

LOCALISATION: WHEN DOES IT MAKE SENSE

DATE: 29 AUGUST 2023

PRESENTATION TO THE TIPS LOCALISATION DEVELOPMENT DIALOGUE



the dtic

Department
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA

the dtic - together, growing the economy

the dtic Customer Contact Centre: 0861 843 384

the dtic Website: www.thedtic.gov.za



Localisation policy questions and challenges

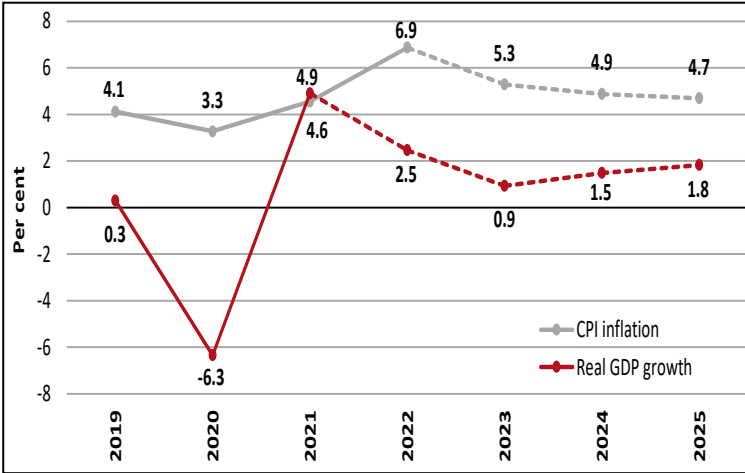
- **Is it Industrialisation or Localisation?**
- **Which Policy Instruments are appropriate to drive localisation?**
- **What is the role of institutions in driving localisation?**
- **Is localisation applied in various sectors of the economy?**
- **Weak management capabilities to drive localisation**
 - Transactional versus strategic procurement
 - Weak data systems
 - detail of procurement budget allocations
 - Procurement strategy not linked to budgets
- **Large rents absorbed by intermediaries in procurement process**
- **Limited leveraging of domestic production**
- **Limited development of productive black owned enterprises**

Industrial Policy Objectives W.R.T Local Content Requirements

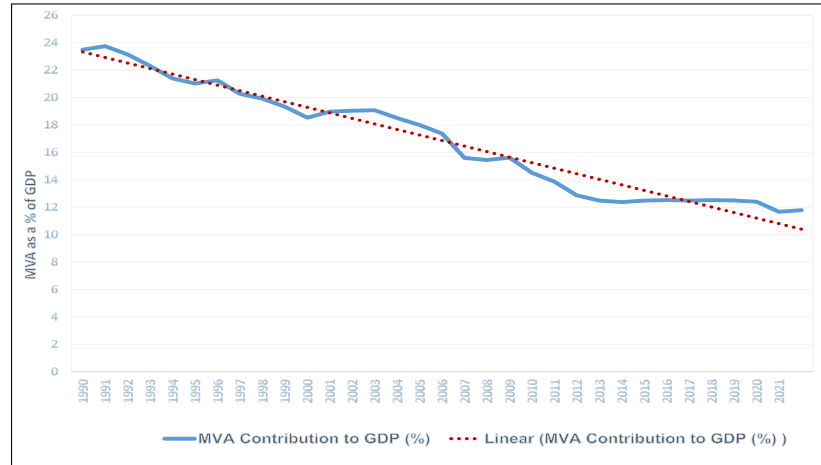
- **Leverage public expenditure, both CAPEX and OPEX, made by organs of state (all spheres of government and SOCs) to:**
 - Develop and enhance local manufacturing capacity and capabilities
 - Support industrial innovation and technological developments
 - Create employment and sustain jobs
 - Boost exports and ensure suppliers are integrated into OEMs global value chains
 - Support broader economic empowerment through the creation of black industrialists

Highlights on the Economic Challenges in South Africa

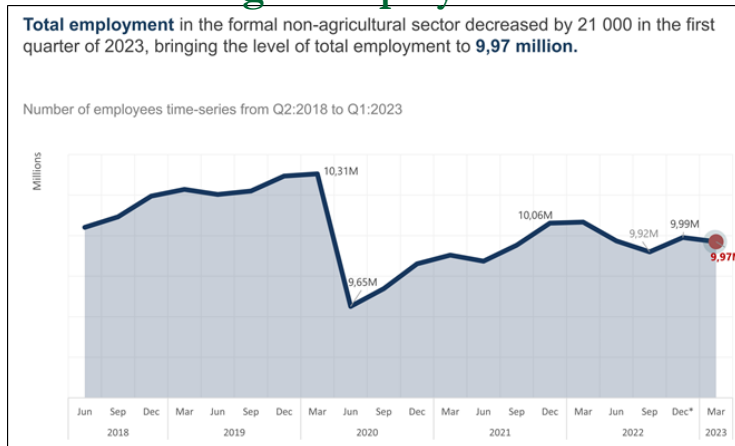
Low GDP Growth and High Inflation



Declining Manufacturing Addition to the GDP



Increasing unemployment rate



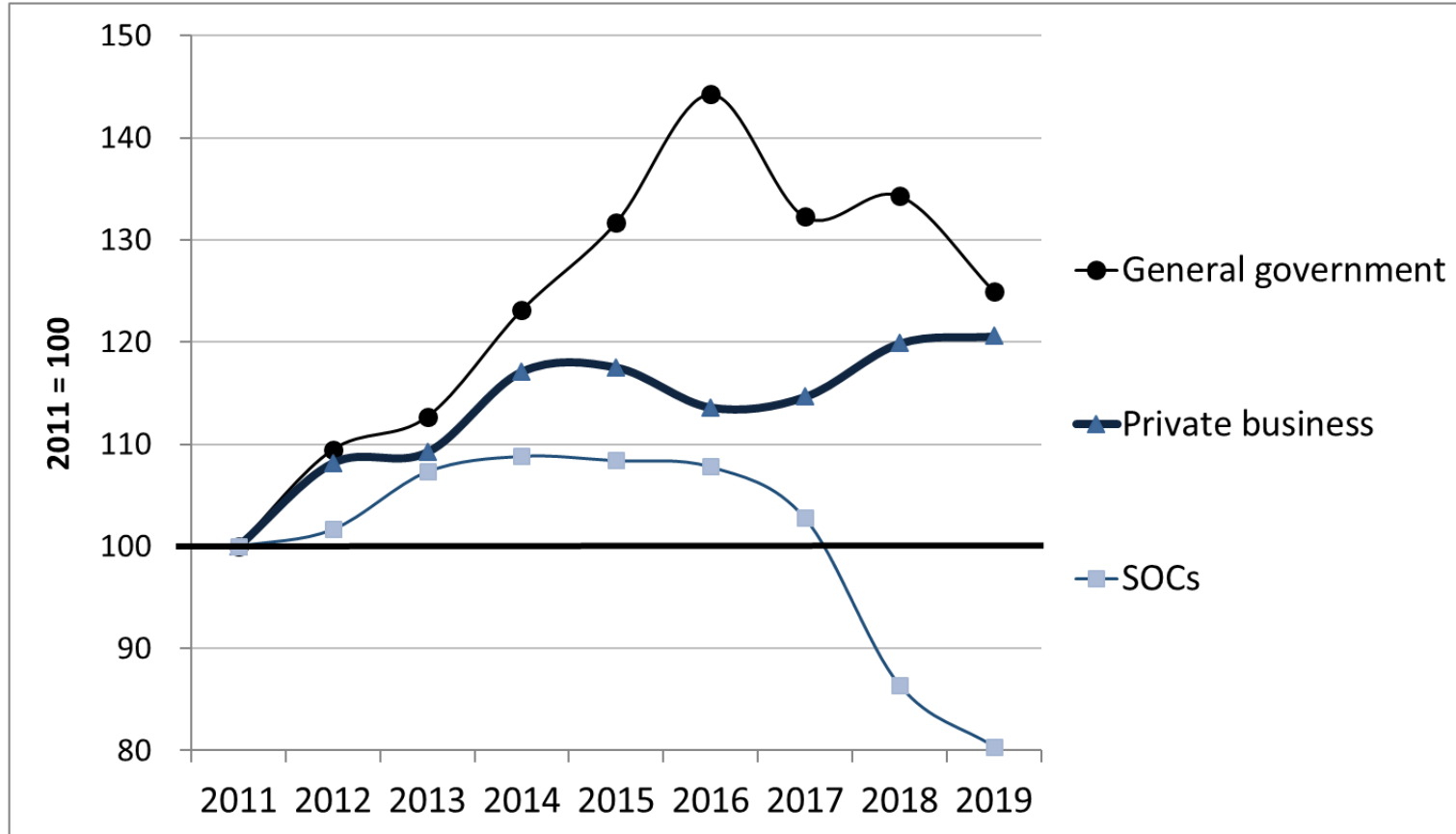
Public procurement of goods and series per sector

- **Education:** learning materials and infrastructure
- **Health:** pharmaceutical and medical products as well infrastructure
- **Transport:** aerospace, rail, roads, marine related goods and services
- **Information and communication technology services:** hardware and software
- **Public Works and Human Settlements:** Architectural engineering and infrastructure services
- Scientific research and development services
- Postal and courier services
- Accounting, bookkeeping and auditing services
- Advertising and market research services
- Management consultancy and related services
- Legal Services

South Africa's Top 10 Imports (2022)

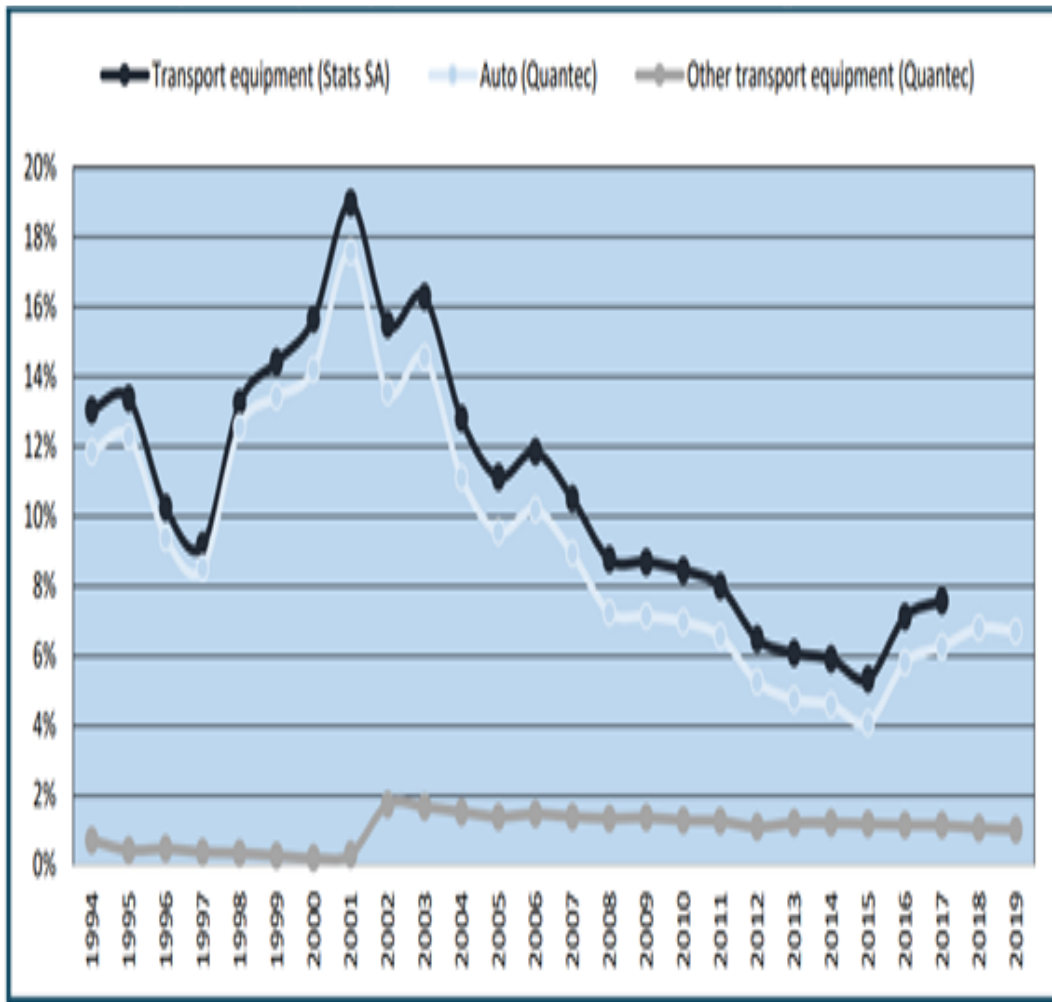
1. Mineral fuels including oil: US\$25.3 billion **(22.7% of total imports)**
2. Machinery including computers: \$12.5 billion **(11.2% of total imports)**
3. Electrical machinery, equipment: \$10.4 billion **(9.3% of total imports)**
4. Vehicles: \$8.3 billion **(7.5% of total imports)**
5. Plastics, plastic articles: \$3.2 billion **(2.9% of total imports)**
6. Pharmaceuticals: \$2.5 billion **(2.3% of total imports)**
7. Optical, technical, medical apparatus: \$2.3 billion **(2.1% of total imports)**
8. Other chemical goods: \$2.2 billion **(2.0% of total imports)**
9. Inorganic chemicals: \$2.03 billion **(1.8% of total imports)**
10. Books, newspapers, pictures: \$2.01 billion **(1.8%of total imports)**

RSA Economy: Change in expenditure on the GDP



Source: South African Reserve Bank Quarterly Bulletin

Transport equipment contribution to manufacturing value addition



Source: Trade Map, TIPS



Regulatory and Economic Impacts of the Lack of Preference in Public Procurement

- Too much emphasis on the price more than other procurement objectives will facilitate the importation of goods from low cost producing countries.
- That will create a number of economic challenges such as negative sectoral trade balances and balance of payment challenges. A balanced approach is, therefore, needed.
- Data from Industry Insight & StatsSA shows that **cement imports** grew by 18.7% year-on-year to 1.1Mt in the first 11 months of 2021. Imports increased by 51% to 749 671t with a value of R445 million in the first eight months, hitting a monthly high of 162,000t in November 2021. The majority of the imports came from Vietnam followed by Pakistan.
- The South African **clothing, textiles, footwear and leather (CTFL)** industry is concentrated in the WC and KZN regions. The industry continues to be pivotal to socio-economic development in those provinces. The lack of preference to support local CTFL manufacturers will undermine the implementation and development of the industry's Masterplan.

Infrastructure Expenditure and Local Procurement

- The 2023 budget estimates that R903 billion will be spent on infrastructure over the MTEF, which is a key point to highlight for infrastructure and industrial development.
- The Steel and Engineering Industries Federation of Southern Africa (**SEIFSA**) has raised concerns around aspects of preference for local companies because the steel, construction and engineering sectors' performance is driven by the infrastructure spend.
- The South African steel sector only recovered back to 2008 levels by 2013, and since then has shown materially no growth.
- The primary steel sector depends on the government for support.

BERGRIVIER SCM Policy



BERGRIVIER
MUNICIPALITY • MUNISIPALITEIT • UMASIPALA

Ons dien met trots!
We serve with pride!
Sisebenza Ngokuzingca!

6 consecutive clean audits
agtereenvolgende skoon audits

022 913 6000

bergmun@telkomsa.net

www.bergmun.org.za

Bergrivier Municipality

09 January 2023

MUNICIPAL NOTICE: PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT

Dear resident of Bergrivier

Bergrivier Municipality adopted the new Preferential Procurement Policy that will be implemented as from 23 January 2023 (implementation date of Regulation).

Changes to the policy is as follows:

- No more local content requirements;
- No more sub-contracting on this Policy, but still applicable as required by CIDB.
- Points will be allocated for the following formal quotations and tenders – with a transaction value above R30 000:
 - 5 Points for businesses operating within the jurisdiction of Bergrivier Municipality;
 - 3 Points for businesses operating within the jurisdiction of the West Coast District Municipality; and
 - 2 Points for businesses operating within the jurisdiction of the Western Cape Province.
- The BBBEE points are still applicable. For example, if your company is a BBBEE level 1 contributor, you will earn 10 points. If you reside within the Bergrivier Municipal Area you will earn 10 points. This will give you a total of 20 points.

It is very important to keep your BBBEE status up to date and with every tender or formal quotation submitted, your business operating address will be verified.

For any enquiries, please do not hesitate to contact the Supply Chain Management Unit (Manager: Supply Chain Management and Expenditure, Nelmarie Bothma at 022 913 6065) for assistance.

Yours sincerely,

Davy Louw

DIRECTOR: FINANCIAL SERVICES

Revised SCM Policies

#Tendering Regulations. New rules always bring about unintended consequences, and it will be no different with companies now changing their ownership structure to suit the demands of the "Specific Goals" of the 2022 PPPFA Regulations.

This is a recent tender from a metro municipality and the allocation of 10 points for "Gender" as a new and standard allocation of preference points, will surely now lead to "Fronting" on a grand scale and of a different kind, respectively.

The CIPC will receive lots of requests for changes to the ownership structures from some of those bidding for government tenders.

Also, interesting to note that the points for "Gender" according to tender, will be for "Persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of gender are women."

I'm not sure what to make of it.

No	Specific goals allocated points	Supporting Evidence	Preference Points
1	The promotion of SMMEs.	a B-BBEE certificate / sworn affidavit as supporting evidence provided by bidders to claim preference points specifically in line with the respective Sector or Annual Financial Statements	10
2	Gender - Persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of gender are women.	Company Registration Certification, as issued by the Companies and Intellectual Property Commission, clearly indicating the percentage shareholding of all owners, along with all necessary Identification documentation; or CSD Report	10



Highlights on the Objects of the Public Procurement Bill

- 2(1)(a) **introduce uniform treasury norms and standards** for all procuring institutions to implement their procurement systems as envisaged in section 217(1), read with section 216(1), of the Constitution;
- 2(1)(b) **determine a preferential procurement framework for all procuring institutions** within which to implement their procurement policies as envisaged in section 217(2) and (3) of the Constitution.
- 2(2)(a) **ensure value for money** in the use of public funds through, among others, the **assessment of the costs, benefits and risks**;
- 2(2)(c) **advance transformation, beneficiation and industrialisation**;
- 2(2)(d) **stimulate economic development by supporting—**
 - (i) goods that are produced and services provided in the Republic;
 - (ii) procurement which is developmental in nature;
 - (iii) innovation; and
 - (iv) investment;
 - (f) provide for effective and expedited dispute resolution of procurement related decisions; and
 - (g) **promote a sustainable environment**

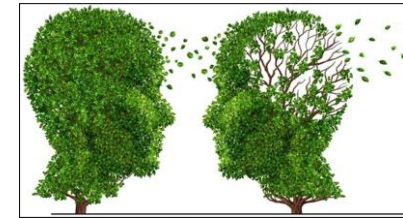
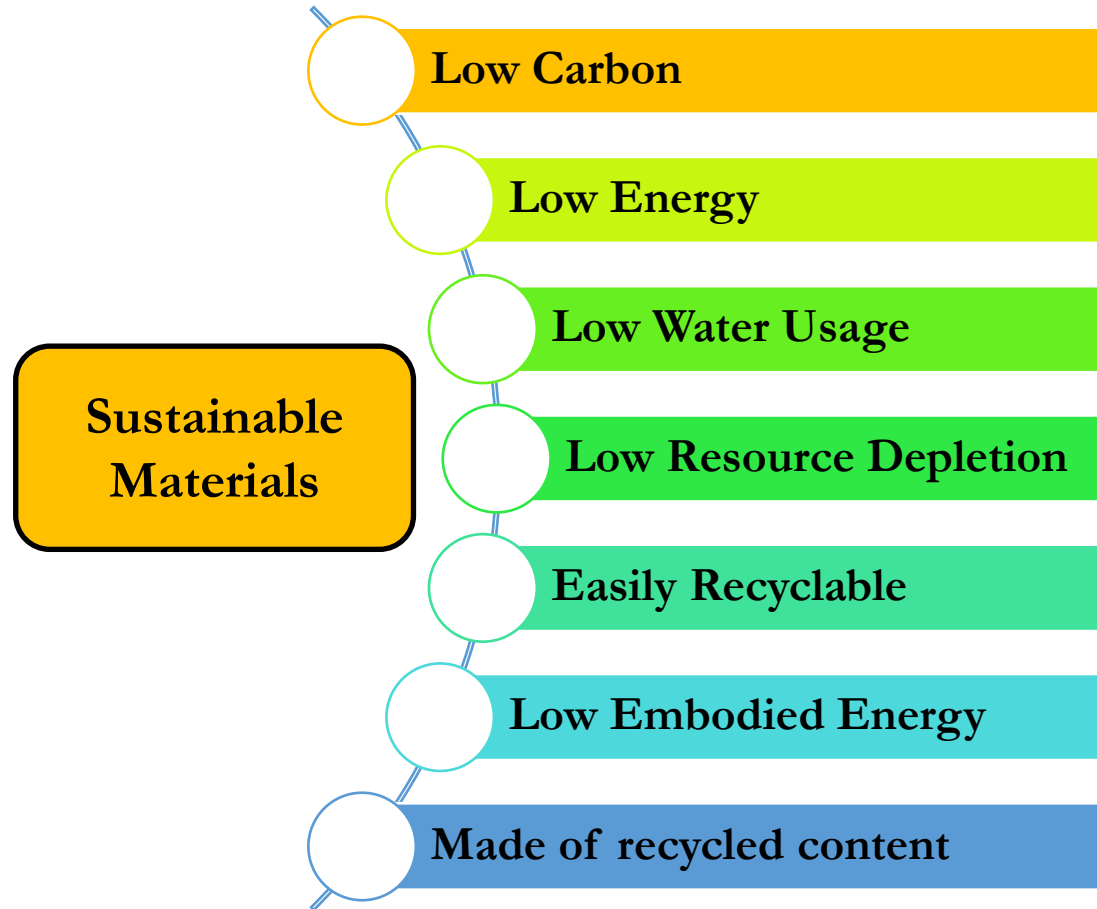
Chapter 4: Preferential Procurement Policy

- **17(1)** When **implementing a procurement policy providing for—**
 - (a) **categories of preference in the allocation of contracts; and**
 - (b) **the protection or advancement of persons or categories of persons, disadvantaged by unfair discrimination,**
- a procuring institution must do so in accordance with the objects of this Act, this Chapter and section **10(1)(b) of the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003).**
- **17(2)** The policy envisaged in subsection (1) must include—
 - (a) **one or more preference point systems and thresholds;**
 - (b) **measures regarding preference for—**
 - (i) **a category or categories of persons or enterprises or a sector;**
 - (ii) **goods that are produced in the Republic; and**
 - (iii) **services provided in the Republic;**

Chapter 4: Preferential Procurement Policy

- **17(2)(c) measures—**
- (i) to **set aside the awarding of bids** to promote any of the preferences referred to in paragraph (b);
- (ii) to **set subcontracting as a bid condition** to promote any of the preferences referred to in paragraph (b);
- (iii) for **subcontracting by suppliers awarded bids** that promote any of the preferences referred to in paragraph (b);
- (iv) to **advance transformation, beneficiation, industrialisation, innovation, creation of jobs, intensification of labour absorption and economic development;**
- (v) to **balance the economic impacts of imported goods or services,** unless the procuring institution is exempted by the Minister; and
- **(vi) to advance a sustainable environment.**

The Consideration of Sustainable Development and Low Carbon Footprint in Public Procurement



Way forward: Policy and Legal Matters to Consider

- **The finalisation of regulations to operationalise the Act.**
 - Regulations on preference points and thresholds.
 - Regulations on set-asides, subcontracting and rules on the pre qualification criteria.
 - Regulations on goods to be produced in the Republic and services to be provided in the Republic, including rules on the pre qualification criteria.
 - Regulations on measures to balance the economic impacts of imported goods or services.
- **There must be a balance between what is covered by the Act and what is allowable in the Regulations.**

Thank You