national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

TO: ACCOUNTING OFFICERS OF ALL NATIONAL DEPARTMENTS AND CONSTITUTIONAL INSTITUTIONS

ACCOUNTING OFFICERS OF ALL MUNICIPALITIES AND MUNICIPAL ENTITIES

ACCOUNTING AUTHORITIES OF ALL SCHEDULE 2 AND 3 PUBLIC ENTITIES

HEAD OFFICIALS OF PROVINCIAL TREASURIES

NATIONAL TREASURY DESIGNATED SECTORS INSTRUCTION NUMBER 1 OF 2016/2017

INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR TWO-WAY RADIO TERMINALS AND ASSOCIATED EQUIPMENT

1. PURPOSE

The purpose of this Instruction is to regulate the environment within which Accounting Officers (AOs) and Accounting Authorities (AAs) may procure **"two-way radio terminals"** viz. **portable radio**, **mobile radio**, **repeater** and associated equipment that have been designated for local production and content.

2. BACKGROUND

2.1 The Preferential Procurement Regulations, 2011 (The Regulations) made in terms of Section 5 of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) which came into effect on 7 December 2011, make provision for Department of Trade and Industry (**the dti)** to designate sectors in line with National Development and Industrial Policies for Local Production.

2.2 Regulation 9 (1) of the Regulations prescribes that, in the case of designated sectors, wherein the award of bids for local production and content is of critical importance, such bids must be advertised with the specific bidding condition that only locally produced goods, services or works or locally manufactured goods, with a stipulated minimum threshold for local production and content will be considered.

2.3 **The dti** has designated and determined the stipulated minimum threshold for "two-way radio terminals" and associated equipment for local production and content.

3. PRODUCT DESIGNATION

3.1 A "two-way radio" is simply a radio that can both transmit and receive signals (a transceiver). In broader terms, most of voice wireless communications systems, including cellular system, fall into two-way radio definition. "Two-way radio" refers to radio system mainly used for group call communication.

3.2 This "two-way radio" system is also known as Professional Mobile Radio (PMR), Land Mobile Radio (LMR), Private Mobile Radio (PMR), Public Access Mobile Radio (PAMR) system. Portable two-way radios are often called walkie-talkies or handie-talkies and are also available in mobile and base configurations as well as utilizing radio network infrastructure.

3.3 These devices are procured and used by security forces personnel such as the military, police, traffic officers and others like the emergency medical services, fire brigade, utility companies, municipalities, transportation etc.

3.4 **Typical Network Component:** In a typical configuration, a wide area radio network consists of 3 major components:

(a) **Based Station** - This is a network component that provides Radio Frequency (RF) coverage in a radio network. In typical configuration, a base station can consist of RF Repeater(s), Controller(s), antenna distribution system (i.e. duplexer, combiner, etc.) and Power Supply.

(b) **Switching System** - This is a network component that manages the entire network. The switching system, for example, manages the traffic in and out and route the communication to and from base stations. Switching system is the brain of the network without which the network will not be able to handle wide area network calls.

(c) **Radio Terminal** - This is a device for the user to communicate and interface to the network. For end-users, they will mostly see these devices more often than the radio infrastructure itself. Thus, the ergonomics and performance of radio terminal (i.e. size, weight, battery life, user interface and ease of use) plays an important role for end-user's acceptance of radio system. In general, radio terminal can be classified into:

- <u>Portable radio</u> - this is the device that users can carry while on the move.
- <u>Mobile radio</u> - this is the device that is permanently installed in a vehicle/motorbike.
- <u>Fixed station radio</u> - this device is usually installed in a fixed location such as a branch office or a field post. Typically, a fixed-station radio is a mobile radio with a power supply, external microphone or speaker and better antenna system (such as directional antenna).

3.5 Radio Terminal is the network component of a two-way radio configuration that **the dti** has designated.

Table 1 classify the devices that constitute Radio Terminal as follows:
Table 1: Types of Radios

Radio Terminal	Description
Portable radio	Device carried on the person (Handheld)
Mobile radio	Device installed in a vehicle/motorbike
Repeater	Device installed in a fixed location or a field post

3.6 Table 2 provides the stipulated minimum threshold for local content and production for portable radio, mobile radio, repeater and associated equipment. To ensure that the minimum local content designated is discharged on manufacturing activities, the components and activities in the manufacture of portable radio, mobile radio, repeater and associated equipment are further designated and must also be included in bid invitations:

Table 2: Local Content Designated on a Fully-Built Unit and Components and Activities against which the overall Local Content must be discharged, per device constituting radio terminals

Radio terminal	Components and manufacturing processes against which the overall local content must be discharged	
	Components and manufacturing processes	% local content from 04/ 2017
Portable radio	Controls	100%
	Display	20%
	Interfaces	40%
	Data Module	50%
	Radio Module	50%
	RF Amplifier	100%
	Antenna	100%
	Battery	30%
	Charger	50%
	Assembly and testing of the fully-built unit	100%
	Position Module	30%
	Power Supply	70%
	Connectors	25%
	Enclosure	90%
	Embedded Custom Software	90%
	Software Libraries	-
	Total minimum local content (per unit)	**60%**

Radio terminal	Components and manufacturing processes against which the overall local content must be discharged	
	Components and manufacturing processes	% local content from 04/ 2017
Mobile radio	Controls	100%
	Display	20%
	Interfaces	40%
	Data Module	70%
	Radio Module	70%
	RF Amplifier	70%
	Antenna	100%
	Battery	25%
	Charger	70%
	Assembly and testing of the fully-built unit	100%
	Position Module	50%
	Power Supply	50%
	Connectors	25%
	Enclosure	90%
	Embedded Custom Software	90%
	Software Libraries	-
	Total minimum local content (per unit)	**60%**

Radio terminal	Components and manufacturing processes against which the overall local content must be discharged	
	Components and manufacturing processes	% local content from 01/ 2018
Repeater	Controls	100%
	Display	20%
	Interfaces	40%
	Data Module	70%
	Radio Module	70%
	RF Amplifier	70%
	Antenna	100%
	Battery	25%
	Charger	30%
	Assembly and testing of the fully-built unit	100%
	Position Module	30%
	Power Supply	70%
	Connectors	25%
	Enclosure	90%
	Embedded Custom Software	90%
	Software Libraries	-
	Total minimum local content (per unit)	**60%**

3.7 The following primary input materials used in the manufacture of "two-way radio terminals" and associated equipment are deemed as local in this designation:

- Integrated Circuits (i.e. Silicon chip);
- Resistors;
- Transistors;
- Capacitors;
- Vacuum Tube;
- Software Libraries.

3.8 The designated local content thresholds (on the components and on the overall) apply to new purchases; refurbishments, replacements and general overhauls.

3.9 The effective date of designation of "two-way radio terminals" and associated equipment as stipulated in table 2 above is **01 January 2018** to allow industry time to upscale and set their production capacities.

3.10 If the quantity of required products cannot be wholly sourced from South African (SA) based manufacturers and/or at the designated local content threshold at any particular time, bidders and the procuring entities should obtain written exemption from **the dti. The dti**, in consultation with the procuring Organ of State, may grant exemption on a case-by-case basis after considering the following:

- required volumes in the particular bid;
- available collective SA industry manufacturing capacity at that time;

- delivery times;
- availability of input materials and components;
- technical considerations including operating conditions and technical compliance protocol;
- quality and reliability;
- materials of construction;
- security of supply and emergencies;
- localisation plans aimed at establishing and/or increasing local manufacturing capacity through ramping-up of capital investments in the initial phases;
- Replacements of components on the existing fleet (i.e. transformers procured prior to the implementation of this instruction) in order to honour the warranties and guarantees.

3.11 Bidders must clearly indicate in their bids the quantities to be supplied and the level of local content for each product.

3.12 Organs of State may contact **the dti** in instances where the stipulated minimum threshold for local content cannot be met in order for **the dti** to verify and in consultation with the AO/AA provide directives in this regard.

3.13 For further information, bidders and procuring state organs may contact the Electro-Technical Unit within **the dti** at telephone 012 394 3659 or email Ntokozo Mthabela at nmthabela@thedti.gov.za.

3.14 Bid specifications for the designated products in this instruction may be may be done in collaboration with **the dti.**

4. INVITATION OF BIDS FOR TWO-WAY RADIO TERMINALS AND ASSOCIATED EQUIPMENT

4.1 Bids in respect of "two-way radio terminals" and associated equipment (broken into 3 types as shown in the table 1 above) must contain a specific bidding condition that only locally produced or locally manufactured **two-way radio terminals and associated equipment** with a stipulated minimum threshold for local production and content will be considered.

4.2 AOs/AAs must stipulate in bid invitations that:

4.2.1 the exchange rate to be used for the calculation of local production and content must be the exchange rate published by the South African Reserve Bank (SARB) on the date of advertisement of the bid; and

4.2.2 only the South African Bureau of Standards (SABS) approved technical specification number SATS 1286:2011 must be used to calculate local content.

4.3 The local content (LC) expressed as a percentage of the bid price must be calculated in accordance with the following formula which must be disclosed in the bid documentation:

$$\mathrm{LC} = \left(1-\frac{\mathrm{x}}{\mathrm{y}}\right)*100$$

Where

x is the imported content in Rand

y is the bid price in Rand excluding value added tax (VAT)

(in the case of turnkey products/projects x and y will only refer to the value of transformers and associated equipment in the project)

Prices referred to in the determination of x must be converted to Rand (ZAR) by using the exchange rate published by the SARB at on the date of advertisement of the bid.

4.4 AOs/AAs must clearly stipulate in the bid documentation that the SABS approved technical specification number SATS 1286:2011 and the Guidance on the Calculation of Local Content together with the Local Content Declaration Templates [Annex C (Local Content Declaration: Summary Schedule), D (Imported Content Declaration: Supporting Schedule to Annex C) and E (Local Content Declaration: Supporting Schedule to Annex C)] are accessible to all potential bidders on **the dti's** official website http://www.thedti.gov.za/industrial_development/ip.jsp at no cost.

4.5 For the purpose of paragraphs 4.1, 4.2 and 4.3 above, the attached Declaration Certificates for Local Production and Content (SBD/MBD 6.2) must form part of the bid documentation. The SBD 6.2 is for use by all National and Provincial Departments, Constitutional Institutions and Public Entities listed in schedules 2, 3A, 3B, 3C and 3D to the Public Finance Management Act whilst the MBD 6.2 is for use by all Municipalities and Municipal Entities to which the Municipal Finance Management Act (MFMA) apply.

4.6 AOs/AAs must stipulate in the bid documentation that:

4.6.1 the Declaration Certificate for Local Production and Content (SBD / MBD 6.2) together with the **Annex C** (Local Content Declaration: Summary Schedule**)** must be completed, duly signed and submitted by the bidder at the closing date and time of the bid;

4.6.2 The rates of exchange quoted by the bidder in paragraph 4.1 of the Declaration Certificate will be verified for accuracy.

5. EVALUATION OF BIDS FOR TWO-WAY RADIO TERMINALS AND ASSOCIATED EQUIPMENT

5.1 A two stage evaluation process may be followed to evaluate the bids received.

5.1.1 **First stage: Evaluation in terms of the stipulated minimum threshold for local production and content**

(a) Bids must be evaluated in terms of the minimum threshold stipulated in the bid documents.

(b) The declaration made by the bidder in the Declaration Certificate for Local Content (SBD / MBD 6.2) and Annex C (Local Content Declaration: Summary Schedule) must be used for this purpose. If the bid is for more than one product, the local content percentages for each product contained in Declaration C must be used.

(c) The amendment of the stipulated minimum threshold for local production and content is not allowed.

(d) AOs/AAs must ensure that the **Declaration Certificate for Local Content** (SBD/MBD 6.2) and **Annex C** (Local Content Declaration: Summary Schedule) are submitted as part of the bid documentation.

(e) AOs / AAs must verify the accuracy of the rates of exchange quoted by the bidder in paragraph 4.1 of the Declaration Certificate for Local Content (SBD / MBD 6.2).

5.1.2 Second stage: Evaluation in terms of the 80/20 or 90/10 preference point systems

(a) Only bids that achieve the minimum stipulated threshold for local production and content may be evaluated further. Unless otherwise exempted by the Minister of Finance, the evaluation must be done in accordance with the 80/20 or 90/10 preference point systems prescribed in Preferential Procurement Regulations, 2011.

(b) AOs/AAs must ensure that bids for products that are designated in this instruction are awarded at prices that are market related taking into account, among others, benchmarking prices, value for money and economies of scale.

(c) Where appropriate, prices may be negotiated with short listed or preferred bidders. Such negotiations must not prejudice any other bidders.

5.2 **Benchmark / market related prices**

5.2.1 AOs/AAs are required to ensure that reasonable or market related prices are secured for the products being procured taking into account factors such as benchmark prices, value for money and economies of scale.

5.2.2 For this purpose, AOs/AAs may approach **the dti** to assist, where possible, with benchmark prices. **The dti** will be in a position to provide price references for the different products that have been designated for local production and content.

6. EVALUATION OF BIDS BASED ON FUNCTIONALITY

Whenever it is deemed necessary to evaluate bids on the basis of functionality, the prescripts contained in regulation 4 of the Preferential Procurement Regulations, 2011 and paragraphs 6 and 11 of the Implementation Guide must be followed.

7. POST AWARD AND REPORTING REQUIREMENTS

7.1 Once bids are awarded, **the dti** must be:

7.1.1 Notified of all the successful bidders and the estimated value of the contracts; and

7.1.2 Provided with copies of the contracts, the SBD/MBD 6.2 Certificates together with the annexure C submitted by the successful bidder(s).

7.2 The purpose of the requirements of paragraph 7.1 above is for **the dti** to among others conduct compliance audits with a view to monitor the implementation of the industrial development strategies.

7.3 Contractors may not be allowed to sub-contract in such a manner that the local production and content of the overall value of the contract is reduced to below the stipulated minimum threshold.

7.4 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 in order for **the dti** to verify and in consultation with the AO/AA provide directives in this regard.

8. CONTACT INFORMATION

8.1 Any enquiries in respect of Local Production and Content and all documents to be submitted to the dti must be directed as follows:

The Department of Trade and Industry
Private Bag X84
PRETORIA
0001

For Attention:
Dr Tebogo Makube
Chief Director: Industrial Procurement
Tel: (012) 394 3927
Fax: (012) 394 4927
EMAIL: TMakube@thedti.gov.za

9. APPLICABILITY

This Instruction applies to all National and Provincial Departments, Constitutional Institutions; Public Entities listed in schedules 2 and 3 to the PFMA, and, Municipalities and Municipal Entities to which the MFMA apply.

10. DISSEMINATION OF INFORMATION CONTAINED IN THIS INSTRUCTION

10.1 Heads of Provincial Treasuries are requested to bring the contents of this Instruction to the attention of Accounting Officers and Supply Chain Management Officials of their respective Provincial Departments.

10.2 Accounting Officers of National and Provincial Departments are requested to bring the contents of this Instruction to the attention of Accounting Authorities and the Supply Chain Management Officials of Schedule 3A and 3C Public Entities reporting to their respective Executive Authorities.

10.3 Accounting Officers of Municipalities and Municipal Entities are requested to bring the contents of this Instruction to the attention of the Supply Chain Management Officials of their Municipalities and Municipal Entities.

10.4 Accounting Authorities of Schedule 2, 3B and 3D Public Entities are requested to bring the contents of this Instruction to the attention of the Supply Chain Management Officials of their Public Entities.

11. NOTIFICATION TO THE AUDITOR-GENERAL

A copy of this Instruction will be forwarded to the Auditor-General for notification.

12. AUTHORITY FOR THIS INSTRUCTION AND EFFECTIVE DATE

12.1 This Instruction is issued in terms of Regulation 9(2) of the Regulations.

12.2 This Instruction takes effect on **01 January 2018.**

KENNETH BROWN
CHIEF PROCUREMENT OFFICER
DATE: 30/6/2016.