



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA



Procurement – localisation and supplier development. Presentation to the PPC.
17 August 2016

Public sector procurement

- South Africa is not a signatory to the WTO Procurement Protocols. Legitimate use of procurement policy instrument. But state cannot prescribe localisation requirements to the private sector or designate services.
- Government has largest procurement spend
- Significant tool in the industrial policy ‘toolkit’ to support the manufacturing sector in SA
 - Raise aggregate demand in key industrial sectors – energy; transport and rail; upstream mining capital goods etc.
 - Smooth demand especially for fleet procurement
 - Stimulate investment in key sectors to increase competition, secure technology transfer; steadily build industrial capabilities and raise competitiveness



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Public sector procurement cont.

- Critical that deployment of all policy instruments is subject of ‘reciprocal conditionality’ to raise competitiveness (standards; price; security of supply; exports)
- National Treasury has constitutional mandate for state procurement at all levels of government although operational responsibility lies across government departments; spheres of government; State owned entities and agencies.
- The Department of Trade and Industry (the dti) has responsibility for certain procurement instruments
 - Designations
 - National Industrial Participation Programme (NIPP)

Public sector procurement cont,.

- The Department of Public Enterprises is responsible for the Competitive Supplier Development Programme (CSDP) which governs the procurement of Eskom and Transnet
- The Department of Energy is responsible for the localisation requirements in the Renewable Energy Independent Powers Producers Programme (REIPP) and
- Currently Clause 9 (1) concerns Designations and 9 (3) local procurement of non-designated sectors in the amended Regulations of the Preferential Public Procurement Finance Act (PPPFA). The latter enables any department or entity to prescribe localisation requirements in public tenders (with the support of NT and DTI.)
- Remedies for non compliance on the conditions of the contract, including local content, are presently the responsibility of procuring entities in terms of Section 13 of the Regulations of the PPPFA.

IPAP lever : Procurement

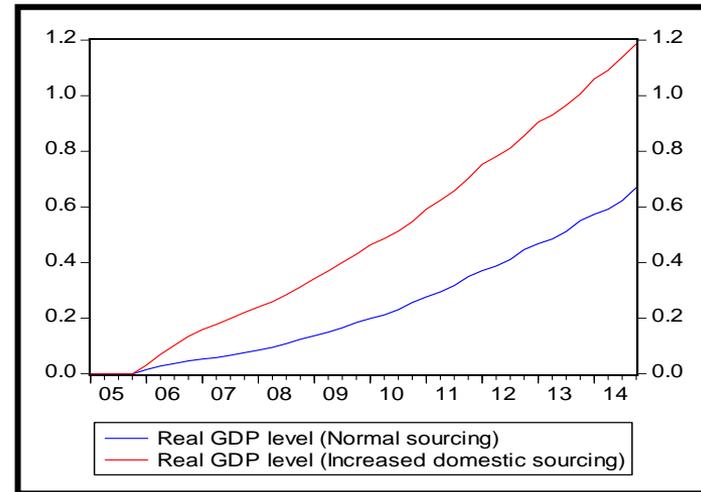
Procurement leverage is a particularly powerful instrument for industrial policy as the state recoups the costs of the programme through increased taxes

Impact of using existing capabilities to meet extra national demand

GDP Multiplier from R1 demand in capital goods	1,5	
Taxes as % GDP	25%	
	Import	Local
Price	100	104
Localisation Value	10	70
Price Premium	0	4
Impact on GDP	15	105
Taxes	3,75	26,25
Impact on the Current Account	-90	-34

A R4 premium for localisation can return R22 of additional taxes

Impact of developing new capabilities to meet extra national demand



- 20% drop in imports results in 50% greater growth impact
- Import replacement multipliers much more significant than additional production with existing capabilities

Supplier Development.

- Can be the responsibility of the procuring entity (the state or government entity) or the contracted supplier (Original Equipment Manufacturer – OEM.)
- Supplier development seeks to localise manufacture in the supply chain (Tier 1; 2; 3 and 4 suppliers) and to enable local manufacturers to supply components at the required technical specification requisite to the equipment being supplied; to the required standard; competitively (price and ‘on-time’ delivery) with security of supply.
- Supplier development can include new technology acquisition; new and improved engineering and production systems; new products; new capabilities such as component assembly and systems integration



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Supplier Development

- The state can support the supplier development effort of OEM's with a range of policy instruments such as incentives; industrial finance; skills support (National Foundry and Tooling Initiative) and technology localisation (Technology Localisation Unit at the CSIR) and so forth.
- Localisation and supplier development objectives should be aligned to broad based black economic empowerment objectives – ownership and active involvement in management (BEE Codes); supported, amongst others, by the Black Industrialist Incentive Programme to secure stronger transformation objectives in real economy sectors.

Private sector procurement and supplier development

- Notwithstanding commitments in the Procurement Accord (falling under the Economic Development Department) private sector support for localisation has been slow to materialise.
- Significant support for the domestic manufacturing sector could accrue with stronger private sector commitment and programmes to support local suppliers and empowerment in key sectors – mining; health; retail etc
- Building on significant supplier development in clothing and textiles; automotives and more recently the Mining Cluster.



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Global OEMs / strategic production hubs

- **Once global OEM's make a decision to use South Africa as a long term strategic production hub, the game changes. Example: General Electric -**
 - 1300 candidates trained in lean and engineering disciplines.
 - Over 100 parts and components qualified from 27 local suppliers who have been on-boarded after rigorous certification and capability building process.
 - 15 person years of technology transfer taken place to date.
 - Seven suppliers of the locomotive procurement are now part of the GE International Supply Chain.
 - Established a \$20 million supplier development fund, with a specific focus on developing black industrialists.
 - Established a \$50 million Customer Innovation Centre with a specific focus addressing the critical shortage of skills in engineering sector.



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Procurement - some progress markers

- The **locomotive fleet procurement** relating is resulting in significant localisation and supplier competitiveness upgrading in the entire locomotive supply chain.
- Both **Eskom and Transnet** can demonstrate successes in their Competitive Supplier Development Programmes and are in the process of developing their next generation strategic plans
- **Designation** is an important lever and has been particularly successful when it integrates with other procurement policies (such as the SOC **Competitive Supplier Development Programme**) - which results in proper buyer buy-in and technical support (e.g. valves cluster where Eskom, suppliers and SABS reviewed technical specifications for localisation)
- The **Technology Localisation Unit** at the CSIR has done important work to support technology localisation. This work should be scaled up.
- Some localisation has been achieved through the **Renewable Energy Independent Power Producers Programme (REIPPP)** which should be scaled up in subsequent rounds.



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

General progress and hurdles

- Critical that government defends the procurement policy space; builds on successes, 'learning to industrialise' and secures private sector support and a collaborative effort.
- National Treasury is reviewing the PPPFA and Regulations. Important that a clear role for localisation and supplier development under the dti is enshrined and strengthened in new legislation. If government's 75% target for localisation is to be met there will need to be a significant scale up of instruments and compliance.



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

General progress and hurdles

- Despite very significant progress there are hurdles and problems which still need to be overcome through a collaborative, problem solving effort
 - Processing of designation requests and issuance of Instruction Notes requires speeding up
 - Lack of compliance to procurement prescripts and use of 9 (3) which requires building capacity in large number of procuring entities and ensuring that compliance becomes an audit function
 - The verification issue requires resolution – ‘who carries the cost of verification’; the cost of verification itself and the agencies which can be accredited for verification.
 - Securing stronger localisation requirements in other programmes such as the REIPP; aligning the Mining Charter with broader localisation requirements; aligning localisation with BEE Codes.



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Thank You



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA