



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria, 0001

**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 3 OF 2016/2017

**INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM
THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR SOLAR WATER HEATER
COMPONENTS**

1. PURPOSE

1.1 The purpose of this Instruction is to:

- 1.1.1. Introduce amendments to the instruction for Solar Water Heater components dated 17 July 2014 by amending all clauses that contained the deeming of imported primary steel as locally manufactured.
- 1.1.2. Regulate the environment within which Accounting Officers (AOs) and Accounting Authorities (AAs) may procure the aforementioned products which have been designated as a sector 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 the Department of Trade and Industry (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, where in the award of bids 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.

**NATIONAL TREASURY DESIGNATED SECTORS INSTRUCTION NUMBER 3 OF 2016/2017
INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL
PRODUCTION AND CONTENT FOR SOLAR WATER HEATER COMPONENTS**

- 2.3 To this end, the dti has designated and determined the stipulated minimum threshold for **SWH** components for local production and content.

3. SECTOR DESIGNATION

- 3.1 The stipulated minimum threshold percentage for local production and content of **SWH** is 70%. The components designated are only storage tanks / geysers and solar collectors.

- 3.2 To ensure that local production and content is discharged on manufacturing activities, the following which have been designated must be included in bid invitations:

SWH component	Stipulated Minimum Threshold
Storage tanks / geysers	70%
Solar collectors	70%

¹Storage tank / geyser

The storage tank is a container that stores portable water in various sizes up to 450 litres. It consists of at least an inner tank, thermal insulation and an outer cover. It also incorporates some or all of the following components; anodes, heat exchangers, temperature and pressure safety valve.

²Solar collector

A solar collector is a device that contains or incorporates an absorber and a means for transferring thermal energy from the absorber to a fluid passing through the device. Solar collectors are typically categorised in one of 2 groups, namely, flat plate collectors and evacuated tube collectors:

- A flat plate collector consists of a collector box covered with a transparent cover. This box is insulated and contains an absorber, which is typically a metal plate attached to flow tubes (risers) that is connected to a header (manifold). The absorber is coated with a thermal absorbent coating. Heat is transferred from the absorber to the fluid inside the flow tubes.
 - An evacuated tube collector typically consists of several tubes mounted in parallel in a manifold. Tubes are normally manufactured of glass but could be of different material. Inside each tube is an absorber with a thermal coated layer/ fin that absorbs heat and that transfers heat to a transfer fluid. There is a vacuum between the outer cover and the absorber to act as thermal insulation.
- 3.3 In the designation, imported input raw materials (i.e. copper and aluminium) used for fabrication of solar water heaters (SWHs) are deemed as locally manufactured input materials. This is to encourage local manufacturers to seek the best global competitive prices for primary materials.
- 3.4 The competitive imported input materials (copper and aluminium) used in the manufacturing of **SWHs** will be deemed to have been sourced locally for the purposes

¹ Storage tank /geyser description

² Solar collector description

**NATIONAL TREASURY DESIGNATED SECTORS INSTRUCTION NUMBER 3 OF 2016/2017
INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL
PRODUCTION AND CONTENT FOR SOLAR WATER HEATER COMPONENTS**

of calculating local content. These input materials (copper and aluminium) should be imported in raw material form and further fabricated in South Africa.

- 3.5 If the quantity of materials and/or products required cannot be wholly sourced from South African based manufacturers and/or at the designated local content threshold at any particular time, bidders should obtain written exemption from the dti to supply the remaining portion at a lower local content threshold. The dti, in consultation with the procuring Organ of State, will grant exemption on a case-by-case basis and will consider the following:

- required volumes in the particular bid;
- available collective South African industry manufacturing capacity at that time;
- delivery times;
- availability of input materials and components;
- technical considerations including operating conditions; and
- materials

- 3.6 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.

- 3.7 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.

- 3.8 Subject to market changes, National Treasury in consultation with the dti reserves the right to reintroduce deeming of primary steel as locally produced.

- 3.9 For further information, bidders and procuring state organs may contact the Green Industries & Energy Efficiency Unit within the dti at telephone 012 394 1151/5871/ or email Gerhard Fourie: GFourie@thedti.gov.za.

- 3.10 Bid specifications for the sub-sectors referred to above maybe done in collaboration with the dti.

4. INVITATION OF BIDS FOR SWH COMPONENTS

- 4.1 Bids in respect of **SWH** components must contain a specific bidding condition that only locally produced or locally manufactured **SWH** components 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) at 12:00 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.

**NATIONAL TREASURY DESIGNATED SECTORS INSTRUCTION NUMBER 3 OF 2016/2017
INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL
PRODUCTION AND CONTENT FOR SOLAR WATER HEATER COMPONENTS**

- 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:

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

Where

x is the imported content in Rand

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

Prices referred to in the determination of x must be converted to Rand (ZAR) by using the exchange rate published by the SARB at 12:00 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; and
- 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 SWH COMPONENTS

- 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 the Annex C (Local Content Declaration: Summary Schedule) referred to in paragraphs 4.6 above are submitted as part of the bid documentation.
- (e) The dti has the right, as and when necessary, to request for auditors certificates confirming the authenticity of the declarations made in respect of local content.
- (f) 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. 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 contracts for **SWH** components are awarded at prices that are market related taking into account, among others, the dti's pre-determined benchmark 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 **SWH** components / components 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 for the different classes and components of **SWH** components that have been designated for local production and content. 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

6.1 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

**NATIONAL TREASURY DESIGNATED SECTORS INSTRUCTION NUMBER 3 OF 2016/2017
INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL
PRODUCTION AND CONTENT FOR SOLAR WATER HEATER COMPONENTS**

- 7.1 Once bids are awarded, **the dti** must be:
 - 7.1.1 Notified of all the successful bidders and the value of the contracts; and
 - 7.1.2 Provided with copies of the contracts, the SBD/MBD 6.2 Certificates together with the Declaration C submitted by the successful bidders.
- 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 must 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

9. APPLICABILITY

- 9.1 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.
- 9.2 **This Instruction applies to all bids (written price quotations and advertised competitive bids) in excess of R30 000.00 (all applicable taxes included).** Products may not deliberately be split into parts or items of lesser value merely for the sake of procuring the products otherwise than through the directives contained in this Instruction.

10. DISSEMINATION OF INFORMATION CONTAINED IN THIS INSTRUCTION

**NATIONAL TREASURY DESIGNATED SECTORS INSTRUCTION NUMBER 3 OF 2016/2017
INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM THRESHOLD FOR LOCAL
PRODUCTION AND CONTENT FOR SOLAR WATER HEATER COMPONENTS**

- 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

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

12. REPEAL OF INSTRUCTION DATED 17 JUNE 2014

This Instruction repeals Instruction on invitation and evaluation of bids based on a stipulated minimum threshold for local production and content for Solar Water Heater Components dated 17 June 2014 and effected on 7 July 2014.

13. AUTHORITY FOR THIS INSTRUCTION AND EFFECTIVE DATE

- 13.1 The Minister of Finance has approved the issuance of this Instruction in terms of regulation 9(2) of the Preferential Procurement Regulations, 2011.
- 13.2 This Instruction takes effect on **27 July 2016**.



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