



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 CIRCULAR NUMBER 3 OF 2017/2018:
INVITATION AND EVALUATION OF BIDS BASED ON A STIPULATED MINIMUM
THRESHOLD FOR LOCAL PRODUCTION AND CONTENT FOR PUMPS, MEDIUM
VOLTAGE (MV) MOTORS AND ASSOCIATED ACCESSORIES**

1. PURPOSE

- 1.1 The purpose of this circular is to provide information to accounting officers (AOs) and accounting authorities (AAs) in terms of which they may procure Pumps, Medium voltage (MV) motors and associated accessories that have been designated as a sector for local production and content.

2. BACKGROUND

- 2.1 The Preferential Procurement Regulations, 2017 ("the regulations") issued in terms of section 5 of the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000) which came into effect on the 1 April 2017, make provision for the Department of Trade and Industry (**the dti**) to designate sectors in line with national development and industrial policies for local production.
- 2.2 Regulation 8 (2) of the Preferential Procurement Regulations 2017 prescribes that in the case of a designated sector, an organ of state must advertise the invitation to tender with a specific condition that only locally produced services or goods 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 Pumps, Medium voltage (MV) motors and associated accessories for local production and content.

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3. SECTOR DESIGNATION

- 3.1 A **Pump** is a mechanical device used to raise or move liquids, compress gas or force air into inflatable objects such as tires. Pumps are commonly used in the power generation industry, petroleum refineries, mining industry, waste water industry, portable drinking water industry and other industries for different applications. Pumps are generally classified by the way they add energy to a fluid. Broadly speaking there are two types of pumps, namely centrifugal and positive displacement pumps.

A **Medium Voltage (MV) motor** is an electrical device which converts electrical energy into mechanical energy, with a power rating of between 185 kW and 20 000 kW and greater than 1000 volts. These devices are used to drive capital equipment such as pumps, compressors, fans, conveyor belts, mill etc. Capital equipment is operated in environments and industries such as: power generation, petrochemical, water reticulation, mining and general purpose processes. MV motors have a design life of 25 years, provided that it they efficiently used and serviced.

- 3.2 This Circular provides information about Pumps and MV motors, which are both designated. These two products in most cases are procured as a system and can be procured, repaired, overhauled or maintained individually. Therefore, the designation applies in both circumstances.
- 3.3 Table 1 and 2 provides the stipulated minimum threshold for local content and production for Pumps, MV motors and associated accessories. Pumps are categorised by type of pumps whilst MV motors are categorised by components and manufacturing processes.

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Table 1: Minimum Local Content Designated for Pumps

Category	Type of Pumps	% local content per unit	Minimum Pressure	Maximum Pressure	Sizes
End Suction Centrifugal	Single Stage End Suction Centrifugal Pumps	70%	1 bar	16 bar	DN25 - DN300
	Single Stage End Suction Centrifugal Solid Handling Pumps	70%	0,5 bar	16 bar	DN40 - DN400
Multistage Centrifugal	Multi Stage Centrifugal Pumps: medium - high	70%	10 bar	63 bar	DN32 - DN350
Horizontal split casing Pumps	Horizontal split casing Pumps	70%	1 bar	18 bar	DN80-DN300
Vertical Turbine Pumps	Vertical Turbine Pumps: Radial, Mixed, and Axial	70%	0.3 bar	40 bar	DN 100 - DN500
Positive Displacement	Positive displacement Pumps	70%	5 bar	45 bar	DN25-DN150
	Diaphragm Pumps	70%	2.5 bar	7 bar	DN25 - DN50
Self Priming Centrifugal Pumps	Single Stage End Suction Self-Priming Pumps	70%	0,3 bar	16 bar	DN25-DN150
Slurry Pumps	Vertical Cantilever Slurry Pumps	70%	1 bar	10 bar	DN40-DN300
	Single stage Slurry Pumps	70%	0,5 bar	50 bar	DN32-DN300
Vacuum Pumps	Liquid ring vacuum Pumps	70%	1.13 CFM	950 CFM	
Centrifugal Process Pumps	Vertical Spindle Centrifugal Process Pumps	70%	0.3 bar	40 bar	DN25-DN300
	Single Stage Centrifugal Process Pumps	70%	0.3 bar	40 bar	DN25-DN300
	Single Stage Centrifugal Chemical Pumps	70%	0.3 bar	25 bar	DN25 - DN300

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Table 2: Minimum Local Content Designated on a Fully-Built Unit and components and manufacturing processes against which the overall Local Content must be discharged, per Medium voltage (MV) motor

Type of MV motor	Power rating	Components and manufacturing processes	% local content
Medium Voltage electric motor	185kW to 20 000kW and greater than 1 000 Volts	Casting or Frame Fabrication	100%
		Fabrication and winding of the Stator Core	100%
		Fabrication and winding of the Rotor Core	100%
		Accessories	100%
		Assembly and testing of the fully-built unit	100%
		Total Minimum Local Content (per unit)	70%

- 3.4 Each individual Pump and/or MV Motor, designated above, is subject to the minimum 70% local content threshold.
- 3.5 The averaging out of local content either across any number of Pumps and/or MV motors combinations, or locally made and imported Pumps, MV motors and other items, is not allowable.
- 3.6 the minimum of 70% local content in the case of each individual Pump must be made up of the following:
- 3.6.1. a combination of the use of locally produced and certified castings, forgings and/or fabrication, and
- 3.6.2. verifiable manufacturing activities that shall include as a minimum: machining; drilling; application of wear coatings and lining; painting; assembly and testing with a full material traceability.
- 3.7 All Pumps and MV motors manufacturers may have to adhere, *inter alia*, to appropriate and reasonable safety, quality, manufacturing processing standards and accreditation as required by the procuring entities at the time of the procurement based on the required application.
- 3.8 The following primary input materials and components used in the manufacture of Pumps, MV motors and associated accessories are exempted upfront in this designation.
- 3.8.1 Pumps:
- (a) Ball and Roller bearings
 - (b) Rubber for lining pumps
 - (c) Mechanical seals

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(d) Steel billets and/or bars used in the fabrication of the shafts

3.8.2 MV Motors:

- (a) Anti-friction bearings
- (b) Electrical steel
- (c) Special copper alloys, insulation material and resin

3.9 The designated local content thresholds stipulated in Table 1 and 2 under paragraph 3.3 (on the components/manufacturing processes and on the overall in case of MV motors) apply to new purchases, refurbishments, replacements and general overhauls.

4. INVITATION OF BIDS FOR PUMPS, MV MOTORS AND ASSOCIATED ACCESSORIES

4.1 Bids in respect of Pumps and MV motors as stipulated in table 1 and 2 above must contain a specific bidding condition which states that:

4.1.1. Only locally manufactured Pumps and MV motors with a stipulated minimum threshold for local production and content (in paragraph 3.3) will be considered.

4.1.2. If a certain type and/or a number of Pumps and MV motors for any transaction required cannot be wholly sourced from South African (SA) based manufacturers and/or at the designated local content threshold, both on the overall and at the components levels, stipulated in paragraph 3.3 at any particular time of procurement or order placement, bidders and/or the procuring entities should obtain written approval from **the dti** to supply the remaining portion at a lower local content threshold. Such approval requests must be submitted and approval be obtained prior to the closure of the bid(s) concerned. **the dti**, in consultation with the SA industry and procuring organ of state, may grant such approval on a case-by-case basis and will consider the following:

- (a) required volumes in the particular bid;
- (b) available collective SA industry manufacturing capacity at that time;
- (c) delivery times;
- (d) availability of input materials and components;
- (e) technical considerations including operating conditions and technical compliance protocol;
- (f) quality and reliability;
- (g) materials of construction;
- (h) security of supply and emergencies;
- (i) localisation plans aimed at establishing and/or increasing local manufacturing capacity through ramping-up of capital investments in the initial phases;
- (j) replacements of components on the existing fleet (i.e. Pumps and MV motors procured prior to the implementation of this Practice Note) in order to honour the warranties and guarantees.

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- 4.1.3. Bidders must clearly indicate in their bids the quantities of Pumps, MV motors and associated accessories to be supplied and the level of local content for each product.
- 4.1.4. 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.
- 4.1.5. For further information, bidders and procuring state organs may contact the Metals Fabrication, Capital and Rail Transport Equipment unit within **the dti** at telephone 012 394 1356/5868/5577 or email Thandi Phele at tphele@thedti.gov.za.

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:

$$LC = [1 - x/y] * 100$$

Where

x is the imported content in Rand

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

(in the case of turnkey products/projects x and y will only refer to the value of Pumps, Medium Voltage (MV) motor and associated accessories 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 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/industrialdevelopment/ip.jsp> at no cost.**
- 4.5 For the purpose of paragraphs 4.1, 4.2 and 4.3 above, 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

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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) applies.

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

(a) 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;

(b) the rates of exchange quoted by the bidder in paragraph 4.1 of the Declaration Certificate will be verified for accuracy.

4.7. Bid specifications for the sub-sectors referred to in paragraph 3 above may be done in collaboration with **the dti**. Contact information in this regard is provided in paragraph 8 below.

5. EVALUATION OF BIDS FOR PUMPS, MEDIUM VOLTAGE (MV) MOTOR AND ASSOCIATED ACCESSORIES

5.1 An evaluation process in line with Preferential Procurement Regulations, 2017 must be followed.

6. EVALUATION OF BIDS BASED ON FUNCTIONALITY

6.1 Whenever it is deemed necessary to evaluate bids on the basis of functionality, the provisions contained in the regulations and paragraph 6 of the Implementation Guide must be followed.

7. POST AWARD AND REPORTING REQUIREMENTS

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

- (i) notified of all the successful bidders and the estimated value of the contracts; and
- (ii) 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 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 minimum threshold as stipulated in regulation 8 of the Preferential Procurement Regulations, 2017.

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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

- 9.1 This circular 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 applies.

10. DISSEMINATION OF INFORMATION CONTAINED IN THIS CIRCULAR

- 10.1 Heads of provincial treasuries are requested to bring the contents of this circular 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 circular 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 circular 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 circular to the attention of the supply chain management officials of their public entities.

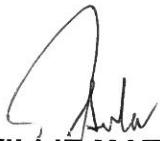
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11. NOTIFICATION TO THE AUDITOR-GENERAL

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

12. AUTHORITY FOR THIS CIRCULAR AND EFFECTIVE DATE

12.1 This circular is issued in terms of regulation 8(3) of the Preferential Procurement Regulations, 2017 and takes effect on 10 January 2018



WILLIE MATHEBULA

ACTING CHIEF PROCUREMENT OFFICER

DATE: 12.12.2017