

**LOCAL CONTENT
PUTTING SOUTH AFRICA FIRST**





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1. Introduction

South Africa still faces legacy problems and other severe challenges in our national drive to create jobs, alleviate poverty, address historical inequality and build a sustainable future for all our people. To this end, the country needs a burgeoning manufacturing sector. Our economy cannot achieve our goals on the basis of importing most of the products we use. A thriving manufacturing industry creates jobs and business opportunities, enables skills development, and improves our competitiveness in global markets. Putting South African industry first should therefore be a priority for all South Africans.

Government is leading the way with its Local Production and Content initiative, which flows from the government's policy framework that includes the National Development Plan, the New Growth path, the Industrial Policy and Action Plan and the Preferential Public Procurement Finance Act, among others. Local Content is an initiative of the Department of Trade and Industry (the dti).

The Local Content initiative was first introduced in the Preferential Procurement Framework Act in 2011, with an amendment that made provision for the dti to designate certain sectors for local production and content, in line with national development and industrial policies for local production.

Regulation 8(2) of the amended Preferential Procurement Regulation 2017 prescribes that in the case of a designated sector, an organ of state must advertise the invitation to tender with a specific condition that only produced services or goods or locally manufactured goods with a stipulated minimum threshold for local production and content, will be recognised.

Regulation 8(4) states that if there is no designated sector, an organ of state may include, as a specific condition of the tender, that only locally produced services or goods, or locally manufactured goods with a stipulated minimum threshold for local content be considered. This can only be done through the dti, in consultation with National Treasury.



Procuring Organs of State, in particular State Owned Companies (SOCs), play a critical role as enablers and drivers of industrial development in many countries, specifically to leverage public expenditure in both capital and operating expenditure (CAPEX and OPEX). In South Africa, SOCs are expected to contribute to the following key policy goals:

1 Securing local procurement and strategic sourcing/supplier development in key value chains

2 Developing and enhancing local manufacturing capacity and capabilities

3 Supporting industrial innovation and technological developments, especially through technology absorption

4 Creating employment and sustaining jobs

5 Boosting exports and ensuring that suppliers are integrated into OEM global value chains

6 Supporting broader economic empowerment through support for historically disadvantaged industrialists.



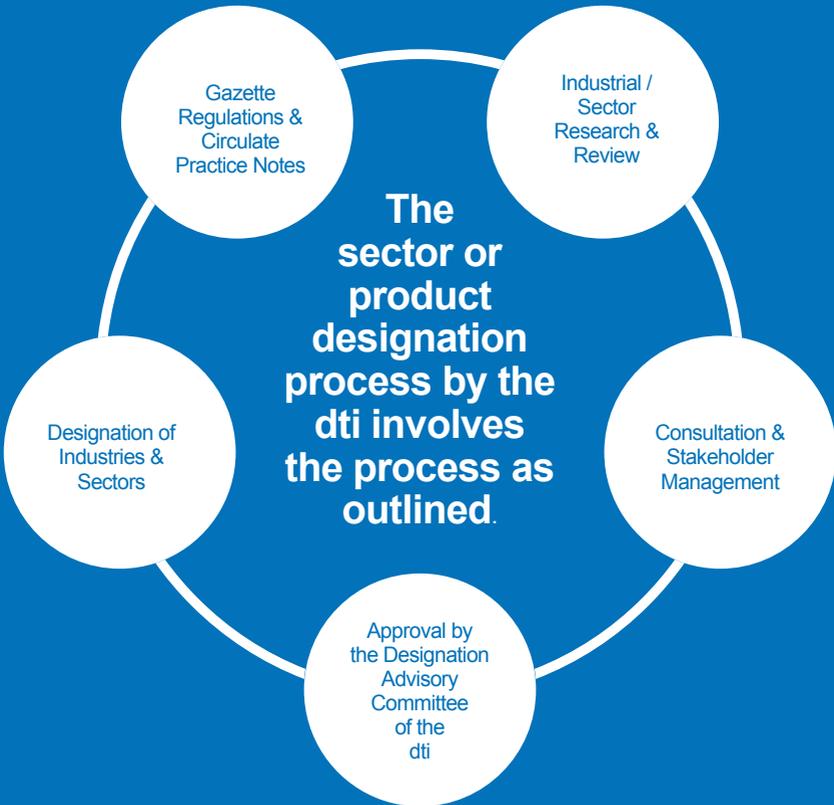
2. How is Local Content and Production applied?

Government is a major buyer of products and services via its state tenders. Procuring locally manufactured goods has obvious benefits for national competitiveness and economic growth. The Local Production and Content initiative therefore mandates minimum local content requirements for state tenders in designated sectors.

Local production and content is usually stipulated as a minimum percentage of the tender price and specific production conditions. So, for example, a tender for goods from a designated sector may specify that at least 60% of the tender price must consist of products manufactured within South Africa and that specific components used in the production process must be sourced from local manufacturers.

Although the Local Content initiative is relatively new, there has been steady progress towards the desired outcomes. Policy coherence is improving across government, with growing appreciation of the importance of procurement policy as a lever for industrial policy as a whole. Compliance has improved across departments and spheres of government, although more needs to be done to build capacity. There has also been intervention in non-compliant tenders to ensure that local content obligations are not bypassed.

3. Public Sector Designation process



Designated sectors

Designated sectors are subject to the following local content thresholds:



“All national and provincial departments, all municipalities, all entities listed in terms of Schedules 2 and 3A and 3B, as well as all other government agencies and State Owned Companies comply with the minimum local content thresholds prescribed when procuring goods and services from these sectors”.



4. Standards and verification

In order for a policy initiative like Local Content to be broadly understood and correctly implemented, it is vital that all parties have a clear understanding of the metrics involved, which must be relevant and accepted at a global level. Accordingly, the **South African Bureau of Standards (SABS)** was tasked with developing a national standard which sets out the terminology, definitions, formulae and other specifications that govern local content. The resulting standard - *SANS 1286:2017: Local goods, services and works - Measurement and verification of local content* – has now been published and is available from the SABS standards webstore.

SANS 1286 uses the following formula to calculate local content:

$$LC = (1 - x/y) * 100$$

Where **X** is the imported content in Rand and **Y** is the Bid price in Rand.





Verifying that suppliers of products have complied with the local content requirements is an important aspect to ensure the success of the initiative. Local content verification is conducted in two parts:

Financial verification assesses the value of input items used in the production process and distinguishes between imported and local components. Financial verification also involves calculating the local content percentage of the product in question.

Technical verification ensures that successful tender bids can follow through on the local content commitment expressed in their bid. This involves verifying that the manufacturing facility exists, along with assessing the facility's suitability to manufacture the goods required, the manufacturer's capability to produce, and the completeness of the bill of materials. Technical verification also identifies input materials that cannot be sourced in South Africa and flags them for further assessment by financial verification.

The SABS is ideally positioned to undertake its verification duties, with ample capacity of expert staff on call. The SABS employs 412 laboratory engineers and certification auditors across its network of offices around the country. In addition, the SABS has appointed a panel of experts to be deployed with the verification teams when necessary. Specialists from these accounting firms have been trained by the SABS to be competent in conducting local content verification. Only resources trained by the SABS can be deployed to conduct local content verification.



How will Local Content affect your tender bids?

Local Content designations may affect the government tenders for which you bid, so it is vital that you understand and comply with Local Content processes and procedures. This section will provide valuable information to help you submit bids that comply with requirements. If you would like more information, we recommend that you procure a copy of SANS 1286:2017: Local goods, services and works - Measurement and verification of local content. This national standard is available from the SABS standards webstore.

Tenders subject to Local Content designations will require you, the supplier, to make a declaration in your tender documentation with regard to local content. These are the important steps to follow in making your declaration:

- Identify all import components that will be used in the production process by you or your downstream suppliers.
- Assess whether you can meet all local production and content requirements as stated in the tender brief.
- Calculate local content percentage as per the formula $(1 - x/y) * 100$ where x is the imported content and y is the total tender price.

Determine the rand value of all import components by converting the foreign currency at the exchange rate listed by the South African Reserve Bank at 12h00 midday on the day the tender was advertised.

Complete annexures C, D and E of the Local Content declaration templates to determine if the product meets the local content designation requirements. available on www.sabs.co.za (under Local Content)

A supplier can apply for exemption from the dti on some import components used on products that cannot meet designation local content requirements. Exemption will only be granted after careful consideration of the availability of the components within South Africa.

Complete the returnable declaration form SBD 6.2 or MBD 6.2 (Municipal Tenders) and Annexure C in the tender documentation to formally make a local content declaration on the product.

Your Local Content declaration is a key factor in determining whether your bid is successful or not. If you are awarded the tender, you may either be contractually required to undergo verification, or selected to do so. Either way, please ensure that you are able to comply with the verification process.

An SABS representative will contact you to arrange the verification process that applies to your bid. To prepare for verification, please gather all information relating to input materials used in the production process. It remains the manufacturer's responsibility to determine the local content of input materials used in the production process. The manufacturer must also source and provide supporting information to confirm local content level on all input materials used in the production process.

Distributors who have been awarded tenders are responsible for local content claims made for products which they supply.

Verification applies to the whole supply chain. If you are awarded a tender with a Local Content designation, please inform all parties in your supply chain that they may be visited by the SABS to verify the level of local content on components they supply.



Local Content verification stages:

1 Preliminary Stage (Pre-Verification)

- Tracking the supplier
- Requesting BOM from the supplier
- Identification of resources required for the project
- Costing and allocation of work

2 Fieldwork Stage (Verification)

- Opening engagement with the supplier
- Physical verification of supplier facilities
- Verification of supporting documentation
- Verification of lower tier levels of supply chain
- Computation of local content percentage
- Review of verification working papers

3 Reporting

- Review of verification file by SABS
- Communication of results to the supplier
- Addressing supplier concerns with results, if any
- Submission of verification to Approvals Board
- Issuing of certificates (successful bidders)

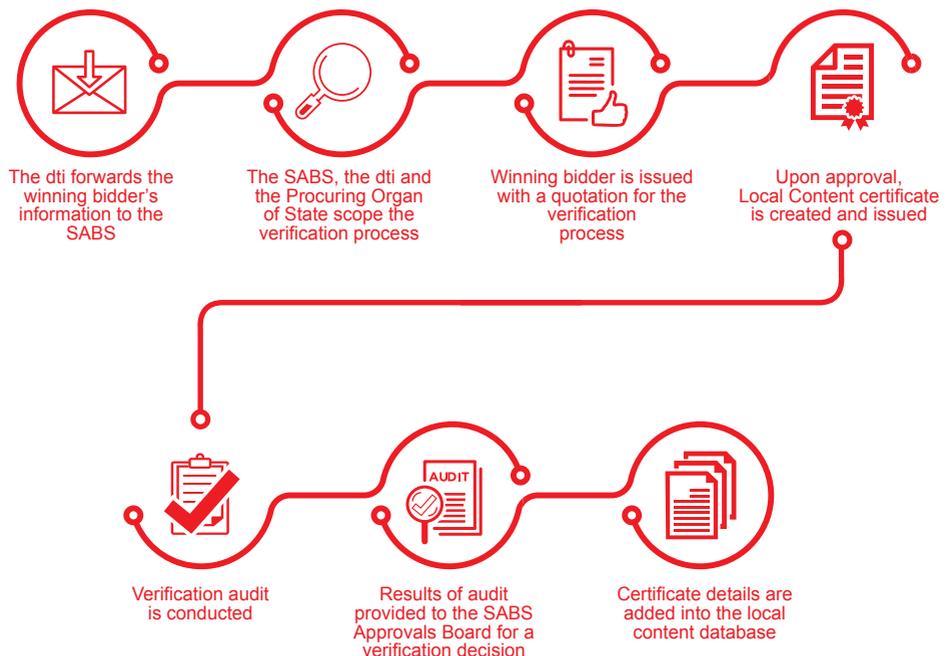
“the duration of the contract will ensure that the supplier adheres to the Local Production and Content requirements.”

Should the audit successfully verify that you meet the Local Content requirement against the threshold, the SABS will issue a Local Content Verification Certificate. This certificate is valid for a period of one year.

On-going surveillance and “spot checks” by the SABS throughout the duration of the contract will ensure that the supplier adheres to the Local Production and Content requirements.

The Local Content verification conducted by the SABS will incur a cost payable in line with the arrangement between the bidder and the Procuring Organ of State, based on the audit time.

In summary, the local content certification process consists of the following steps:

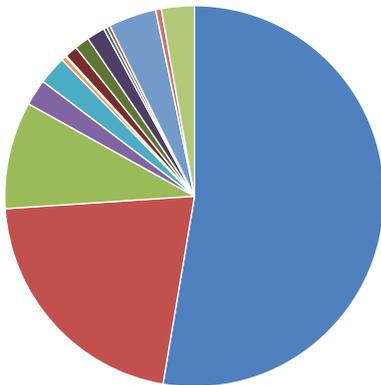




Progress to date on tenders with Local Content thresholds

The pie chart below illustrates the ratio per sector of public procurement tenders subject to minimum Local Content thresholds.

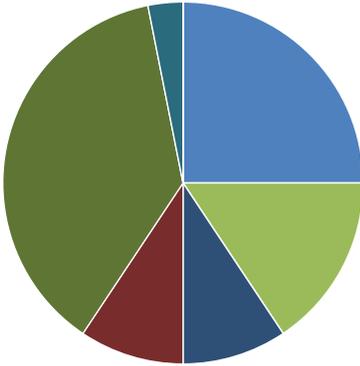
Tenders Awarded



- 1 Textiles & Clothing Products
- 2 Furniture Products
- 3 Electrical & Telecom Cables
- 4 Canned & Processed Vegies
- 5 Valves & Actuators
- 6 Rail Rolling Stock
- 7 Set top boxes
- 8 Power Pylons
- 9 Solar Water Heaters
- 10 Steel Products
- 11 Busses
- 12 Working Boats & Vessels
- 13 Transformers
- 14 Residential Meters
- 15 Construction

The chart below represents tenders subject to Local Content prior to 2018. Relatively few sectors were designated for minimum Local Content thresholds, with the Department of Energy being prominent.

Verified Pre 2018

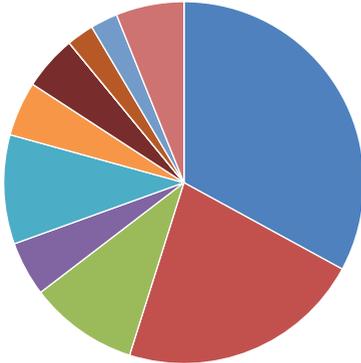


- 1 Textiles & Clothing Products
- 2 Furniture Products
- 3 Electrical & Telecom Cables
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Since 2018, the number of sectors with Local Content designations has increased substantially. The chart below reflects the growing acceptance of, and compliance with, the Local Content initiative.

Verified Post 2018



- 1 Textiles & Clothing Products
- 2 Furniture Products
- 3 Electrical & Telecom Cables
- 4 Canned & Processed Vegies
- 5 Valves & Actuators
- 6 Rail Rolling Stock
- 7 Set top boxes
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5. Local Content in the Mining sector

Local content is especially pertinent to the mining sector. In September 2018, the Department of Mineral Resources issued the Broad-Based Socio-Economic Empowerment Charter for the Mining Industry (Mining Charter #3), which were subsequently followed by its guidelines promulgated in December 2018. Both the charter and its guidelines affirm the SABS as an agency appointed by the Department of Mineral Resources to carry out local content verifications. Under the new charter, mining houses are expected to spend at least 70% of their procurement on South African manufactured goods. In terms of the definitions of the charter, South African manufactured goods refers to goods with a minimum of 60% local content during the assembly of manufacturing of the product in South Africa, and the calculation of local content excludes profit mark-up, intangible value such as brand value and overheads.

This will result in mining houses giving preference to procure goods that meet the definition of South African manufactured goods. Suppliers whose products meet the local content requirements will see this as an opportunity to secure preferential consideration in procurement decisions.

Local content certification for mining goods will not be linked to tenders but can be secured by a supplier whenever they feel confident that their product meets the local content requirements. In preparation for local content verification, the supplier will have to assess the local content value of their manufactured products. The Mining Charter #3 provides guidelines on how to calculate local content. The following formula will be used:

$$A = (B - C) / B \times 100\%$$

Where A is the percentage local value add, B is the sales price in rand of the capital good, component or consumable excluding mark-up and indirect overheads, and C is the value of the imported inputs/components used in the assembly or manufacturing of the capital good, component or consumable.

It remains the manufacturer's responsibility to know the local content contribution from any input components used in the production process. Procuring from a local supplier does not mean that components sourced are 100% local.

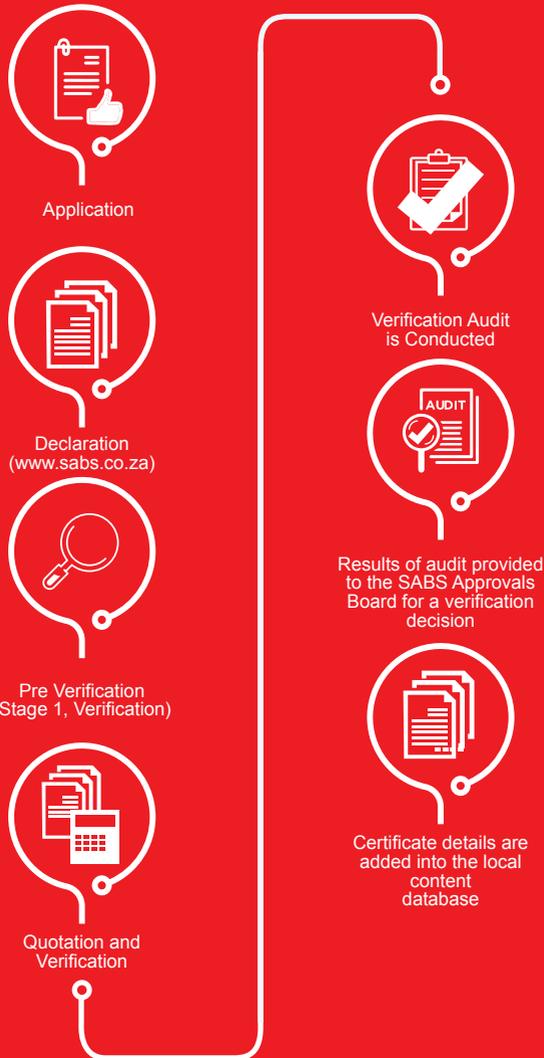
Manufacturers producing multiple products can selectively opt to attain verification and certification for products that meet local content requirements. In preparation for local content verification, the manufacturer will identify the scope of products to be verified. The supplier must be able to distinguish how materials and direct overheads are allocated for each of the products selected for verification.

Mining goods that meet the local content requirements will be certified as meeting the definition of South African manufactured goods for a period of five years. The certificate is issued on condition that the audited supply chain activities and production technology are maintained over the full five year period.

Manufacturers holding local content certificates for the purposes of Mining Charter #3 compliance are required to submit an annual declaration to confirm consistency in procurement behaviour and the manufacturing process. Annual declarations will be used to conduct annual surveillance audits where necessary.

The supplier remains responsible for informing the SABS of any changes to the production mix and/or supply chain during the period of certification. The SABS will consider the changes and assess whether they have any impact on the assertions made in the certificate. Only products or product ranges verified and found to have met local content requirements will be included in the certificate.

In summary, the local content verification process for the Mining Charter #3 consists of the following steps:



VERIFICATION PILLARS

Physical Plant

Local Manufacturing

Locally Produced Input
Material

Local Labour

Duplication at lower
Tiers of Supply

PPPFA / Mining charter
Requirements

Local Content Verification Certificate: Promotes local industry competitiveness and market access

VERIFICATION CYCLE

Initial Verification

Supplier makes a declaration to SABS
SABS verifies the claimed declaration
Successful Verification -
SABS issues a verification report

- Specific mention of products
- Validity of the certificate
- Published for access by Holders and DMR

2nd to 5th Year Surveillance

SABS samples verified products and review for:

- Consistency in the production process
- Consistency in the procurement behaviour
- Assess the impact of any changes noted
- Successful Verification- SABS issues a report and the verification certificate
- Specific mention of products
- Validity of the verification certificate
- Published for access by Holders and DMR

Re-certification

SABS verifies all products listed in verification certificate for:

- Consistency in the production process
- Consistency in procurement behaviour
- Assess the impact of any changes noted
- Successful Verification - SABS issues a report & verification certificate
- Specific mention of products
- Validity of the verification certificate
- Published for access by Holders and DMR

Scope expansion: The supplier can at any given time request for additional products to be verified and added onto the report

SABS Guidelines

This guideline provide a reference to the completion of the Declarations for mining goods which could be eligible for recognition as having the minimum required Local Content. Guidelines available www.sabs.co.za/local_content

Declaration Documents

This is to ensure the completeness and disclosure of the products to be verified. (available www.sabs.co.za/local_content) or email localcontent@sabs.co.za

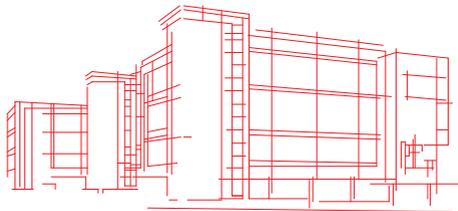
The Declaration template for application can be obtained by emailing [**localcontent@sabs.co.za**](mailto:localcontent@sabs.co.za)

For Frequently Asked Questions visit our website

[**www.sabs.co.za**](http://www.sabs.co.za)

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