



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

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

PORTFOLIO COMMITTEE ON TRADE & INDUSTRY

6 April 2016

Purpose of the Presentation

- Background on Procurement Levers
- The PPPFA and Local Content
- List of Designated Sectors (approved, outstanding and not approved)
- Highlights on Designated Sectors
- Regulation 9.3 of the PPPFA
- Priority areas for consideration

Procurement Levers

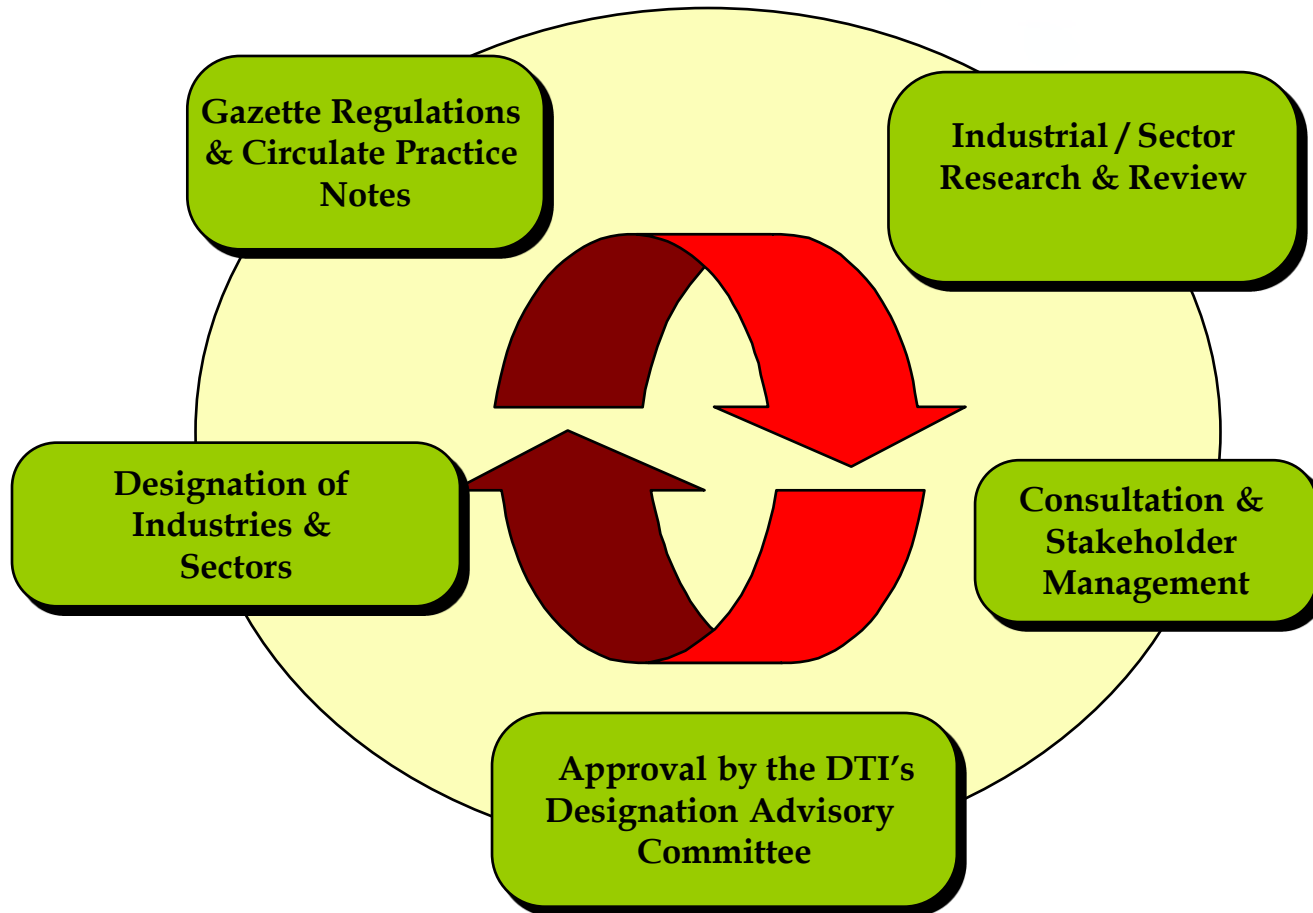
- **Government purchasing power** through public procurement contributes between 15% and 25% to GDP (value that is extracted from large scale procurements)
- **National Industrial Participation Programme (NIPP): Imported Content => US\$10 million**
- **Defence Industrial Participation (DIP):** managed by Armscor and applicable to all defence procurement. **Imported Content => US\$2 million**
- **Competitive Supplier Development Programme (CSDP):** managed by DPE in conjunction with State Owned Companies (SOCs) .
- **Designation & Local Production**
- **The Renewable Energy Independent Power Producer Procurement Programme (REIPPPP)**
- **The Local Procurement Accord**

PPPFA and Local Content

- 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



Designation Process Flow



Designated Products

Designation Matrix

Sectors Already Designated*	Minimum Local Content Thresholds	Date	Sectors Forwarded to the NT for Designation**	Minimum Local content Thresholds	Date
Description		Date	Description		Date
1. Rail Rolling Stock	65%	16-07-12	1. Building & Construction Materials		14/15 Q1
2. Bus Bodies	80%	16-07-12	2. Yellow Metals		14/15 Q1
3. Canned/Processed Vegetables	80%	16-07-12	3. Two Way Radios		14/15 Q1
4. Textile, Clothing, Leather and Footwear Sector	100%	16-07-12	4. Solar PV Components		14/15 Q2
		16-07-12	5. Rail Signalling System		14/15 Q2
5. Solar Water Heaters	70%	19-07-12	6. Wheelie Bins		14/15 Q4
6. Set-top Boxes	30%	26-09-12	7. Fire trucks/engines		14/15 Q4
7. Certain Pharmaceutical Products	Per Tender	07-11-12	8. Water Meters		14/15 Q4
8. Furniture Products	85%	15-11-12	9. Poultry Products		14/15 Q4
9. Electrical and Telecom Cables	90%	08-05-13	1. Guidelines on the Implementation of Reg. 9.3 of the PPPFA		11-12
10. Valves Products and Actuators	70%	06-02-14			
11. Working Vessels	10-100%	01-08-14			
12. Residential Electricity Meters	50-70%	01-08-14			
13. Steel Conveyance Pipes	80-100%	28-09-15			
14. Powerline Hardware and Structures	100%	28-09-15			
15. Transformers	10-100%	28-09-15			

Requirements on the 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.
 - If the raw material or input to be used for a specific item is not available locally, bidders should obtain written authorisation from the dti should there be a need to import such raw material or input; and
 - A copy of the authorisation letter must be submitted together with the bid document at the closing date and time of the bid

Exemption Process

- ❑ Bidders must clearly indicate in their bids the quantities of material and products to be supplied and the level of local content for each product.
- ❑ If the quantity of materials and/or products cannot be wholly sourced in South Africa, **the dti**, in consultation with the procuring entity, will grant exemption on a case-by-case basis
- ❑ **the dti** will revert back to the bidder within 48 hours either with a response or an acknowledgment that the request is being considered.
 - If an exemption is requested on the product that has already being exempted, then **the dti** takes 48 hours to process the request
- ❑ In certain instances, **the dti** consults with the industry, especially if the exemption is volume-based and/or based on the particular type of material. That can take up to a week to revert back to the bidder.

Requirements on Post Award & Reporting

- 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.
- The amendment of the stipulated minimum threshold for local production and content is not allowed
- 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**

Progress on Designated Sectors

- **Rail fleet procurement**

- PRASA and Gibela Rail Transportation announced that the entities had achieved commercial close on the contract to supply the state agency with 7,224 new coaches at a projected cost of R123 billion over 20 years.
- The tender is estimated to create over 8000 direct jobs.
- Transnet has awarded a total of R50bn in contracts to CSR Zhuzhou Electric Locomotive, CNR Rolling Stock SA, Bombardier Transportation SA and General Electric SA for the building of 1,064 electric and diesel locomotives **to be built in SA**.
- All the locomotives, except for the first 70, will be built in Transnet Engineering's plants in Pretoria & Durban.

Rail fleet procurement

Modern Fleet

- PRASA wants to migrate from 1950's technology to a **modern** fleet which is up to **world standards**



Programme Requirements

- New Fleet requirement **~7224** procurement at ~360 coaches per year for two x 10 year contracts
- Total **~R123.5bn** over **20 year** period



Rolling Stock Fleet Renewal Programme

Job Creation

- Creating **~65 000** direct and indirect jobs



Industrialization

- Focus on industrialisation through long term procurement aiming for **above 65%** of the value of a coach to be **produced locally**



Rail Rolling Stock Opportunities

Locomotive Business



Wagons Business



Rolling Stock Equipment Business



Auxiliary Business



Wheel Business



Coaches Business



Rotating Machine Business



Foundry Business





Progress on Designated Sectors

- **Automotives**

- Volvo Southern Africa, in partnership with Marcopolo South Africa, has been contracted to produce 131 buses - 85 rigid 12m and 46 articulated 18m vehicles - to the City of Tshwane by 2016.

- Mercedes-Benz South Africa (Sandown Motor Pty Ltd) 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 awarded Volvo South Africa a tender to provide 40 busses for the extended MyCiti rapid bus routes at a cost of R180m.

- Tshwane Municipality has awarded MAN a tender to supply 120 A84 Lion's City busses.



Progress on Designated Sectors

- **Pharmaceuticals**

- Four pharmaceutical companies were jointly awarded a R10 billion tender to supply the Department of Health with antiretroviral (ARV) medication from 1 April 2015 to 31 March 2018.
 - ***Sonke Pharmaceuticals was awarded R3 billion, Mylan Pharmaceuticals R2.8 billion, Aspen Pharma R2.5 billion, and Cipla Medpro R2 billion.***
- The 2014-2016 OSD tender worth R 2.683 billion was awarded to 38 companies. Including local manufacturers such as Aspen (38%), Adcock (2%), Sanofi-Aventis and its subsidiary Winthrop (11%), Sandoz (3%) and Be-Tabs (3%).
- The tenders had a conditional provision for designation of up to 70% of the tender volume for domestic manufacturers.

Local Procurement of Non-Designated Products

- **Regulation 9 (3) prescribes that** “...where there is no designated sector, an organ of state may include a specific tendering condition for local procurement with a stipulated minimum threshold for local production and content. This should be in ***accordance with the specific directives issued for this purpose by the National Treasury in consultation with the dti***”.

Consideration:

- Constitutional and legal compliance
- Economic and fiscal considerations
- Promotion of SMME’s, geographic spread, technological capabilities

Local Procurement through Regulation 9.3 of the PPPFA:

- Antennas for Digital Terrestrial Television
- Transformers and Valves before they were designated
- Manganese Material Handling Equipment

Opportunities to Scale-up Local Procurement through Infrastructure Delivery

Energy

- Construction of power stations (generation, transmission and distribution infrastructure)
- 2 460MW of renewable energy procured in the first two bidding rounds

Road transport

- SANRAL to spend R32.9 billion on roads improvements and R2 billion on coal haulage roads
- Public transport networks to begin in Tshwane, Rustenburg and eThekweni

Telecommunications

- Sentech's digitalization of television terrestrial network
- Layout of broadband network

Water

- Komati scheme to be completed 2013
- Municipal allocations of R44.5bn for water infrastructure
- Dam completed on Olifants river, reduced scope on bulk distribution

Education

- R31.9bn allocated for basic education
- R6.5bn allocated for higher education
- Preparatory work on two new universities funded by fiscus

Health

- Feasibility studies for five major hospitals
- R29.5bn to be spent on district hospitals
- R5bn to be spent on primary health care including R3.2 billion for clinics

Human settlements

- R84.3 billion to be spend on low-income housing and upgrading of informal settlements
- R2.9 billion allocated for special economic zones

Liquid fuels

- Trunk line on new multiproduct pipeline complete,
- construction of terminals
- Exploit and gas exploration on west coast

Source: PICC, Budget Reviews

Priority areas for consideration

- **The alignment of procurement levers to optimise industrial development**
 - *Develop and agree on instruments to support the government's 75% Local Procurement Target*
 - *Finalise and implement guidelines on Regulation 9.3 of the PPPFA*
- **On-going efforts to secure stronger alignment with the Department of Public Enterprises (DPE) and Transnet with respect to localisation and supplier development in the rail procurement across all OEM's in the rail fleet procurement**
- **On-going efforts to secure stronger alignment with the National Industrial Participation programme (NIPP) to secure investment in key industrial sectors**

Priority areas for consideration

- **Participate in the PPPFA Reforms (amendment of the Act, Regulations and Competition policy issues)**
 - *Powers to deal with non-compliance on local content / designation*
 - *An engagement is currently taking place with the Auditor General's Office to develop a framework to audit compliance and expenditure on designation / local content*
- Alignment of BB-BEE Scorecards (enterprise and supplier development) and Competitive Supplier Development Programme
- Capacity building in local content management, planning, sourcing and supplier development



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Thank You