

LOCAL PROCUREMENT ACCORD

Publications in the Series

1. The New Growth Path: Framework
2. Accord 1: National Skills Accord
3. Accord 2: Basic Education and Partnerships with Schools
4. Accord 3: Local Procurement Accord



**economic
development**

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**economic
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REPUBLIC OF SOUTH AFRICA

INTRODUCTION

Government and our social partners signed a Local Procurement Accord on 31 October 2011, as an outcome of social dialogue on the New Growth Path.

This booklet sets out the text of the Accord.

This booklet has been produced as a public information resource. It is intended to help shop stewards, business representatives, community activists and government officials to communicate the contents of the Local Procurement Accord to a wider audience.

The purpose of this communication is to empower South Africans to implement the wide-ranging commitments that are contained in the Accord and mobilise the private sector, organised labour, communities and government in a strong partnership to promote local procurement in the country as a platform for creating five million new jobs by 2020.

This Accord has been signed on behalf of

- Organised Labour, comprising of COSATU, FEDUSA and NACTU, represented by Sidumo Dlamini, Zwelinzima Vavi, Dennis George and Manene Samela
- Business represented by Nomaxabiso Majokweni: Business Unity SA, Thero Setiloane: Business Leadership SA, Lawrence Mavundla: NAFCOC, and Mxolisi Zwane: FABCOS
- Community constituents at NEDLAC, comprising of organisations of women, civic structures, youth, people with disabilities, cooperatives and the financial sector campaign, represented by Lulama Nare, Dumisani Mthalane and Laura Kganyago
- Government, by Ministers Rob Davies: Trade and Industry, Pravin Gordhan: Finance, Dipuo Peters: Energy, Ebrahim Patel: Economic Development and Deputy Minister Ben Martins: Public Enterprises.

Our thanks go to the leaders of the four constituencies who made this Accord possible.

Ebrahim Patel

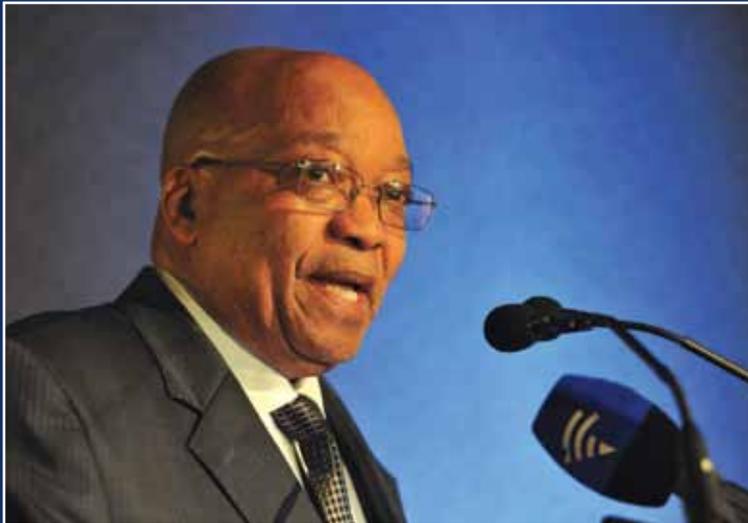
Minister of Economic Development

NEW GROWTH PATH: ACCORD 3

LOCAL PROCUREMENT ACCORD

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I urge business to find ways to also support localisation which aims to support and rebuild our manufacturing sectors. The Accords that have been signed by business, labour, community and government on local procurement, basic education and skills development indicate unity in dealing with matters affecting the country. This unity will give our people great hope and optimism.

We look forward to the new preferential procurement regulations that will come into effect in December 2011, which will further strengthen our localisation drive. These regulations will empower government to designate specific industries, of critical and strategic importance, where tenders should prescribe that only locally manufactured products will be considered, or that only locally manufactured products with a prescribed minimum threshold for local content will be considered.

Jacob Zuma
President

Minister Davies

“The significance of this Accord is that it will be multiplying the impact of the new preferential procurement framework legislation regulations through commitments which are made by Business, Labour and Community, including co-commitments. Now when government takes a decision that we will be purchasing from local sources, the private sector will be taking similar decisions as well. This means that we



are on track to significantly change the profile of purchasing decisions.”

Minister Patel

“This Accord is a boost for jobs and for local industry. It brings together the efforts of the public sector and the private sector and it can help to direct billions of rands of spending in the local economy and on local manufacturing. For this to be successful it must go together with other efforts to improve competitiveness, increase skills development, and build



better economic infrastructure so that we can achieve our goal of five million new jobs by 2020.”

Minister Gordhan

“We live in times when there is declining growth and demand in the economies of our major trading partners. What this Accord does is to help create demand within the South African economy that will result in greater production, jobs and enterprise creation. This Accord also promotes integrity in the procurement process and the partnership that it represents



can help to make our efforts successful.”

Minister Peters

“We are expanding our energy-generating capacity in South Africa. There are enormous opportunities to use this to support local industrial development. I welcome this Accord and government is working hard to ensure that our programme to build new power stations kick-starts the development of local component-manufacturing industry,



in line with the New Growth Path.”

Zwelinzima Vavi

“The agreement represents a milestone in South Africa’s economy and its history, and it has the potential of reversing de-industrialisation and the job losses in the manufacturing sector. Our task now is to mobilise not only the institutions that are signing this agreement today, but to organise the ordinary masses of our country, the consumers out there, to support this initiative, to understand the linkage between this Accord and the bigger challenges South Africa is facing.”



On behalf of organised labour

Nomaxabiso Majokweni

“The business community has made, through this Accord, a number of commitments to improve procurement of locally-made products. This will not only help with the job creation challenges within the country, but will also create new enterprises. We will work with these enterprises so that they supply products that are competitive, products that are priced right and products that are of good quality. So this is to us quite historic.”



On behalf of the business community

Lulama Nare

“This Accord will open space for local communities, for local producers. We warmly welcome it and are proud to be associated with this initiative. Procurement must leave a legacy in communities, a hope for young people, and economic opportunities for communities. We will work to make this a success.”



On behalf of community organisations



Deputy Minister Benedict Martins
Public Enterprises



Thero Setiloane
CEO BLSA



Mxolisi Zwane
President FABCOS



Bobby Godsell
Chairperson BLSA



Lawrence Mavundla
President NAFCO



Sidumo Dlamini
President COSATU



Manene Samela
General Secretary
NACTU



Dennis George
General Secretary
FEDUSA



Dumisane Mthalande
SANCO Coordinator
at Nedlac



Mamaponya Makgoba
Secretary
NACTU
Vice-President



Laura-Joyce Kganyago
Secretary General
Women’s National
Coalition

INTRODUCTION

1. Representatives of business, organised labour, the community constituency and government have concluded, through a social dialogue process on the New Growth Path (NGP), an Accord on promoting local procurement. The objective of this Accord is to accelerate the creation of 5 million new jobs by 2020, as well as the attainment of the goals of the Industrial Policy Action Plan (IPAP 2).
2. Social partners acknowledge that the domestic economy is under severe stress, brought about by a combination of the global recession and deep-seated structural problems. The NGP and IPAP set out a series of interventions aimed at growing the economy and halting the decline in the productive sectors and increasing levels of employment.
3. The parties to this Accord recognise the important role of local procurement in promoting jobs and industrialisation. The social partners aspire to achieve a 75% localisation in the procurement of goods and services, both by the public sector and by the private sector. This Accord sets out the first steps we will take together to move to the attainment of that target.
4. The state and its public entities are major procurers of goods and services in the economy, with many billions of rands spent every year on products needed for its service delivery departments, infrastructure programmes and economic, social and criminal justice functions. Leveraging public procurement is one of the key instruments for deployment by government in support of the productive sectors, and will be used in combination with policies on industrial finance, trade, competition, innovation and skills interventions.

5. Business, Organised Labour and the Community constituency have made individual and shared commitments in this social Accord, to support localisation through their own procurement interventions. In this Accord, procurement from local suppliers refers to the purchase of locally-manufactured goods and locally-produced services.
6. Social partners also support the revised preferential procurement regulations promulgated by government in June 2011, and in this regard, section 9 on local production and content.
7. This Accord outlines concrete actions and commitments to be undertaken individually and collectively by the social partners, to increase the quantum of local procurement by public and private companies. This Accord covers all sectors of the economy in its broad intent and goals. Given the importance of the retail sector in the achievement of the goals of this Accord, the parties agree that they will also enter into discussions on addressing specific commitments in the retail sector. The discussions will take place from February 2012 and will take into account the complexity of the different retail subsectors, sizes of retail businesses and the direct employment impact on the retail sector itself.



GOVERNMENT COMMITMENTS

Commitment One: Leveraging Public Procurement

8. Government commits to significantly expand the value of goods and services it procures from South African producers.
9. It will do so through a wider review of the public procurement system. The first step in this process is the amended regulations of the Preferential Procurement Policy Framework Act (PPPFA) that will come into effect on 7 December 2011. These regulations provide for specific sectors, sub-sectors and products to be designated which will then require all public entities (national, provincial and local, as well as state-owned enterprises) to ensure that the designated products procured by them are produced locally. In addition, they provide for public entities to procure locally-manufactured products that are not on the list of designated products.
10. Government commits to publicly release its designations on a regular basis, that will enable private-sector companies to align their investment strategies with procurement designations. Government notes that it has released two indicative lists of products that it is considering for designation, for comment by social partners. It has also involved the social partners in detailed discussions on the identification of products. The products currently being considered in the first phase for designation comprise of buses, power pylons, railway rolling stock, pharmaceuticals,



set-top boxes, clothing, textiles & leather footwear and food & canning products. Additional areas identified are electrical cables, yellow metals, office furniture and school furniture.

11. Social partners support the process adopted by government for the designation of products and support the focus in public procurement – both for products designated as well as those not designated, but where procurement will be localised – on prioritised sectors identified in the New Growth Path and the Industrial Policy Action Plan.
12. Government will continue to convene conferences and workshops of local suppliers of products that are being considered for designation.
13. The parties recognise the purpose of the designation of sectors is to promote employment and industrialisation. Government therefore commits to measure the impact of the designation instrument over time against criteria such as jobs impact, increased investment and additional public spending in the local economy. The first report will be produced by June 2012, and thereafter reports will be produced annually.
14. Government commits to a continual, longer term and full review of procurement legislation, principles and practice to further scale up the procurement lever in order to deepen the impact of its interventions.

Commitment Two: Establishment of Standards for Measurement and Verification of Local Content

15. Government will establish the necessary standards for measurement and verification of local content in consultation with stakeholders, which will underpin the localisation of public and private procurement.
16. A draft Standard has been developed after engagement with social partners and public comment and it is expected to be adopted by or before 7 December 2011.

Commitment Three: Roll-out of Infrastructure

17. Government commits to ramp up the roll-out of infrastructure procurement. In this regard, government will work with business and labour to secure conditionalities in infrastructure projects, especially where public funds are utilised or are leveraged through Development Finance Institutions (DFI's) to secure localisation commitments, including those provided by the services sector.



ORGANISED BUSINESS COMMITMENTS

Commitment Four: Support for Local Manufacturing

18. Business recognises the value of the localisation strategy that will underpin government's procurement and infrastructure investment programme. They commit accordingly to promote measures that will enhance the level of localisation in the private-sector supply-chains in accordance with the measures set out below.
19. It is agreed to develop company-level procurement strategies in the different sectors of the economy, which will
 - Commit to improve the levels of local procurement
 - Analyse the company's supply-chain to identify imported goods and services, with a view to identifying economically viable local replacements
 - Support the establishment and development of commercially viable local businesses to meet the company's requirements and
 - Set company targets as well as ways to measure and monitor its procurement in order to achieve increased, sustainable levels of local procurement
20. A significant number of companies have already indicated support for such enterprise level procurement strategies, and a target was pursued of 50 companies signing a corporate commitment in this regard by 31 October 2011.
21. These companies will report on an annual basis on their success with achieving improved local procurement.

22. Business commits to analyse and review company-level procurement strategies to support domestic manufacturing sectors, and to progressively increase the levels of local procurement by the Top 84 companies (members of BLSA). To that end, each company
- will review its current procurement portfolio to determine the proportion of imports and local sourcing (“establishing a baseline”)
 - set a target to increase procurement from local suppliers (“increasing from the baseline”)
 - based on the above analysis, identify economically viable local replacements (“identify opportunities”) and
 - commit to report annually on the attainment of their local procurement targets, with the first report due by June 2012
23. In support of the two types of company procurement strategies and commitments set out above, Business has established the South African Supplier Diversity Council (SASDC) which will be supported by companies who are the largest procurers of goods and services in the economy. The SASDC will
- establish a mechanism to provide access to a reliable database of certified bona fide black-owned manufacturers of goods and producers of agricultural products and services and
 - cooperate in initiating development programmes, training and other support to enable emerging black-owned manufacturers of goods and producers of agricultural products and services to become part of the supply-chains of their members and of other companies in the economy
24. Fifteen (15) companies (with an approximate market turnover of R350 billion) have already pledged support. Further companies will be recruited from the largest procurers of goods and services in the economy, in support of this initiative and a target of at least

- twenty five (25) companies by March 2012, is being pursued, rising by at least 10 companies per annum.
25. Business commits in discussion with government, to identify products in the designation list as well as products outside such list, that it will co-commit to procure from local manufacturers. By end-November 2011, a first such list will be forwarded by the companies concerned. Thereafter, on a six-monthly basis, further products will be identified through the discussions between the parties.
26. The parties recognise the value of leveraging increased economic development benefits off the designation process. Business therefore supports government’s approach to develop conditions that apply to companies that benefit from the designation of products, which will require them, as appropriate, to improve localisation of their own supply-chains, invest in skills development and new technology and undertake efforts to improve overall competitiveness and expand their markets.
27. To complement government’s initiative on a standard for local procurement, social partners will establish systems within the different sectors and industry associations, to consider the application of these standards on a voluntary basis to their own procurement of products that are not covered by designations, and report on progress on an annual basis, with effect from June 2012.



Commitment Five: Investment in Domestic Manufacturing Sectors

28. Business commits to increase investments in viable business opportunities that may emerge as a result of the designation of products.
29. Business will work at a sectoral level to identify potential areas of investment in extended or new domestic supply chains.
30. Business will investigate potential linkages, evaluate and develop multiplier opportunities among firms, to effect economies of scale, increase local manufacturing output and competitiveness in specific value chains.



Commitment Six: Complementarities between Private Sector Procurement and State Procurement

31. Business will complement state procurement by undertaking the following actions
 - Promote competitive pricing policies and quality provision of products and services in public procurement by private procurers

- Eliminate collusive and unethical tendencies within its ranks in public procurement opportunities
 - Identify extensions of value chains within sectors and products that are designated with a view to increasing local content, and setting sector or product-specific targets where feasible. The level of local procurement in these value chains will be determined in consultation with government and reported annually in meetings with government and social partners
 - Explore the potential for matching procurement of products that are needed in bulk by private and public sector organisations
32. In addition to these measures, business will work with state-owned enterprises, provinces and municipalities to identify products that are not on the designation list, but which can be manufactured locally, in terms of the provisions of clause 9.3 of the PPPFA regulations.

Commitment Seven: Organised Business and Industry Associations Initiatives

33. BUSA and its affiliates commit to promoting local procurement by analysing and reviewing their supply chain activities with the aim to source locally produced goods and services on major purchase items and activities.
34. BUSA commits that all stationery, office furniture, promotional items (including t-shirts, tracksuits, hats, jackets and other clothing items, pens, gifts, etc), will be bought from local manufacturers, and consulting services and catering services will be procured from local service providers. BUSA will work with all its affiliates to formally adopt this list of items. Business organisations' auditors will be asked to verify that all these named goods have been produced locally and these reports will be made public by the organisations.

ORGANISED LABOUR COMMITMENTS

Commitment Eight: Organised Labour and Affiliate Procurement

35. Organised labour commits to promoting local procurement by analysing and reviewing their supply chain activities with the aim to source locally produced goods and services on major purchase items and activities.
36. All three federations commit on their behalf and that of all their affiliates that all furniture, vehicles and office stationery as well as all promotional clothing (t-shirts, tracksuits, hats, jackets and other similar items) will be bought from local manufacturers. To this end, they will set up a procurement desk that trade unions can use to enable suppliers to be identified. Union auditors will be asked to verify that all these named goods have been produced locally and these reports will be made public by the federations and unions.
37. Most trade unions and their federations are already sourcing their clothing, regalia and apparel from union friendly manufacturing enterprises in the clothing and textile sector, and this commitment will be given further impetus on the signing of this Accord.



Commitment Nine: Alignment of Union Linked Investment Funds to Local Procurement Initiatives

38. Organised labour commits to align the investment philosophies, strategies and mandates of their pension funds to advance local procurement, through capacity building for trade union trustees.
39. Organised labour commits by December 2011, to finalise a comprehensive Socially Responsible Investment Code, with targets for investment in different sectors of the economy, aimed at promoting local procurement, decent work, and socially responsible investment, which will guide all investments by union linked investment companies and workers' retirement funds. Further, it commits to begin to realign investments in accordance with this Socially Responsible Investment Code, from January 2012.
40. Organised labour proposes that a portion of all union investments and retirement funds, with the percentage to be determined in discussion with trustees of these funds, be channelled into a government guaranteed Development Bond, which will promote the objectives of the New Growth Path.
41. Organised labour undertakes to engage with the Boards of the 20 biggest retirement funds and union investment companies, to secure acceptance for the Investment Code and Development Bond, by the end of 2011.
42. Organised labour will engage with international unions, and other institutions dealing with socially responsible investment, to research legislative and institutional options to promote productive and prudential investment of workers' collective savings. Based on this engagement, labour will put forward proposals for legislative and institutional reform.

43. An investment strategy conference with labour trustees will be held before the end of 2011 to promote investment in local manufacturing, the green economy, transformational infrastructure and rural development.
44. Labour will also challenge the top 100 funds to disclose and report, on local procurement initiatives in their investment reports from 2012, going forward.

Commitment Ten: Shareholder and Corporate Governance Activism

45. Labour commits to engage in shareholder and corporate governance activism through its representatives that serve on the governance structures of public and private companies, to re-orient the procurement strategies of the entities on which they serve. A report on progress will be tabled by June 2012.
46. Labour will continue to campaign for a target of 75% local content and procurement for all goods, services and works by private and public entities. This campaign will be mainstreamed into the Living Wage Campaign, Decent Work Country Programme and other platforms organised by the labour movement.



COMMUNITY CONSTITUENCY COMMITMENTS

Commitment Eleven: Creating Awareness and Social Mobilisation and Procuring Locally

47. The Community constituency commits to using its networks and creating platforms to mobilise its members and the general consumers on the benefits of buying locally manufactured products. The Community constituency will mobilise civil society to support a large scale national campaign to buy local products, commencing from December 2011.
48. This will be achieved through social education on what is “local” and raising awareness amongst community, faith based organisations, women and youth groups, on the attendant benefits of local procurement, namely, local economic development, job creation, income generation and sustainable livelihoods for communities.
49. The community organisations, representing organisations of women, youth, cooperatives, civic structures and other mass-based public interest groups, commit to promoting local procurement by analysing and reviewing their supply chain activities, with the aim to source locally produced goods and services on major purchase items and activities.
50. All these organisations commit on their behalf and that of all their affiliates that all furniture, vehicles and office stationery, as well as all promotional clothing (t-shirts, tracksuits, hats, jackets and other similar items), will be bought from local manufacturers. To this end, they will utilise the procurement desk set up by trade unions, to enable suppliers to be identified. Community organisations’ auditors will be asked to verify that all these

named goods have been produced locally and these reports will be made public by the community organisations.

Commitment Twelve: Supplier Development Opportunities for Cooperatives and Social Economy Enterprises

51. Community commits to strengthening the cooperatives through enhanced participation by small-scale producers in dynamic supply chains, by exposing them to key drivers and factors that contribute to building sustainable enterprises. Small-scale farmers, craft and creative enterprises, and home industries will be targeted.
52. Communities will be empowered with information on market access and supplier linkage opportunities in the private and public sector. Local economic opportunities presented by this Accord, will be highlighted so as to unleash their manufacturing and productive capacities.
53. Consideration will be given to a set-aside for smaller businesses and enterprises in the social economy, such as cooperatives in the further changes to the procurement system.



COMMITMENTS BY ALL CONSTITUENCIES

Commitment Thirteen: Partnerships with Proudly South Africa

54. Social partners commit to a national campaign in partnership with Proudly South Africa, to create awareness on the economy wide benefits of buying locally manufactured products. The potential benefits of economic growth, job creation, income generation and the competitiveness of South African products will be highlighted to business enterprises, workers and consumers.
55. Social partners will initiate and support public education programmes on the importance of the “labels of origin” in order to promote fair and legal trade with other countries.
56. Constituencies further commit to cooperate with the South African Revenue Service and work with enforcement agencies to prevent illegal imports and dumping of unsafe products, which destroy domestic enterprises and jobs, and pose health risks.

Commitment Fourteen: Implementation of the Accord

57. Constituencies commit to work together to develop a program of action for the implementation of this Accord. The work plan will address prioritisation, sequencing, actioning and monitoring of the commitments contained in the Accord.
58. An implementation roadmap on this Accord, will incorporate the following critical milestones
 - a. Government will build on the previously-released proposed products for designation, with further work with social partners on additional sectors, sub-sectors and products.

- b. Government will hold a consultative conference with the procurement units of National Departments, State Owned Enterprises and the Metro Councils, on the designated sectors, products, standards and practice guidelines by 31st October 2011 and will report on outcomes.
 - c. Business will convene a suppliers workshop in consultation with government to inform suppliers of designated products, strategies to scale up local procurement and the tendering processes, by 30 November 2011.
 - d. Implementation of the revised PPPFA regulations will come into effect on 7 December 2011.
 - e. Business will hold a South African Supplier Diversity Development Conference by 30 April 2012 and report on outcomes.
 - f. Social partners will conduct regular reviews of progress on implementation of this and other accords during NGP Social Dialogue sessions.
59. Proudly SA will be requested to compile a list of locally-produced products and services.
60. In addition to these steps, it is agreed to commence discussions on support that the retail sector can provide to the local procurement goals, including through measures linked to their supply-chain development, innovative and creative mechanisms that support competition and stimulate demand for locally manufactured goods and services by the end-consumer, as well as other mechanisms that parties will consider. These discussions will commence in February 2012.

MONITORING AND EVALUATION: SETTING UP A JOINT COMMITTEE

61. Social partners recognise the pivotal role that local procurement can play in national development and economic growth; and in combating inequality, poverty, unemployment and rural underdevelopment. They commit to work cooperatively, through this Accord, to expand local industrial capacity and to prevent further de-industrialisation and its accompanying social reversals.
62. The commitments expressed in this Accord have the potential to accelerate the attainment of sustainable development, shared growth and job creation goals and targets.
63. To this end, they agree to establish a high-level Committee, with senior representatives from each constituency, which will meet every six months. The Committee will be responsible for ensuring implementation of this Accord and will
 - Receive reports from each constituency on the steps taken to implement the commitments made in this Accord and the impact of such actions and
 - Consider creative ways to achieve the commitments, as well as additional measures and interventions that may be required

The first high-level meeting will be held by June 2012. Constituents may be requested to provide progress reports prior to this date and meetings to prepare for implementation and to assess progress with the interim deadlines set in this Accord, may be held sooner than June 2012.

This Accord is now signed by representatives of all the parties, on their behalf and on behalf of their affiliated organisations, in the spirit of partnership and with a solemn commitment to promote and strengthen local procurement in the economy.

Signed on behalf of Government

[Handwritten signatures for Government]

Signed on behalf of Organised Business

HAFCO
Hammal
M. G. Kweini
Abdullahi - FABCOs

Signed on behalf of Organised Labour

Inchizima Vavi
[Handwritten signatures for Organised Labour]

Signed on behalf of Community Constituency

Qare
DUMISANI MITHALANE
[Handwritten signature for Community Constituency]