markets
- Local industry must commit to make the necessary investments towards modern manufacturing techniques and industry upgrading
- Preferred bidders such as original equipment manufacturers (OEMs) should commit to skills and technology transfers, and award medium to long-term contracts to local manufacturers and suppliers
- Industry should commit and gear itself towards being both price and internationally competitive



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Thank You