



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 INSTRUCTION NOTE NUMBER 2 OF 2016/17 ON DESIGNATED
SECTORS**

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

1. PURPOSE

- 1.1 The purpose of this Instruction is to regulate the environment within which Accounting Officers (AOs) and Accounting Authorities (AAs) may procure Solar photovoltaic (PV) system and components which have been designated as products for local production and content.

2. BACKGROUND

- 2.1 The Preferential Procurement Regulations, 2011 pertaining to the Preferential Procurement Policy Framework Act, Act No 5 of 2000 which came into effect on 7 December 2011 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 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.
- 2.3 **The dti** has designated and determined the stipulated minimum threshold for Solar photovoltaic (PV) system and components for local production and content.

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3. SECTOR DESIGNATION

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

Solar PV components	Minimum Local Content Threshold	Conditionality
Laminated PV Modules	15 %	The local process will include tabbing & stringing of cells, encapsulation and lamination, final assembly and testing in compliance with IEC standards
Module Frame	65%	Aluminium Components: All aluminium PV Module Frames, PV mounting structures/racks, clamps, brackets, foundation components and fasteners are to be manufactured from locally produced extruded, rolled, cast or forged products
DC Combiner Boxes	65%	DC Combiner Boxes: Enclosures must be made from SMC and moulded in South Africa.
Mounting Structure	90%	All aluminium PV Module Frames, PV mounting structures/racks, clamps, brackets, foundation components and fasteners are to be manufactured from locally produced extruded, rolled, cast or forged products
Inverter	40%	Must be assembled locally

3.2 MOUNTING STRUCTURE:

A solar mounting structure is a system used to mount modules that have been assembled in to an array, which may be classified as ground mount, roof mount or pole mount. For solar parks a large rack is mounted on the ground, and the modules mounted on the rack. For buildings, many different racks have been devised for pitched roofs. For flat roofs, racks, bins and building integrated solutions are also used.

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3.3 INVERTER:

An inverter is an electronic device or circuitry that changes direct current (DC) in to alternating current (AC). The input voltage, output voltage, frequency, as well as the overall power handling depends on the design of the specific device.

4. INVITATION OF BIDS FOR SOLAR PV COMPONENTS

- 4.1 Bids in respect of Solar PV System and Components must contain a specific bidding condition which states that:
- 4.1.1. Only locally manufactured Solar PV System and Components with a prescribed minimum threshold for local production and content will be considered.
- 4.1.2. If the quantity; input materials; and/or components of Solar PV System and Components required cannot be wholly sourced from South African (SA) based manufacturers to achieve the designated local content threshold at any particular time, bidders should request and obtain written exemption from **the dti**. Such exemption applications should be submitted and approvals should be obtained prior to the closure of the bid(s) concerned. **the dti**, in consultation with the procuring Organ of State and the local industry, will consider the exemption applications 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
 - f) materials of construction
- 4.1.3. Bidders must clearly indicate in their bids the quantities of Solar PV System and Components 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 Green Industries unit within the dti at telephone 012 394 1151/3508 or email Gerhard Fourie at GFourie@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

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- 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:

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

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 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, 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 SOLAR PV COMPONENTS

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

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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 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 PV 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 Solar PV System and 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** for assistance, where possible, with benchmark prices for the different products 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.

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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 value of the contracts; and
 - 7.1.2 provided with copies of the contracts, the SBD/MBD 6.2 Certificates together with the Annex 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
E-mail: TMakube@thedti.gov.za

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.

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10. DISSEMINATION OF INFORMATION CONTAINED IN THIS INSTRUCTION

- 10.1 Heads of Provincial Treasuries are requested to bring the contents of this Instruction note 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 note 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 note 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 note 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 NOTE AND EFFECTIVE DATE

This Instruction is issued in terms of regulation 9(2) of the Preferential Procurement Regulations, 2011 and takes effect on **15 JULY 2016**.



**MR KENNETH W BROWN
CHIEF PROCUREMENT OFFICER**

DATE: 21/6/2016