

Local Content Verification and the SABS Local Content Grading Scheme

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Standards:

Standards development/management aligned to priority industrial policy sectors

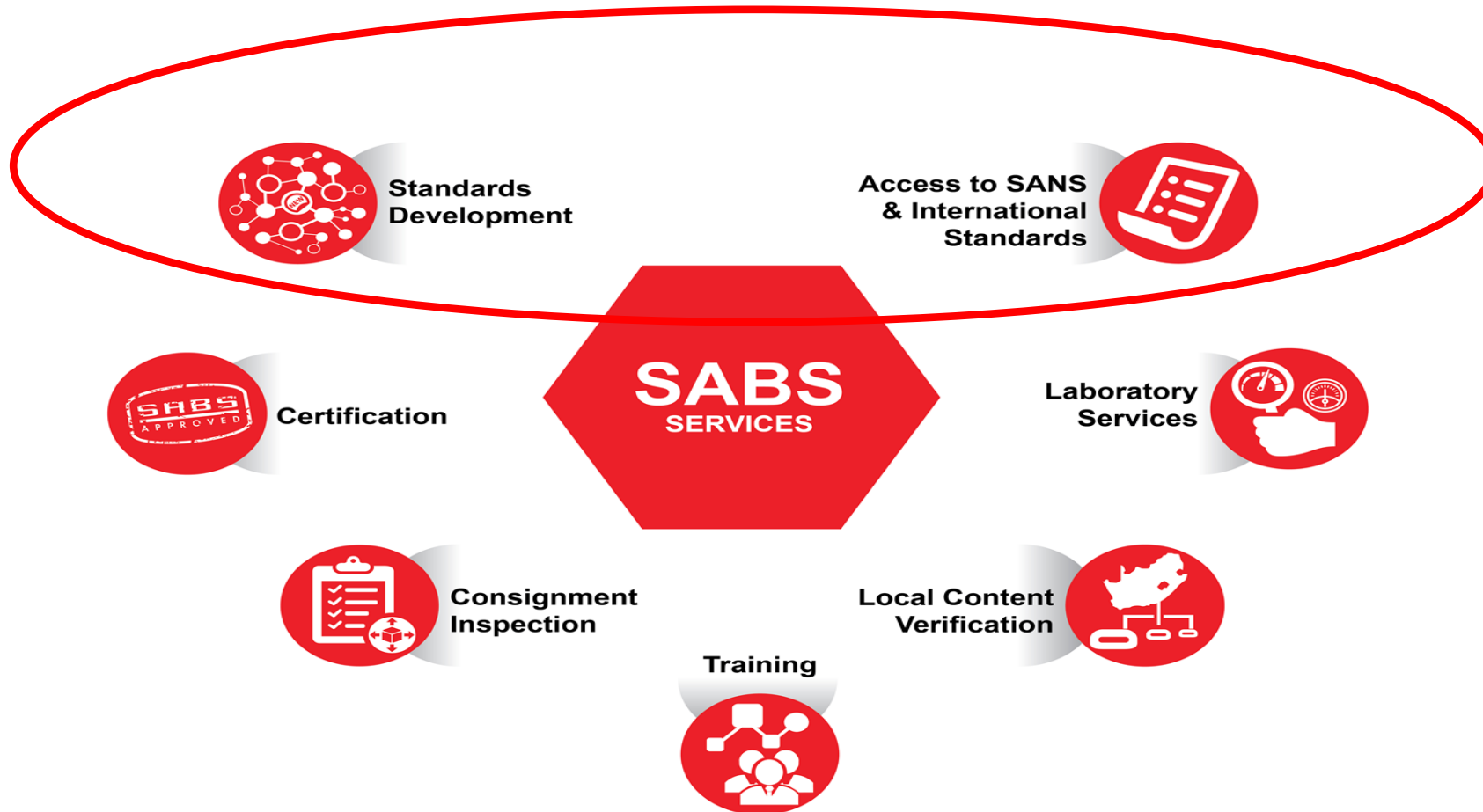
- 7300 Standards maintained
- 280 under development on an annual basis

Conformity Assessment:

- Product Certification
- System Certification

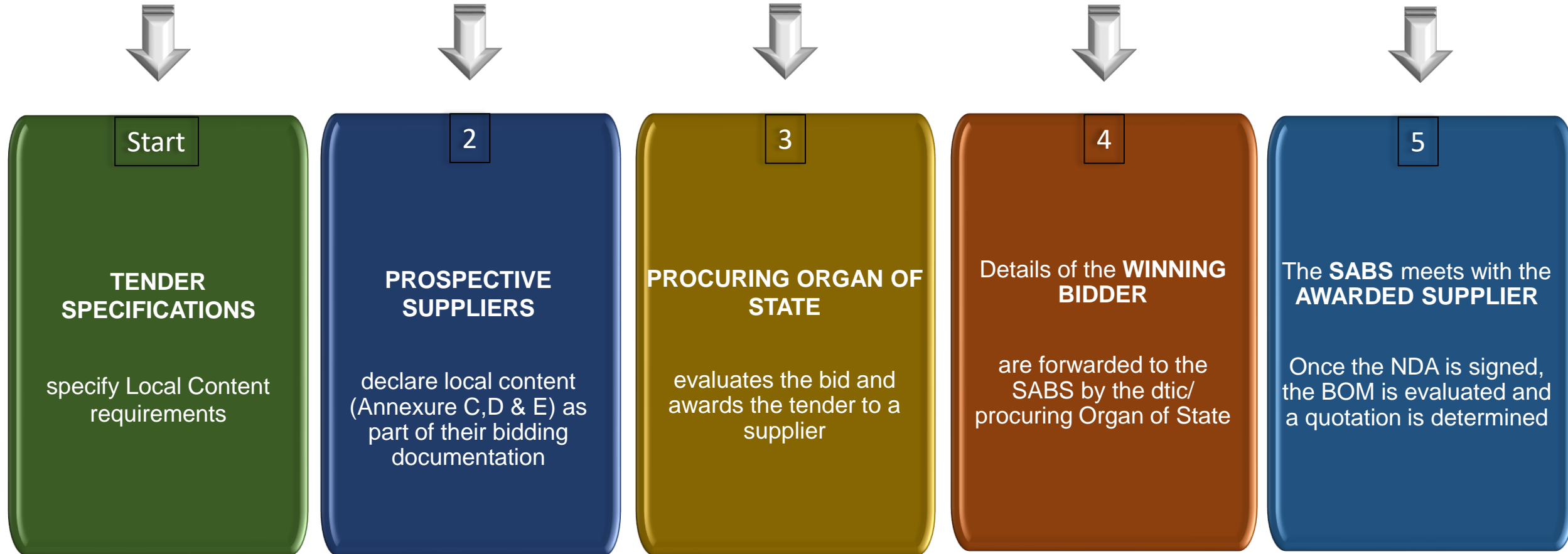
Local Content Verification:

- Critical industrial policy lever - but in SA a compliance driven approach
- Local Content Verification beyond compliance to supplier development



Leverage public expenditure, both CAPEX and OPEX, made by Organs of State (all spheres of Government SOC's) to:

- Develop and enhance local manufacturing capacity and capabilities
- Support industrial innovation and technological developments
- Create employment and sustain jobs
- Boost exports and ensure suppliers are integrated into OEMs global value chains
- Support economic empowerment through creation of black industrialists



10 Step Local Content Verification Process Flow



6

Once the **QUOTATION IS ACCEPTED**,
arrangements regarding the verification is communicated

7

VERIFICATION is conducted and a **REPORT** is prepared

8

AUDIT FILE

is sent to the SABS Approvals Board for review and approval

9

SUPPLIER IS COMPLIANT

A certificate is issued

SUPPLIER IS NON-COMPLIANT

A non-conformance report is issued

Finish

DATABASE ENTRY & MAINTENANCE

Surveillance verifications may be conducted if tender/contract is stretched over a number of years

10 Step Local Content Verification Process Flow

SANS 1286:

LOCAL CONTENT

- That portion of the tender price that is **not** included in the imported content, provided that local **manufacturing** takes place and is calculated in accordance with the local content formula

$$LC = (1 - X/Y) * 100$$

Where:

LC is the **percentage** of local value add

X is the **value** of imported inputs/components

Y is the **bid price** in Rand value

$$LC = (1 - X/Y) * 100$$

LC

% of Local
Content

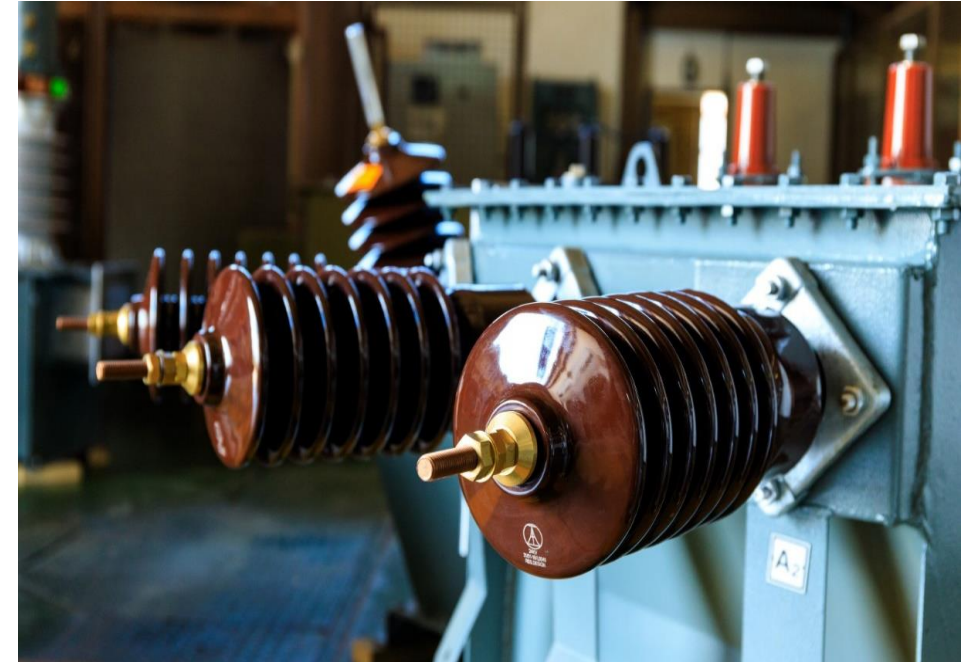
X

Value of
Imported Content
in Rand

Y

Bid Price in Rand
excluding 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 date of advertisement usually 12h00)
- Exemptions to be excluded from the formula



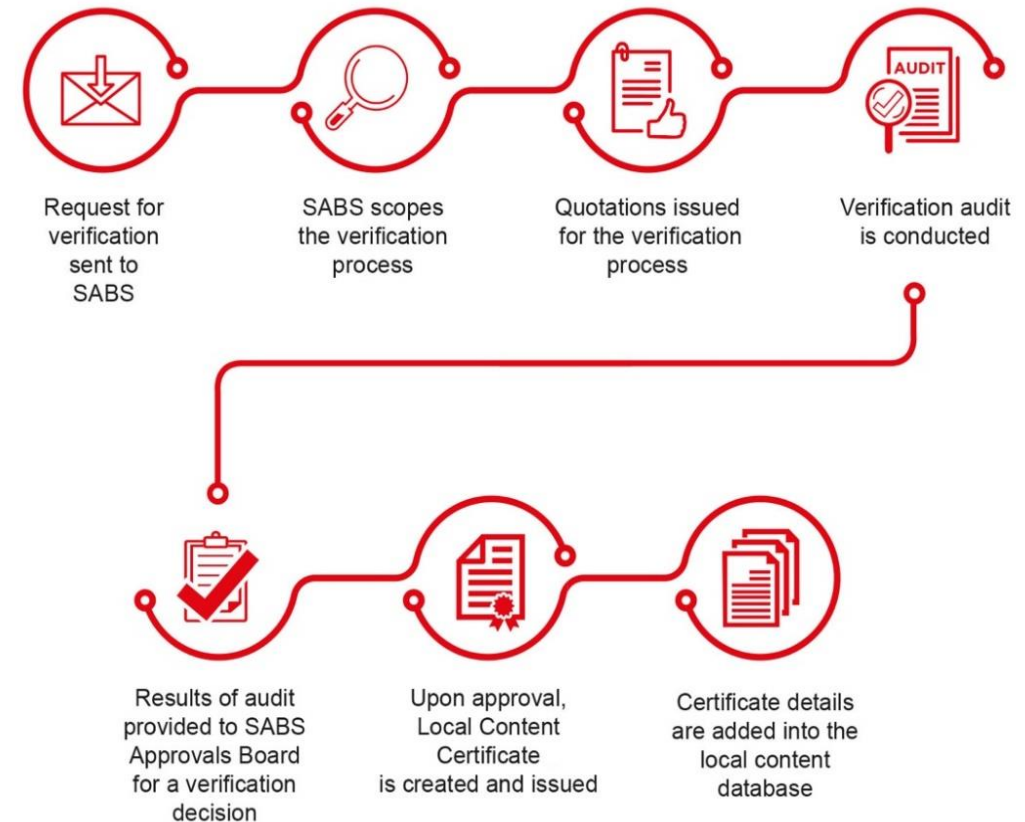
Verification Methodology and Certification is conducted in two parts:

- **Financial Verification**

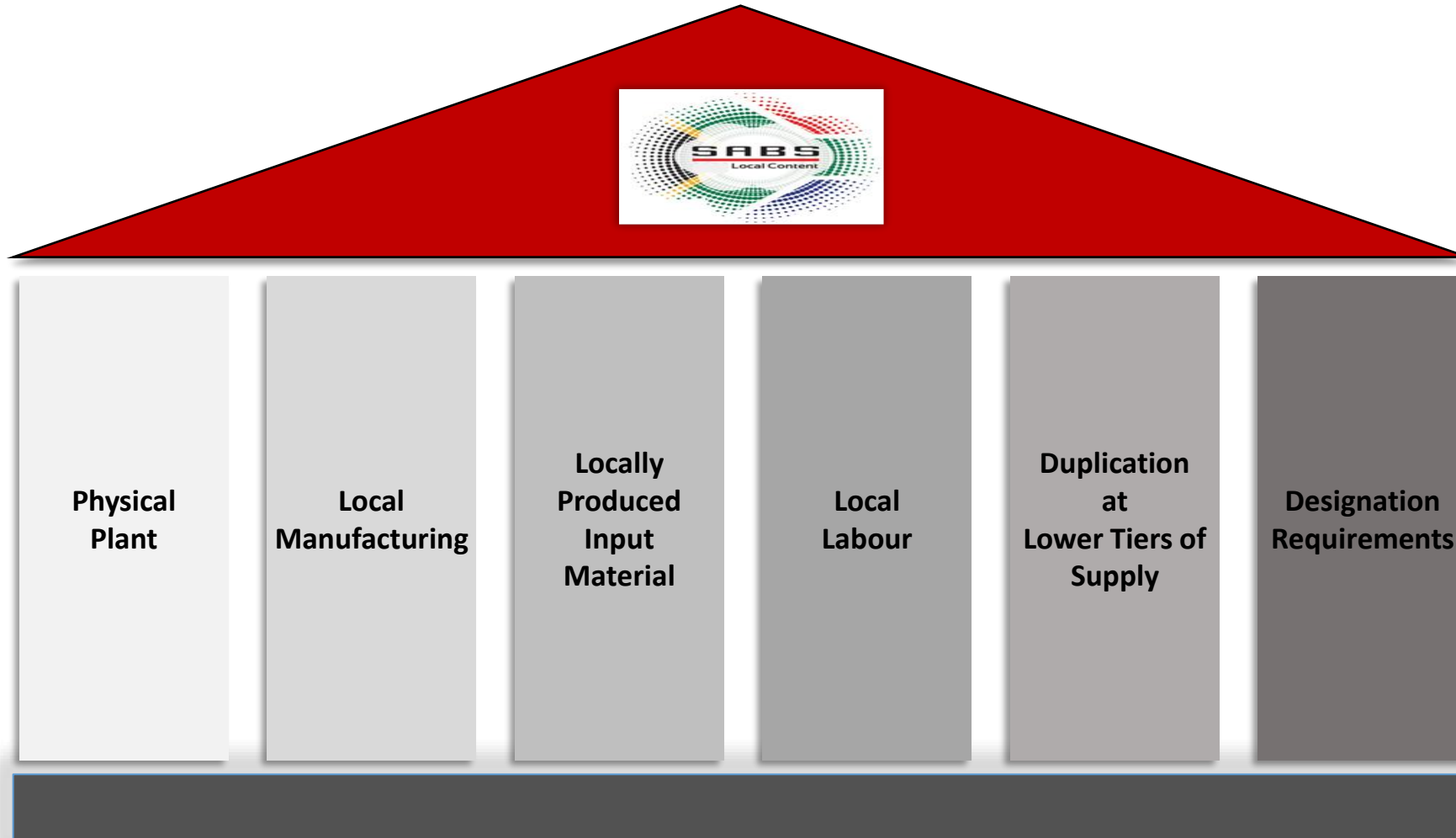
Verification of the transactional documentation to ensure local content is as per the designated requirement

- **Technical Verification**

Factory shop floor technical verification of the local content as described in the documentation verified above



Local Content Verification creates new business opportunities and helps the national industrialisation effort



Assessment of the:

- Existence of the manufacturing facility
- Manufacturing plant confirms it is equipped with the right plant and equipment to manufacture the product being verified
- Capability of the manufacturing plant
- Availability of the required skills to manufacture the product being verified
- Completeness of the Bill of Materials (BOM)

Preliminary Stage (Pre-Verification)

- Tracking the supplier
- Requesting BOM from the supplier
- Identification of resources required for the project
- Costing and allocation of work

Fieldwork Stage (Verification)

- Opening engagement with the supplier
- Physical verification of supplier facilities
- Verification of supporting documentation
- Verification of lower tier levels of supply chain
- Computation of local content percentage
- Review of verification working papers

Reporting

- Review of verification file by SABS
- Communication of results to the supplier
- Addressing supplier concerns with results, if any
- Submission of verification to Approvals Board
- Issuing of certificates (successful bidders)



Tier Level 1

Extent of Verification

The manufacturer is the supplier of workwear but is sourcing input components from its suppliers (**tier 2 suppliers**)

Elements of the Project	Input Components	Supplier/ Location
Manufacturing Process	Design and pattern	Workwear Manufacturer
	Stitching and embroidery	
	Fabric	
	Thread	
	Zip Fastener	
	Reflective strips	

Tier Level 2

The manufacturer is the supplier of workwear but is sourcing input components from its suppliers (**tier 2 suppliers**)

Extent of Verification

Elements of the Project	Input Components	Supplier/ Location	Local / Imported
Workwear Suit	Fabric	Supplier A	local
	Thread	Supplier B	Local
	Reflective strip	Supplier C	Local
	Zip Fastener	Supplier D	Import

Tier Level 3

Extent of Verification

Milling Company:

Could be using imported materials to produce the fabric. Verification can extend further to suppliers of components used in manufacturing the fabric.

Elements of the Project	Input Components	Supplier/ Location
Mill	Weaving	Supplier A
	Cotton/ Weaving Material	Supplier B
	Dye	Supplier C



Bolts

Nuts

Tier Level 1

Extent of Verification

The manufacturer is the supplier of Bolts and Nuts to the mining house but is sourcing input components from its suppliers (tier 2 suppliers)

Elements of the Project	Input Components	Supplier/Location
Manufacturing Process	Heat Treatment	B&N
	Surface Finalising	B&N
	Thread Forming & Rolling	B&N
	Protective Coating	B&N

Tier Level 2

Extent of Verification

The manufacturer is the supplier of Bolts and Nuts to the mining house but is sourcing input components from its suppliers (**tier 2 suppliers**)

Elements of the Project	Input Components	Supplier/ Location	Local / Imported
Bolts & Nuts	Steel Material	Supplier A	Local
	Galvanizing	Supplier B	Local
	Plating	Supplier C	Local

**Stainless Steel
Pins**

**Stainless Steel
Ring**

**Black Plastic
Cover**

**See through
Glass Lid**

Base Pan

Steel Handle



Component	Unit	Price Per Component	Total	Supplier	Declaration
Steel Handle	3	R200	R 600	Company A	Local
Black Plastic Cover	3	R150	R 450	Company B	Local
Base Pan	1	R500	R 500	Company C	Local
Stainless Steel Pins	6	R200	R1 200	Company D	Local
See Through Glass Lid*	1	R120	R 200	Company E	Local
*Stainless Steel Ring	1	R 80		Company F	Import
Total Price of Components			R2 950		

- Launched in October 2021 by SABS
- Designed for any suppliers (manufacturers) wanting to leverage on the fact that their products are manufactured locally
- Upfront Verification targeting both the Public and Private Sector
- 5 Year Certificate with Annual Verification Audits

Local Content Percentage Range	Grades
Product with local content from 90% to 100%	A
Product with local content from 80% to 89%	B
Product with local content from 70% to 79%	C
Product with local content from 60% to 69%	D
Product with local content from 50% to 59%	E
Product with local content from 40% to 49%	F
Product with local content from 30% to 39%	G
Product with local content from 20% to 29%	H
Product with local content from 10% to 19%	I
Product with local content from 1% to 9%	J

Verification Cycle

Initial Verification

- Supplier makes a declaration to SABS
- SABS verifies the claimed declaration
- Successful Verification- SABS issues a verification report:
 - Specific mention of products
 - Validity of the certificate
 - Published for access by Procuring Entities and Consumers

2nd to 5th Year Surveillance

- SABS samples verified products and review for:
 - Consistency in the production process and in procurement behaviour
 - Assess the impact of any changes noted
- Successful Verification - SABS issues a report and the verification certificate:
 - Specific mention of products
 - Validity of the verification certificate
 - Published for access by Procuring Entities and Consumers

Re-Certification

- SABS verifies all products listed in verification certificate for:
 - Consistency in the production process
 - Consistency in procurement behaviour
 - Assess the impact of any changes noted
- Successful Verification - SABS issues a report & verification certificate:
 - Specific mention of products
 - Validity of the verification certificate
 - Published for access by Procuring Entities and Consumers

The supplier can - at any given time - request for additional products to be verified and added onto the report

Benefits of the Scheme:

- Provides data to support localization initiatives
- Can be used to implement preferential procurement policy by both private and public sectors
- Upfront verification
- Can be used as a marketing tool for locally manufactured products
- Assist local manufacturers with Made in Africa certification to be able benefit from AfCFTA
- Provides credibility to any localization claims made by the manufacturer

#	Challenges	Proposed Resolution	Risk
1.	Inadequate datasets resulting in supplier information being returned	Tier 1 supplier (Applicant) together with the SABS team will work more closely with other suppliers (Tier 2/3 etc)	High
2.	Request from supplies to extend deadline to submit information	SABS to build in a standard lead time that will be monitored and measured	Medium
3.	Suppliers refusing to provide information	Tier 1 supplier (Applicant) together with the SABS team will work more closely with other suppliers (Tier 2/3 etc)	High

The industry could consider the following cost saving initiatives:

- Verification of primary materials suppliers into the value chain
- Extending the verification to the next level of value chain. Verification becomes cheaper and easy to conduct because inputs from a lower level supply is confirmed
- Maintaining a certification regime that has systems in place to ensure consistency throughout the life of the certificate (Local Content Grading Scheme)



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