

**Assessment of the Durban Metropolitan Council Affirmative  
Procurement Policy focusing on its impact on Small, Medium and  
Micro Enterprise (SMME) promotion and development.**

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This dissertation represents the original work of the author and has not been submitted in any other form to another university. Where use has been made of the work of other authors and sources, it has been accordingly acknowledged and referenced in the body of the dissertation.

The research for this dissertation was completed in the School of Development studies at the University of Natal Durban now called University of KwaZulu Natal under the supervision of Ms. Caroline Skinner.

Opinions expressed and conclusions attained are those of the author and are not necessarily to be attributed to the School of Development Studies.

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### **ACRONYMS**

|               |  |
|---------------|--|
| <b>ABE</b>    | <b>Affirmable business enterprises</b>                           |
| <b>SAFCEC</b> | <b>South African Federation of civil engineering contractors</b> |
| <b>TBDC</b>   | <b>Thekwini Business Development Center</b>                      |
| <b>PDI</b>    | <b>Previously disadvantaged individual</b>                       |
| <b>SME</b>    | <b>Small and medium enterprise</b>                               |
| <b>SMME</b>   | <b>Small, medium and micro enterprises</b>                       |

## **CHAPTER ONE: Introduction**

The small, medium and micro enterprise (SMME) sector is internationally recognised as a sector that has potential to generate economic growth and job creation (Audretsch, 2001:2,28 Berry, 2000:10,12). South Africa is no different. Ntsika (2000: 24) points out that SMMEs employ 54% of those formally employed while big businesses employs 46%. Further SMMEs contributed 35% to gross domestic product. Ntsika (2000:35) concludes that SMMEs play a vital role in the South African economy. Chandra et al, (2001:1) in a study funded by the World Bank similarly argues that SMMEs are part of the solution for South Africa's long-term unemployment and poverty problems.

A key strategy used to promote the development of the SMMEs in order to achieve socio-economic policy objectives is through state purchasing power. Given the amount of money governments spend on goods and services and the fact that lack of demand is often a constraint to growth of SMMEs, targeted procurement policies are a potentially powerful support strategy. This was recognised early on in post apartheid policy circles. The procurement reform was stipulated in the 1996 Constitution. As Watermeyer et al, (1998:3) points out, South Africa is one of the few countries in the world where procurement is a subject in the constitution. Since 1996 a range of policy documents have been produced outlining how national, provincial and local government should make procurement decisions, identifying that small businesses

generally, as well as small businesses owned by previously disadvantaged individuals (PDIs) particularly, should be prioritised.

This study explores the South African government's affirmative procurement policy concentrating on its impact on SMME development. Past research tended to focus on national and provincial government departments and less on local government (see for example Sharp, Mashigo and Burton 1999 and Manchidi and Harmond, 2002). Not only do local governments procure a significant quantity of goods and services but also local government, both in South Africa and internationally, has an increasingly important role to play in economic development. In South Africa, for example, the 1996 constitution commits local government to the promotion of local economic development.

This research focuses on the Durban Metropolitan Council's affirmative procurement policy. The policy was adopted in 1997 and became officially operational in 1998. Some have argued the policy still favours well-established large enterprises instead of SMMEs. Further, even those SMMEs that are awarded contracts are said not to be from previously disadvantaged communities. The Natal Mercury for example (18/02/2000) stated that despite a 'commendable' procurement policy, 'which gives black companies and women an edge in their tender applications, the bulk of the council's major contracts are still being allocated to big names, white companies and some repeatedly'. The article goes on to argue that when black companies do get contracts they tend to be Indian owned. This implies that the other categories of the (PDIs) have not benefited from the targeted procurement policy.



This dissertation seeks to explore the question of access to government tenders by SMMEs, particularly SMMEs owned by black South Africans and women. The main objective of the study is to assess whether the policy has been successful and if not to determine barriers or reasons for failure and possible solutions. This will be achieved through qualitative and quantitative research methods.

This study builds on Letchmiah (2000) assessment of Durban's affirmative procurement policy for the period 1998 and 1999. Not only is Letchmiah's study outdated, but is also drawn largely from secondary information sources. No interviews were conducted with SMMEs, SMME service-providers or council officials. This study not only updates Letchmiah's quantitative assessment but also adds a qualitative component by eliciting the experiences of council officials as well as service providers and SMMEs themselves.

Literature on the role of SMMEs in job creation, income distribution, and economic growth of the country as well as the constraints experienced by this sector is reviewed in chapter two. This chapter then goes on to consider the South African and international experience with affirmative procurement. Chapter three focuses on local government and the Durban context. Chapter four outlines the methodology employed in this study. The research results and analysis are presented in chapter five. Finally in chapter six policy recommendations are made.

## **CHAPTER TWO: Preferential procurement – international and South African experience**

This chapter starts by outlining the role played by SMMEs in the current South African context with respect to job creation and contribution to gross domestic product. It then goes on to consider the constraints to growing this segment of the economy. Attention is then turned to the role procurement can play in stimulating the SMMEs.

### **2.1 The role of the SMMEs in development and their support requirements**

The Minister of Trade and Industry, Alec Erwin, (Sunday Times 17/02/2003) noted that while the public sector and big businesses are shedding jobs, the SMME sector maintains real employment growth, especially in the trade, agriculture and business services sector. This account for 97.5% of all establishments registered and contributes 35% to South Africa's gross domestic product. Therefore, the minister argues that the SMME sector is an important section of the economy and it must be given more attention. The informal sector, often referred to as unregistered, survivalist, micro and small businesses, plays a significant role in the South African economy for Devey, Skinner and Valodia (2002:5) note that the sector has been able to generate significant employment between 1997 and 2001. Rwigema and Karungu (1998:113) note that SMMEs in South Africa play a significant role in job creation and will be instrumental in empowering the previously marginalised sectors of society. However this potential can only be realised fully if

appropriate support is provided to the SMME sector, since the sector experiences various constraints argues Rwigema and Karungu (1998:124). The issue of SMME challenges is confirmed by Houston (2000:12) who argues that SMMEs are still a “sleeping giant” in South Africa due to various constraints faced by the sector.

The World Bank survey on constraints to growth and employment in South Africa (Chandra et al, 2000:1, 2), focusing on the Greater Johannesburg Metropolitan Council, notes that some of the constraints that the SMME sector encounters are: insufficient demand for their products or services, lack of access to capital and high interest rates. Other factors are lack of promotion of SMMEs by government and insufficient or lack of contracts from government and large businesses to SMMEs. The study found that black SMMEs had most problems in access to capital due to a lack of collateral and credit history. Despite these challenges, the report notes that there has been an increase of black entrepreneurs between 1998 and 1999 and this led to an increase in investment and employment from 15% to over 30% in 1998. In addition, Chandra et al, (2000) notes that black SMMEs were the only ones that suggested that education and training should be a number one policy priority. These findings highlight the legacy of apartheid on the previously marginalised sector of society and also confirm the potential of SMMEs despite their history and other challenges. At the same time it raises a need for appropriate targeted support in order for the sector to play a meaningful role in the economy.

The same World Bank survey was conducted in Durban in 2002 (Durban-USAID 2002/3) and the results indicate that SMMEs experience various constraints. As a result their growth and potential for employment creation is affected. What is significant is that even though all SMMEs interviewed expressed challenges, the challenges and the degree of challenges differed not only by sector but also by race. This finding highlights the complexity of the sector and the need for understanding the needs of the SMMEs rather than formulating generic policies. This also confirms Al Berry's (2000:21) argument that effective SMME support policies need to be developed based on an understanding of the needs and characteristics of the sector.

Houston (2000:29) points out that current levels of investments in the SMME sector are inadequate to stimulate the growth required by the macro economic strategy. Estimates indicate that the SMME sector receives approximately 2.6 % of investment capital, which flows through a range of formal agents. Thus, Houston (2000:29) argues that in order to benefit from the dynamism and labour absorption capacity of SMMEs, there is a need to redirect investment flow towards them.

Joffe et al, (1995:73,80-81) argue that the lack of access to markets dominated by large vertically integrated firms is the key obstacle confronting South African SMMEs. Joffe et al, note that other constraints faced by the small business sector besides access to markets are access to finance, access to affordable business premises, managerial skills, access to appropriate technology, complicated tender documents and procedures, restrictive

requirements and difficulty in coping with product standards. In addition, Rwigema and Karungu (1998:111) note that poor education, type of business, inadequate experience, lack of entrepreneurial skills and lack of capital are some of the hindrances for SMMEs. Fischer and Wood (2003:8) in research on the financial health and administration of black owned small and medium enterprises found that lack of financial support is the second most restricting factor for entrepreneurship in South Africa.

Joffe et al, (1995) further argue that SMMEs often need technical support in combination with support in other related areas and add that, in other countries, market information, education, assistance in coping with product standards and help in obtaining information and assistance in tendering have proven to be important for SMME development and support. However, Joffe et al, (1995) argue that in South Africa SMMEs have problems in meeting tender requirements and coping with production standards.

Despite the difficult conditions faced by the SMME sector it still contributes significantly to employment creation notes Lehola (2002:1). In addition, the robustness, dynamism and potential for job creation of the SMME sector, despite constraints, is also highlighted by Esusha and Fletcher (2002:16). They have found that SMMEs in Kenya have survived, expanded and created jobs despite harsh conditions.

It is thus clear that SMMEs play a significant role in income distribution and job creation as well as contributing to economic growth. In order to enhance

the potential of the SMME sector to achieve socio-economic objectives, it is important to acknowledge that the sector experiences various constraints and hence that appropriate and integrated support intervention is crucial. Rogerson (2002:7) argues that international research indicates that the role of SMMEs in employment creation and their contribution towards national economic growth will vary from country to country and across continents depending on the type and quality of support. Rogerson (2002:7) further argues that even though there is no consensus in Africa in terms of the viability of the SMME economy, or sustainability and quality of employment generated by SMMEs, the international consensus suggests that support for the SMME economy is both justifiable and necessary for the sustainable development.

## **2.2 Affirmative procurement and SMMEs – the international experience**

The section below describes different scenarios whereby procurement has been used in various countries to promote SMMEs and create jobs as well as empowering the marginalised sectors of a society. This section highlights the factors that inhibit positive or desired outcomes from the targeted procurement policy implementation.

Rogerson (1998:929) argues that research done in Botswana indicates that procurement does contribute to SMME development and economic growth provided SMMEs are encouraged to be competitive and accountable rather than being provided with welfare type support. In Brazil, Rogerson (1998:926) notes, public procurement through public works programmes and

departmental purchase has led to SMME growth, and employment creation. Rogerson (1998) cites a case where before the programme was implemented, there were only four sawmills with 12 employees but five years after the introduction of the procurement programme, there were 42 sawmills with 350 workers, and about 1000 people were employed in the woodworking industry. Rogerson (1998) highlights that the success factors in both Brazil and Botswana were technical support linked to other support and the co-ordination between government departments as well as SMME support agencies and the SMMEs being members of an association rather than individual firms. In addition, support agencies and SMME associations were made liable for quality and product warranties.

Holden, Sobotka and Locklin (downloaded 11/19/2002:17,18) argue that different countries use different procurement strategies and policies. For example, most developed countries focus particularly on lowering barriers to small and medium enterprise (SME) participation by trying to reduce participation costs through information dissemination and on line bidding. In addition, the Enterprise Research Institute (1998:5) notes that other countries provided targeted assistance to SMEs such as assistance in obtaining finance, completing tender documents and assistance in complex technological bids. Holden et al argue that only the United States and Japan use procurement policy systematically and programmatically. The United States in particular has proactive programmes for targeting SME in procurement. Goals and targets for SME participation in federal procurement are set by statute. The policy also advocates set asides to target socially disadvantaged or minority

SMEs with the aim of increasing the proportion of procurement opportunity to these marginalised sectors and also to provide work experience denied due to discrimination. The Small Business Administration (SBA) gets involved in the annual procurement preference goal setting and negotiates compliance targets for federal agencies and departments. The Small Business Administration thus aggressively monitors their performance to ensure that government goals are met. In addition, the Small Business Administration enters into prime contracts with federal departments and agencies and then subcontracts to small businesses and keeps an electronic register of all small firms interested in bidding for government contracts.

The systematic and programmatic procurement policy of the United States and the active involvement of the Small Business Administration has led to an increase in SME participation in government procurement and has also resulted in job creation and individual wealth and contributed to the gross domestic product notes the Enterprise Research Institute (1998:8,10). In addition, Holden et al, (downloaded on (11/19/2002:19) note that minority participation in central government procurement has increased during the period the set-aside programme has been operational in the United States. Holden et al, argue that this has been confirmed by findings from other studies looking at a relationship between affirmative action programmes and increased levels of minority participation in local government procurement. Holden et al add that evidence shows that small business set-aside programmes have been responsible for much of the increase in central



government procurement to the small firms during the financial year 1998 in the U.S.A.

Despite these positive results, there are still some loopholes and gaps. The Enterprise Research Institute (1998:4) report states that for contracts over 25 000 U.S. dollars there is still a considerable gap between small and big businesses. The Small Business Administration (1999:1) national procurement assessment survey for the financial year 1998 found that the federal government spent a total of 181.7 billion for goods and services in prime contracts over 25 000 U.S dollars. Small businesses received only 33.2 billion or 18.3% of the prime contracts total, which is less than 23 % of the nationwide prime contract goal for procurement from small firms. Both the Enterprise Research Institute (1998) and Small Business Administration (1999) reports indicate that even though SMEs seem to be receiving a fair stake in procurement opportunities, this is only in regard to contracts valued at less than 25 000 U.S dollars. Thus big business still dominates the large contracts, and the gap between the small and the large is still considerable.

Wilson and Beamer (2002:1) notes that even though it is the policy of the United States as well as of the United Kingdom to use government procurement as one of the strategies to support small business, 'at present, the market for government contracts is in practice tilted in favour of larger companies in comparison to SMEs.' Some of the factors that Wilson and Beamer (2002:2) highlights are;

- 1) The information about the market for government contracts is not well disseminated and as a result SME are unable to access these opportunities because they do not have sophisticated and sizeable research and marketing departments unlike large businesses who are able to overcome this barrier because of their resources;
- 2) Big businesses are able to deal with government because they are more acquainted with its procedures and officials than SMEs;
- 3) SMEs lack resources to deal with new complicated regulations as a result they fail to comply.

Nevertheless, Wilson and Beamer (2002:2) maintains that government procurement could boost the small business sector in a meaningful way, expand opportunities for trade, encourage firm diversification, encourage and help new start enterprises and could also help more established small businesses to grow into larger companies.

One of the strategies Wilson and Beamer (2002) advocates is setting aside a certain portion of government contracts for SMEs. For the United States scenario reflected above by the Small Business Administration, Enterprise Research Institute and Holden et al, reports, it appears that even though SMEs had a fair share of the procurement opportunities this was mainly in the smaller, not larger, contracts. This implies that the targets set obviously did not consider strategies for targeting involvement of SMEs in the larger contracts. While on the same United States scenario, what is interesting is that Enterprise Research Institute (1998) highlights that some departments engage SMEs extensively in their budgets while some use less and some have no

SME participation in their procurement budgets. Unfortunately, the Enterprise Research Institute (1998) report does not provide reasons for this but perhaps some of the reasons are related to what Wilson and Beamer (2002) have raised above as constraints.

However, Holden et al, (downloaded 11/19/2002) does acknowledge that procurement policy on its own is not sufficient to increase SMME participation in government contracts because there are many things that may hinder SMMEs from accessing tenders and these include finance, as well as a lack of skills due to previous discrimination. The lack of capacity and attitude of government officials can also make this whole programme less effective. Holden et al continue that if there is an integrated approach with various stakeholders, including banks and large firms and the cooperation of SMMEs, procurement can play a meaningful role to the small business sector development.

Both the Brazilian experience and that of the United States illustrate that public procurement does have a role in SMME development and job creation. However, procurement on its own without appropriate and integrated support will not work. These case studies show the importance of the co-ordination and co-operation of government officials and other relevant role-players such as SMME support agencies, banks and SMME associations as well as the SMMEs themselves. While deliberating on this integration and coordination model, it is interesting to note as well that the Japanese SME success of 70% of the workforce being employed by SMEs is based on a government

interventionist approach which considers the diverse needs of SMEs and the development of appropriate strategies in dealing with their needs as well as recognition of the role of large firms. Amongst the strategies of both financial and non-financial support is the improvement in trading conditions, ensuring that SMEs benefit from government procurement opportunities, the optimising of subcontracting transactions and the prevention of excessive competition. Over and above having user-friendly policies there have been delivery mechanisms put in place, with sufficient resources and clear development goals and targets, which have been constantly monitored and reviewed, (Japanese Ministry of Economy and Industry report 2004).

Setting goals and monitoring is also regarded as a key to the implementation and success of the targeted procurement programme not only in the Japanese case study but also in both the Brazilian and the United States case studies. The only weakness on these studies is the lack of gender analysis in terms of participation by women especially in the United States case for its policy approach targets not only small business in general but includes firms owned by the individuals from minority groups and women-owned businesses. The Enterprise Research Institute report (1998:10) at least indicates women as a percentage in comparison to others but there is no further comment on the matter. However, what is interesting from the Enterprise Research Institute (1998: 10) table is the low level of women-owned companies (3.6%). Women participation in procurement needs further investigation.

The Small Business Administration (1998) survey result shows that despite well-targeted policies in place some departments still do not implement these policies or they implement them on a low scale. This raises questions about whether it is the lack of capacity in certain areas for SMMEs to undertake prime contracts, or the lack of confidence from officials, or the lack of SMMEs coming forth and taking opportunities, or the lack of access to finance for big contracts. How do certain departments manage to achieve almost 100% SMME participation on prime contracts while others achieve little and still others nothing at all? The Durban Metropolitan Council case study intends to cover all these gaps and do an in-depth analysis with the aim of finding a solution rather than just providing quantitative information. However, it is important and appropriate to consider first the overall procurement policy approach and implementation in South Africa in the next section.

## **2.3 Procurement policy in South Africa**

### ***2.3.1 South Africa's approach to affirmative procurement post 1994***

Various policies in South Africa developed after 1994 when the need for government procurement reform was mooted in order to create an enabling environment for SMMEs as well as other sectors of the communities discriminated by the previous apartheid system. Some of the policy framework documents include the Reconstruction and Development Framework (1994:24,33), the White Paper on the national strategy for the development and promotion of small business (1995:30) and the Constitution of the Republic of South Africa section 217, (Act no 108 of 1996).

Watermeyer et al, (1998: 4) notes that after the national elections in 1994, the Ministry of Public Works identified an urgent need to reform government procurement for construction projects. They facilitated the establishment of a forum consisting of other government departments for it was realised that all sectors need to be looked at rather than focusing only on one sector. Watermeyer et al, (1998) further notes that the procurement forum developed an interim policy proposal that was to be implemented within the scope of existing legislation until such time as the procurement reform process was completed and new legislation in place. An interim strategy called the ten-point plan was then developed by the task team and was adopted by cabinet in November 1995. Watermeyer et al, (1998: 4) notes the ten point plan strategies as follows:

- 1) Improving access to tendering information;
- 2) The development of tender advice centres;
- 3) Broadening the participation base for contracts less than R7 500;
- 4) The waiving of security/sureties on construction contracts having a value of less than R100 000;
- 5) The unbundling of large projects into smaller contracts;
- 6) The promotion of early payment cycles by government;
- 7) The development of a preference system for small and medium enterprises owned by historically disadvantaged individuals;
- 8) The simplification of tender submission requirements;
- 9) The appointment of a procurement ombudsman;

10) The classification of building and engineering contracts.

The ten point plan principles were incorporated in the Green Paper on Public Sector Procurement Reform that was endorsed by parliament in April 1997.

The Green Paper notes (1997:7) that the government is the largest buyer in the country and has the responsibility of ensuring that its procurement policy supports its overall economic objectives and serves as an instrument for attaining those objectives. According to the Green Paper on Public Sector Procurement Reform (RSA, 1997:13) in South Africa, the public sector procurement for 1995/6 financial year amounted to R56 billion which constitutes approximately 13% of gross domestic product and represent 30% of all government expenditure. The breakdown between different levels of government is as follow: central government R22 billion, provincial government R25.5 billion, local government R8.5 billion. It goes on to state that, in the past, the tendering system favoured large established companies and it was difficult for newly established businesses to enter the public tendering system. Thus, it is on this basis that government started the reform process in order to make the tendering system more accessible to SMMEs for one of the key elements for government's strategies on employment creation and income generation is the promotion of SMMEs.

Procurement reform has socio-economic and good governance objectives. The socio-economic objectives include making the public procurement process accessible to all by simplifying the process and by encouraging fairness and

transparency. This means encouraging greater competition in the public procurement process through the creation of an enabling environment for SMMEs while retaining quality and standards to set out targeting policies in order to create opportunities for the broadest possible participation in the public procurement process. It also means increasing the volume of work available to the poor and enhancing income generation for marginalised sectors of society.

Good governance objectives include the promotion of effective and efficient procurement practices and systems to enable government to timeously deliver the quality of services demanded by its constituents (RSA, 1997:15,16).

From the above procurement reform Green Paper (1997) it is clear that the ten point plan principles were considered in the development of the Green Paper. The ten-point plan remained the procurement policy of the South African government since 1997 until an Act of Parliament was adopted in February, 2000.

The Preferential Procurement Policy Framework Act, (2000:1,4) states that the following preference point system must be followed:

- (i) For contracts with a rand value above a prescribed amount a maximum of 10 points may be allocated for specific goals as stipulated in paragraph (d) provided that the lowest acceptable tender scores 90 points for price;
- (ii) For contracts with a rand value equal to or below a prescribed amount, a maximum of 20 points may be allocated for specific goals as contemplated in



paragraph (d) provided that the lowest acceptable tender scores 80 points for price. Any other acceptable tenders which are higher in price must score fewer points, on a pro rata basis, calculated on their tender prices in relation to the lowest acceptable tender, in accordance with a prescribed formula.

The paragraph (d) mentioned above states that the specific goals might include: contracting with persons, or categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability.

Implementing the programmes of the Reconstruction and Development Programme required that;

- Any specific goal, for which a point may be awarded, must be clearly specified in the invitation to submit tender:
- The contract must be awarded to the tenderer who scores the highest points, unless objective criteria in addition to those contemplated in other paragraphs justify the award to another tenderer; and
- Any contract awarded on account of false information furnished by the tenderer in order to secure preference in terms of this Act may be cancelled at the sole discretion of the organ of state without prejudice to any other remedies the organ of state may have.

It was further stated that any goals contemplated in the first of the bulleted points above must be measurable, quantifiable and monitored for compliance.

Some of the principles of the ten-point plan are incorporated in the Preferential Procurement Act. For example the development of a preference system for SMMEs, particularly from previously disadvantaged individuals, broadens the participation base for contracts. However the Act goes beyond race to include gender and disability. The Act further gives a directive on adjudication based on development points and price. The ten-point plan incorporated a practical implementation mechanism to enhance support and the creation of an enabling environment. This included highlighting issues like simplification of tender submission requirements, promotion of early payment cycles, and the development of tender advice centres. On the issue of broadening the participation base for contracts, the ten-point plan benchmark was very low at R7500; this was very conservative and really not developmental at all. The Act, even though it encourages the broadening of procurement opportunities, does not give specific figures or limits. This could be positive but could also allow abuse by various government departments. This view on the weakness of the Preferential Procurement Act (2000) is raised by the Black Economic Empowerment commission (2001:50), noting that the Act puts an emphasis on the formula and the price instead of the content of the legislation. As a result barriers that prevent an increase in black participation in the economy are neglected and the adjudication has become revenue-based preventing more comprehensive analysis of competing suppliers. Nevertheless, the Act allows for innovation and creativity for various organs of state to pursue and achieve the socio-economic objectives of the policy

The other criticism of government policy is the lack of implementation policy and monitoring mechanisms. This view, particularly from the neo-liberal perspective, often discourages government intervention in the market arguing that government bureaucratic procedures lack coordination and capacity to implement efficiently and effectively even good policies, and that government should leave the market to take care of itself. Thus, the next section attempts to ascertain whether procurement policy has been implemented in South Africa, if so to what extent and what has been the benefits or whether its socio-economic objectives have been achieved. In Africa, in particular, Rogerson (1998: 929) notes that little research has been conducted on the impact of public procurement programmes on the SMME sector. In addition, the Enterprise Research Institute (1998:6) report notes that it is difficult to find information on policy in Africa. However, the report notes that South Africa has implemented relatively advanced policies that differ very little from those of European countries. In the rest of the African region the Enterprise Research Institute (1998) report notes that corruption has become a major problem and government policies on procurement are haphazard and inconsistent. The Enterprise Research Institute (1998) also states that the African region suffers from a devastating shortage of human capital, institutional shortcomings and incompetent officials.

#### **2.4 Previous procurement policy assessments in South Africa**

In this section the previous assessments of the procurement policy and its impact on SMMEs are reviewed. Since the policy implementation there have been two major assessments. Ntsika, the SMME promotion agency of the

national Department of Trade and Industry, commissioned the first assessment and the International Labour Organisation, the national Department of Public Works and the Development Bank of South Africa commissioned the second. Sharp et al conducted the first assessment in 1999 and Manchidi and Harmond conducted the second in 2002. Other opinions and debates on the procurement policy implementation and its effectiveness will be presented as well.

This section focuses on departments. It investigates whether they are implementing the policy and, if so, to what extent it has been successful, what the monitoring mechanisms are, what the challenges are. It also investigates what has been done to deal with the challenges or what needs to be done to make the policy effective in achieving its socio-economic objectives. Often government is criticised for developing good policies but failing to implement, monitor and evaluate the effectiveness of those policies. The section will also highlight the success and impact of policy implementation from the SMMEs' perspective.

The Sharp et al, (1999:9) assessment focused on the following national government departments: Water Affairs and Forestry, Public Works, Tourism and Environment Affairs, Correctional Services and Safety and Security. Interviews were also conducted with SMMEs identified from the database of various departments. Manchidi and Harmond (2002) focused on various government departments operating in North West, Gauteng, KwaZulu-Natal, Limpopo and the Western Cape. Manchidi and Harmond (2002:65-77) focused on the departments of Public Works, Water Affairs and Forestry, the

National Roads Safety Agency (particularly on the Maputo Corridor Project) as well as projects implemented by local government – the Midrand metropolitan local council, Mogale City Local Municipality and on the Durban Metropolitan Council. The Durban Metropolitan assessment focused on a specific project, the so-called ‘North Coast Road Project’. The contractors, employers and affirmable businesses were interviewed. In addition, for SMMEs’ views, Manchidi and Harmond (2002:78) conducted telephonic interviews with SMMEs particularly from the Affirmable Business Enterprises (ABEs) from the Department of Public Works’ database for Gauteng Province. The section below gives findings on Manchidi and Harmond (2002) and Sharp et al’s (1999) assessment.

#### ***2.4.1 Overall findings of the assessments***

The assessment studies of the South African Targeted Procurement Policy in South Africa conducted by Sharp et al, (1999:19) and Manchidi and Harmond (2002:85) indicated that the targeted procurement policy has been considered and implemented by various government departments but the extent to which the procurement policy has achieved socio-economic objectives in terms of engaging SMMEs, women, and companies owned by black businesses. It found that increasing job creation is still questionable, due to the lack of appropriate data and other constraints. The findings also indicate that, in the implementation of the policy, there has been confusion and lack of clarity on policy implementation regarding whether to focus on SMMEs, affirmable business enterprises or previously disadvantaged individual’s enterprises. Hence some departments claimed to have records of PDIs/ABEs and not of

SMMEs and vice versa. Some failed to provide an indication of women's participation for it has been regarded as part of ABEs. Hence in the findings the term SMMEs and ABEs are used alternatively. The findings also indicate that some departments did not implement the targeted procurement policy based on the argument that their core work is complex, Sharp et al, (1999:19) and Manchidi and Harmond (2002:73). Despite the lack of understanding of the policy among the officials and the lack of resources to implement, capture and monitor the policy, some departments did make an effort. They devised support mechanisms to deal with challenges facing SMMEs thereby trying to bring them on board, Sharp et al, (1999:19,20) and Manchidi and Harmond (2002: 43).

The findings, though claiming positive impact of targeted procurement policy on SMMEs, do not provide many statistics to indicate increased SMME participation. Nevertheless, at least in Gauteng Province, the tender board, notes Sharp et al, (1999:26), was able to provide statistics from April 1997 to March 1998. The results included the department of Education, Public Works, Sports, Arts and Recreation as well as the department of Safety and Security and Transport. The results show that much work still goes to well-established big businesses (70.7%) with only 29.2% accruing to SMMEs and 0.1% to women's enterprises. Manchidi and Harmond, (2002:84) compared statistics since 1996 to 1999 of work awarded to affirmable businesses by the department of Public Works, Midrand Metropolitan Council and Durban Metropolitan Council. The results show that SMMEs and particularly ABE participation accounts for a significant proportion of the contracts and the

Department of Public Works has gradually been awarding more contracts to ABEs during the period of observation. The assessment concludes that even though the data does not allow statistical conclusions, it does however indicate the performance of targeted procurement in terms of information on the number and value of contracts awarded to ABEs.

Manchidi and Harmond (2002:80) highlight another positive fact in noting that SMMEs felt a positive impact of the targeted procurement for they were able to access tender opportunities and access work on larger sites. The joint venture tender specification enabled ABEs to acquire experience and resources to carry out larger or more technically challenging projects. As a result some SMMEs were able to employ more people and their turnover increased as well. However, this finding also indicates that some felt that it was their pricing skills and experience that enabled them to get procurement opportunities and some argue that even though they got jobs their turnover did not increase but just covered costs. Sharp et al, (1999:33) also noted positive comments from SMMEs and particularly black owned businesses that the joint ventures have enabled them to access tenders that they would not have been able to get on their own due to the lack of a track record and of the business expertise that their white counterparts have. Sharp et al, (1999: 33) indicate that some joint ventures between white and black owned businesses were not genuine. Instead they were used just to get tenders and there were no benefits to the black owned businesses. A similar view is also reflected by Manchidi and Harmond (2002: 80,91) who say that even though some black owned SMMEs made positive claims about joint ventures, which are part of

the targeted procurement, some felt that those relations were exploitative. Manchidi and Harmond (2002: 80, 91) also maintain that if properly structured and monitored SMMEs can yield positive results.

The findings also indicate that there are some factors that hinder SMMEs from participating or effectively participating and taking advantage of the targeted procurement. This has led to Sharp et al, (1999: 23, 26,36) and Manchidi and Harmond (2002: 80,85- 91,130- 134) to conclude that in order to realise and claim the effectiveness of the targeted procurement policy for addressing socio-economic development objectives in South Africa, stimulating SMMEs and creating jobs, as well as empowering the previously disadvantaged individual, there are various issues that needs to be considered. This is necessary rather than focusing solely on the targeted procurement policy and assuming that it will automatically achieve this objective.

Some of their key recommendations in addressing this gaps are; firstly, there is a dire need to develop clear, effective, uniform monitoring and evaluation and reporting mechanisms that are in line with the policy objectives. Secondly, there is a need to develop a common and clear-targeted procurement policy that will be used across all tiers of governance in order for national and provincial structures to be accountable to the department of State Expenditure. Coupled with this is the development of the capacity of officials to be able to design various specifications in line with the policy objectives. In addition officials need to be equipped to deal with SMMEs and understand the potential and significant role SMMEs have in the economy. This is expected



to change negative attitudes and fears. What is also important is the coordination and communication between government departments, internally, as well as with SMME support-agencies to ensure that challenges are communicated and appropriate training and support interventions are provided timeously. Some of the support identified is training in terms of technical and business management skills, access to credit facilities, and mentoring and support during joint ventures to avoid exploitation. Thirdly, Sharp et al, (1999: 26) recommend that there should be clarity of definition between SMME and PDIs for tender procedures because that seemed to have caused confusion and created problems in the implementation of the policy. Fourthly, the review and simplification of tender documentation, and technical language and specifications is necessary to overcome the barrier that SMMEs experience. In addition, government should make tender information more accessible, and payment periods should be reviewed and enforced appropriately to reduce the cash flow problems experienced by many SMMEs. Breakout procurements need to be widely and effectively implemented, thus making tenders accessible to SMMEs. The use of databases needs to be re-evaluated to ensure that some SMMEs are not excluded in the process and also to see whether some SMMEs are not used repeatedly. Linked to this database and quotation system are issues that make allowances and preferences for tenders under a certain value. Sharp et al (1999: 18) argue that the value varies across various government departments and is not conducive to promoting small businesses but instead facilitates abuse and the repeated use of the same firms. Thus Sharp et al, (1999: 18,36) argues that the quote system should be reviewed in terms of the National Policy Framework.

Finally, Manchidi and Harmond (2002:130- 131) recommends that success criteria for the targeted procurement policy should not be on the number of ABEs, start ups, and contracts but rather strategies should focus on sustainability and growth of the ABEs as well as designing tender specifications that encourage and specify high labour based targets in order to maximize employment creation through the policy.

#### ***2.4.2 Shortcomings of the previous assessments***

Both studies have attempted to be comprehensive and to interrogate the attainment of every aspect or goal of the targeted procurement policy. But lack of available reliable data has led to a narrowing of the studies and a focus on what was available. Manchidi and Harmond (2002: 9,10,25) note that there has been limited research or data regarding most programmes to demonstrate the effectiveness of the use of procurement as an instrument of social policy. Thus the lack of detailed and specific recorded data on the implementation of the policy has led Manchidi and Harmond to rely on what officials said and it was also difficult to compare between departments or tiers of government effectively. Sharp et al, (1999: 26,36) concludes that the lack of data collection and records at provincial government level prevents the effective monitoring of targeted SMME procurement. Sharp et al also acknowledge that their assessment lacked quantitative data. In addition, Sharp et al, (1999: 32) also note that due to time constraints and resources the SMMEs interviewed were only those that had a relationship with national government and

parastatals while Manchidi and Harmond (2002: 78) focused on SMMEs from the list provided by the department of Public Works in the Gauteng region.

The findings and lack of data creates a need for further investigation of SMMEs particularly of previously disadvantaged individuals as well as women. Not much have been said about the disabled as a targeted group but maybe it is because it was only raised in the recent National Procurement Policy which came into effect in 2000. The assessments are based on the period from the inception of the targeted procurement policy as far as 1996 when the ten point plan was implemented as an interim policy. The longitudinal review approach that both studies looked at is useful with Sharp et al (1999: 26) covering 1997 – 1998 and Manchidi and Harmond (2002: 84) covering 1996 – 1999. However, the limitation is that these statistics were only drawn from a few departments and provinces even though the studies' approach was to examine national and provincial departments and Manchidi and Harmond (2002) also included a few municipalities. The findings also raised a need for effective communication and for the involvement of SMME support agencies in government procurement issues. Even though Manchidi and Harmond (2002) in their studies covered SMME service-providers they seem to have focused more on those involved in the construction industry for example South African Women in Construction and South African Federation of Civil Engineering Contractors Association. Although the Department of Trade and Industry has invested in local business service centres and tender advice centres countrywide, as proposed by the national development strategy

for the promotion of SMMEs, Manchidi and Harmond (2002) do not cover this.

The purpose of this study is to try to further investigate these issues and address the gaps. In addressing this, since most of the work has been done at national and provincial government level, this study will focus on local government and particularly on the Durban Metropolitan Council as the Manchidi study indicated that the data available for Durban during the time of investigation was only until 1998.

#### ***2.4.3 Additional views on the implementation and effectiveness of affirmative procurement policy in South Africa***

Since the adoption and implementation of the targeted procurement policy in South Africa there have been debates on its effectiveness yet its potential and power as a policy instrument to achieve socio-economic objectives, particularly on SMME development, remains.

The Black Economic Empowerment commission report (2001:49-51) notes that government departments at national, provincial and local levels as well as public enterprises spend more than R110 billion a year on goods and services. The total expenditure at local government level for 1999/2000 is estimated at R44 billion, with 60% to 70% of expenditure related to procurement. However, the Black Economic Empowerment commission states that the impact of this budget on SMME development, and meeting other Reconstruction and Development Programme objectives as per government

procurement reform processes, is difficult to assess due to the lack of monitoring mechanisms. The Black Economic Empowerment commission report further notes that the little information available depicts procurement systems as still not being user-friendly to SMMEs. Many black businesses in particular have experienced severe financial difficulties due to payment delays. The shortage of the appropriate skills required to procure effectively, due to there being few courses available on procurement, and for contract management and supplier development is seen as a negative factor as well. As a result the systems have become inefficient and easily abused.

The Black Economic Empowerment Commission states that the Preferential Procurement Framework Act (2000) is inadequate as an instrument to achieve government objectives for the Act since it puts an emphasis on the formula and the price instead of the content of the legislation. As a result, barriers that prevent an increase of black participation in the economy are neglected and adjudication has become revenue based preventing more comprehensive analysis of competing suppliers.

In addressing these shortcomings, the Black Economic Empowerment commission recommends that a National Procurement Agency should be established to build the capacity of government, develop policy guidelines, procurement targets and set-asides for black companies and SMMEs for all spheres of government, including state owned enterprises and monitor performance in regard to the set targets.

“No matter how many good intentioned policies the government and local government pass, if small businesses do not have access to finance, such policies are doomed for failure”, (Big News October 2002, No. 69 pg 9).

What seems to be emerging from all these assessments is a challenge in assessing the impact of the policy of SMMEs effectively because of the lack of monitoring and evaluation systems in place. There is a need for capacity building within departments as well as for SMMEs and of course a need to review the tendering system procedures including requirements for guarantees and payment systems for it is clear that these negatively affect SMMEs. Another interesting point to emerge is the indication that SMMEs feel that they are still not winning tenders since even though some obtain tenders these are small or short contracts which do not really develop their capacity. All these factors indicate that even though the policy is in place and does have the potential, there are still serious problems in its implementation. In addition, Rogerson (2002:29,34) and Berry et al, (2002: 92) also argue that thus far government targeted procurement has not been implemented by many government departments and its effectiveness has also been hindered by various factors. Problems include cumbersome tendering procedures and high quality requirements and standards, which SMMEs are unable to meet due to the lack of resources, support and skills. Thus, both Rogerson (2002) and Berry (2002) argue that, targeted procurement can be effective in terms of the growth and development of the SMME sector provided SMMEs particularly PDIs are provided with appropriate support such as technical training and finance to overcome cash flow problems during the completion of contracts.

Other key success factors suggested includes encouraging large businesses to subcontract work and engage in business linkages with SMMEs. However, Berry (2002) warns that for this to be effective it will require monitoring to avoid abuse. Another common and key issue raised regarding the success of SMME policies including targeted procurement is coordination between government departments and institutions providing support as well as appropriate staffing and capacity within these institutions.

The next chapter gives details on local government. The previous chapters focused more on national and provincial government. The local government is expected to have a better understanding of residents' needs, including SMMEs, and be better able to deliver relevant services efficiently and effectively. Thus local government is expected to be developmental in the way it conducts its business or delivers services. The Black Economic Empowerment commission (2001:50) report as well has indicated that special attention needs to be placed on local government in terms of the implementation of the targeted procurement policy due to the high level of procurement expenditure. The justification for further investigation on local government procurement is noted by Rogerson (2002: 29) who says that though existing evidence is sparse it seems as though local government, in comparison to other spheres of government, failed to make opportunities available for emerging entrepreneurs.

The next section also takes a brief look at the Durban Metropolitan area's socio-economic status, which begins to justify the existence of the affirmative procurement policy and the undertaking of this study in particular.

### **CHAPTER THREE: Durban's approach to affirmative procurement**

This chapter firstly explains the role of the local government in SMME development and its impact on the targeted procurement policy. It has been noted that local government has a significant budget. The Durban Metropolitan Council is the second largest city in the country according to the South African Cities Network report (SACN: 2004: 28). Thus it has been selected as a case study in further exploring the assessment and impact of targeted procurement. The socio-economic status and the affirmative procurement of the Durban Metropolitan Area will be covered in this section as well.

#### **3.1 The role of local government and small business development**

One of the objectives of local government as stipulated in the Constitution of the Republic of South Africa chapter seven section 152 (1) (c): is 'to promote social and economic development'. The constitution further states, 'A municipality must strive within its financial and administrative capacity to achieve the objects set out in subsection (1).' Local government in terms of



this developmental duty is required to structure and manage its administration, budgeting and planning processes to give priority to the basic needs of the community. They are also required to promote the socio-economic development of the communities they serve, and to participate in national and provincial development programmes.

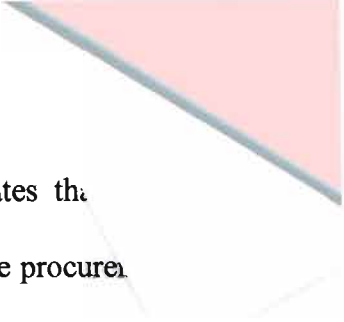
The Local Government White Paper (1998: 25) states that small and large businesses rely on the actions of local government in different ways, as municipalities are responsible for regulations. Therefore, the review and simplifications of municipal procedures and regulations can have a significant impact on the economy. The White Paper (1998) argues that procurement procedures, if reviewed properly, could maximise the impact of municipal purchasing on job creation. In addition, preference can be given to local suppliers and small enterprises, particularly those in the informal sector. The White Paper (1998) further notes that support must be given to emerging contractors by breaking tenders down into smaller parts, providing targeted information and training or allowing exemption from large securities.

The National SMME Strategy White Paper (1995: 46) states that all over the world there is an increasing realisation that the most effective level for the promotion of SMMEs is the village, town, city or metropolitan area because local authorities have direct contact with each enterprise including those involved in survival activities. The Ntsika report (1997:20) shows that metropolitan areas and small towns serve as incubators for small business due to better access to infrastructure, markets, support services and finance. This

implies that the creation of an enabling environment for the development of the small business sector cannot be restricted to the national level, rather it is important that opportunities and resources are identified and utilised on the local level to take into account local characteristics and resources.

Rogerson (1997: 65,72) states that there is a need for the local government to become more developmental in addressing unemployment and poverty problems through a range of local economic development initiatives, including the upgrading and promotion of SMME activities by improving access to markets particularly through tendering and opening opportunities in the context of widely publicised public work programmes.

Local government purchasing has an advantages for small businesses for it is easier for officials to know the capabilities of local producers, and the transportation costs for small businesses are also reduced, notes Holden, Sobotka and Locklin (downloaded 19/11/2002:21). The problem however with procurement by local government argues Holden et al, (2002:21) is that local governments often lack qualified staff. In Latin America, for example, central government has increasingly centralised authority and money but this has not been matched by stronger capability at the local level. The other challenge cited with local government purchasing is that, for agencies that lack qualified staff, it becomes difficult to monitor local procurement. As a result transaction costs rise and this defeats the economic, as well as the political, benefits. Despite the challenges noted, Holden et al, (2002:22) still maintain that local authorities are in a unique position to assist small business



development. A procurement review report (2001,1,7) indicates that local authorities in New Zealand do not understand well nor use procurement policies as a tool for facilitating local economic development. Instead the objective was to obtain goods and services at a low cost and to pass the benefits to the ratepayers. As a result of the review, guidelines to assist officials in engaging both small and large businesses were developed.

This highlights the potential, significant role and emphasis put on local government nationally and internationally to support SMMEs through procurement, amongst other strategies. What seems to be a hindrance though is the lack of capacity, lack of understanding of the role of SMMEs and of procurement policy. Hence procurement is not used for the benefit of SMMEs. This then further justifies a need to assess the implementation and effectiveness of targeted procurement policy on SMME development and job creation at a local government level.

### **3.2 Context: Durban's socio-economic status**

The South African Cities Network report (2004:27, 83-86) notes that backlogs and racial disparities in terms of access to services, shelter, and social facilities is still a challenge to South African cities including eThekweni Municipality (previously Durban Metropolitan Council) despite efforts, which began in 1996 and have increased since 2001. This challenge could be turned into an opportunity to create jobs since the South African Cities Network report indicates that all the nine major cities, including eThekweni, are experiencing continued high levels of unemployment. The infrastructure

backlog challenge can also be used to develop emerging and small businesses within the targeted areas of need. This would be done through the provision of the infrastructure and service delivery required to meet the basic needs of the majority population as proposed by the Reconstruction and Development Programme. Following from the South African Cities Network report much effort has been made to facilitate service delivery. It is therefore relevant to assess the economic impact of the infrastructure investment made since 2001 in relation to SMME development and implementation of the entire targeted procurement policy.

The Monitor report (2000:7, 64) point out that the legacy of apartheid has disadvantaged the African people in Durban in every aspect of life. Thus, in order to close the gap, the empowerment of the African people is required. Hence, the study intends to unpack the impact of the procurement policy particularly on SMMEs owned by the PDIs particularly black entrepreneurs. One the key thrusts suggested by the Monitor report in addressing some of the challenges faced by Durban is to build Durban as a centre for entrepreneurial activity particularly for micro and small businesses. In addition a survey (Durban USAID 2002/2003:17, 32) on small business further confirms the disparities and the legacy of apartheid in terms of business ownership in Durban. The report notes that, from the survey consisting of 801 SMMEs interviewed from various groups, blacks own 2.5% in comparison to 65% owned by whites and 31% owned by Indians. Coloureds own fewer businesses (1.5%) but they are a small minority and African blacks are the majority in terms of the demographics of the Durban region. The survey

report further indicates that one of the constraints to growth and employment in Durban for small businesses is the lack of increased demand particularly from government contracts and from big corporates. This seemed to be a main issue for black owned SMMEs interviewed.

### **3.3 Affirmative procurement policy of the Durban Metropolitan Council**

In 1997 the Economic Development Committee of the Durban Metropolitan Council established a Policy Unit in Affirmative Action and Tendering to develop a policy on affirmative procurement and to guide implementation of the policy. The policy put forward is based on the principles of the national government's ten-point plan for procurement reform and the targeted procurement policy of the national Public Works.

The then Durban Metropolitan Council adopted the targeted procurement policy in October 1997 as part of the process of providing procurement opportunities to SMMEs, in particular those owned and controlled by the PDIs, and increasing employment creation (council report, 11 November 1997). The Durban Metropolitan Council, South and North Central Councils combined circular no 33, 1997/03/13 report states that the primary purpose of an affirmative procurement policy is to provide equal access in contracting, provide procurement opportunities for targeted business and assist in creating and developing business enterprises which are reflective of population demographics.

The council circular no 33 (1997) further states that the long term aim of affirmative procurement policy is to facilitate growth in terms of the efficiency and effectiveness of delivery, facilitate growth in number and size of businesses owned and controlled by PDIs, and ensure that emerging businesses contribute to the tax base. The aim is also to engage workers who are affiliated to trade unions, adhere to safety regulations and reflect norms and standards associated with those of developed countries in their business activities.

The council's affirmative procurement policy formulation is therefore based on the background that SMMEs face several constraints such as access to markets, credit, skills and supportive institutional arrangements. Secondly, it is based on the National Strategy on Small Business Promotion and Development as well as the Green Paper on Procurement Reform in South Africa.

The 1997 Durban Metropolitan Council Affirmative Procurement Policy focused on point five and point seven of the ten-point plan. Point five of the ten point plan proposes that the procurement of goods and services for any project or other requirement of government be obtained in the smallest possible quantities without incurring undue negative impacts on the quality, time and cost parameters of such services and goods. The purpose of this approach (point five) is to provide opportunities and make it easier for small businesses to participate and increase their share in the public sector procurement.

Point seven of the ten point plan proposes to target those persons previously disadvantaged by unfair discrimination within the emerging SMME sector by means of a preference mechanism. This strategy also facilitates joint ventures and partnerships with the benefit of skills transfer and human resource development. The strategy intends to facilitate decentralisation of business ownership and control through a focused policy of black economic empowerment. The policy was then adopted and implemented with effect from the 1<sup>st</sup> of September 1998.

The council resolved that in contracts having a value in excess of R2 million the use of affirmable procurement policy specifications would apply. For example, affirmable procurement policy will be used for the targeting of affirmable business enterprises where applicable as published in draft form by the ministries of Finance and Public Works during 1996, and as amended from time to time. The minimum contract participation goal has been set at 10% with a maximum of ten points being awarded pro-rata for the attainment of a contract goal in excess of 10% and up to a maximum of 40 %.

For contracts having a value of less than R2 million, a system of preference is to be implemented for affirmable business enterprises status together with women equity ownership, which will operate via adjudication as follows:

|                                |            |
|--------------------------------|------------|
| Tender price                   | 90 points  |
| Affirmable business enterprise | 7.5 points |

|                        |            |
|------------------------|------------|
| Women equity ownership | 2.5 points |
| Total                  | 100 points |

The successful tender is that awarded the most points, subject always to technical factors, previous contractual performance, recommendations, financial references, unit rates and prices, alternative offers, qualifications, certificates of clearance regarding registration of business, and joint service board levies, rates and other relevant factors being acceptable. Tenders exceeding R120 000 were to be put to public tender and below R120 000 were to be treated as quotes. Thus, departments are required to have three quotes and the best quote based on cost and technical expertise is selected.

### ***3.3.1 Preliminary assessment of the Durban Metropolitan Council's affirmative procurement policy 1998/1999***

The council commissioned the strategic procurement systems consultants to conduct an evaluation of Durban Metropolitan Council, South and North Central Councils in 1999. The aim was to assess certain key indicators relating to the implementation of the council policy with regard to targeted procurement as set out in the council's resolution. A minimum period of six months was allowed to measure the initial effectiveness of the policy. The period under review was 1 September 1998 to 28 February 1999 with the primary target group being affirmable business enterprises. Data was gathered from City Hall tender records and fed to a geographical targeted procurement management system. The exercise also looked at contracts awarded from 1 March 1998 to 31 August 1998 as a benchmark for comparison.



The tenders looked at were for goods, contracts, services contracts and engineering as well as construction contracts for the following departments: Electricity, Transport, City Engineers, Metropolitan Water and Community Services. In terms of the value it was mainly minor contracts worth not more than R2 million.

According to the Strategic Procurement Systems report (1999:2,11-15) there has been a significant increase of ABE participation during the policy implementation period, (i.e. from 13% in the pre-implementation period). The council has achieved 43.4 % ABE participation during the post-implementation review period for tendered contracts. In rand value terms, this translates to R20 612 290 and R71 867 868 respectively. This implies that ABE participation in tendered contracts has increased over three fold.

For quotations, the Strategic Procurement Systems report states that only data from City Engineers' Architectural Department was used because it was the only department during the time of review, which kept data. Hence, it was used as a pilot. The quotations were only for post-implementation; no data was available for pre-implementation. The results indicate ABE participation of 71.9 %, which is very high. However, this is only one department, thus results could be different if data was obtainable from all departments. This calls for a need for further assessment, which includes more departments. Hence the study will cover more and particularly main departments in terms of procurement. In addition, the Strategic Procurement Systems report states

that the participation of women in contracts is very low. Out of 144 contracts; only 4.7 % of the total tender award value of R88 002 728 was awarded to women-owned enterprises.

The council policy unit commissioned another review, which was conducted by Letchmiah, a member of Strategic Procurement Systems and an independent consultant hired by the council to advise the council on procurement policy issues. The Letchmiah assessment results were incorporated in the council policy unit committee agenda (pages 7-10) and were discussed in the meeting held on the 7<sup>th</sup> of July 2000. The Letchmiah assessment focused beyond February 1999 and included March 1999 till August 1999. Letchmiah's (Durban Metropolitan Council 2000) assessment results show that the council has achieved 43.4% and 45.5% ABE participation in the post-implementation period (i.e. 1 September 1998 to 28 February 1999 and 1 March 1999 to 31 August 1999). The direct financial premium percentage in implementing the policy has been a positive factor. In terms of women equity ownership, Letchmiah (Durban Metropolitan Council 2000) notes that there has been a gradual increase from 4.6% to 7.4% for the respective post-implementation periods.

### ***3.3.2 Shortcomings of the policy implementation***

Letchmiah (Durban Metropolitan Council 2000) argues that even though the metropolitan council policy has achieved a measurable success in the implementation of the targeted procurement policy there are things which have led to the policy becoming ineffective. Firstly, Letchmiah argues that the

R2 million value criteria, which determines the selection of or direct preference system has limited the opportunities for outsourcing and forming joint ventures with target business. Secondly, the targeted procurement policy specification that promotes sub-contracting opportunities for ABEs was used excessively for contracts. The shortcoming of this specification is that it does not develop prime contractors from the previously disadvantaged sectors. Instead Letchmiah suggests the use of the targeted procurement policy specifications that encourages joint venture relationship between established and emerging businesses. This encourages a developmental objective. Thirdly, Letchmiah notes that the reason for the policy not being effectively implemented is the fragmentation, lack of co-ordination, and the lack of a link between the procurement policy unit and relevant officials from other departments. As a result, this has led to poor information dissemination, unclear information and confusion and uncertainty amongst officials.

Letchmiah adds that there is a lack of demographic representation within the ABE target group (i.e. there is a lack of participation of business owned by Africans as compared to the other ABE/PDI categories). Thus, Letchmiah argues that the policy provides business opportunities but it lacks effective support mechanisms for targeted groups to ensure successful participation and delivery. Finally Letchmiah highlights a need to review the quotation contract processes as to whether it is transparent and meets the specific objectives of the Durban Metropolitan Council with regard to affirmative procurement policy implementation. This implies a need for further investigation on quotes.

In response to Letchmiah's (Durban Metropolitan Council 2000) assessment report, the policy unit at meetings held on July and September 2000 recommended to the Economic Development Standing Committee that, firstly, the Executive Director Corporate Financial Service set strategic participation goals for the specified target groups to be achieved by Durban Metropolitan Council on an annual basis. For example that a specific percentage of the Durban Metropolitan Council tenders to be awarded to ABEs. Secondly, that a new target group focusing on priority enterprises be introduced. Thirdly that an ABE support mechanism be developed to ensure that ABEs are able to access the opportunities and are able to execute their work. Lastly that the policy needs to be evaluated every six months to ascertain whether it does achieve the council's socio-economic objectives.

Houston (2000:11) in the report for the Durban Metropolitan Council on access to finance notes that in addition to the financial problems, SMMEs find access to tenders a serious challenge. The lack of a rotation system within the Durban Metropolitan Council procurement system results in only few people accessing and maintaining tenders. Schoeman (1999:17, 29) in the discussion paper for the integrated SMME support strategy for the Durban Metropolitan Area states that the affirmative procurement policy is a powerful tool for SMME development, which should have a significant impact. However, Schoeman notes that it is of vital importance that the policy and its implementation is monitored and reviewed constantly to ensure that it is achieving its intended objectives. Therefore, Schoeman suggests that the policy assessment should focus on four components. Firstly whether all

divisions with a purchasing responsibility are aware of the policy, and are committed to the policy implementation. Secondly the proportion of the council procurement expenditure received by targeted enterprises since the policy's inception and whether progress is continuously being made. Thirdly problems encountered in procuring from SMMEs. Fourthly there was a need to look at the unmet support needs of target enterprises.

Therefore, the current study builds on the Letchmiah (Durban Metropolitan Council 2000) report, and on council recommendations and recommendations made by Schoeman (1999) on the Durban Metropolitan Council SMME development strategy document for economic development.

This study attempts to address questions raised by Schoeman, as they are not all addressed by Letchmiah and the Strategic Procurement Systems assessments. It also focuses on post 1999 as 1999 has been covered by the Strategic Procurement Systems study and the Letchmiah study. Therefore, this study looks at the period 2000-2002; and more importantly broadens the scope as implementation has various factors. It is not only the statistics that matter but the view of the implementers, the target group and SMME support-service providers, as Letchmiah recommended a need for support mechanisms. In reference to the previous literature review in the study focusing on the Brazil, Botswana, and the United States case studies, these issues are raised either as a challenge or as gaps for targeted procurement policy. The assessment also compares procurement expenditure spent on ABEs and those on non-ABEs as well as for public contracts and quotes. As in the Strategic Procurement

Systems study, only Architectural Services was used as a pilot for it was reported that other departments did not have data. This study will cover the four main departments namely: Water, Electricity, Durban Transport and City Engineers.

It has also been clear from literature review in chapter two that there is a lack of or inadequate research on the impact of the procurement policy on SMMEs. Thus this study attempts to address a research gap and aims to contribute to SMME development particularly PDIs and ensure that the council policy does achieve what it intends to achieve. The next chapter gives details on the methodology used in an attempt to build on previous studies and gaps as raised in the previous sections.

## **CHAPTER FOUR: Research methodology**

This section describes the processes and methods used in undertaking the study. Following from the literature review of the procurement policy and the gaps observed from previous assessments, it was imperative to use both quantitative and qualitative approaches to measure the effectiveness of the targeted procurement policy. The nature and the socio-economic objectives of the policy calls for objectively specified variables as well as an in-depth understanding of various factors that have an influence to the policy being effective or ineffective. Thus the process involved analysis of written documents such as council minutes, and procurement statistics. Interviews with various stakeholders (procurement council officials, SMMEs' service providers, SMMEs, and contractor associations) were used to collect data as well. The problems encountered in conducting the study are presented in this section as well.

### **4.1 Desk research and statistical analysis**

This process involved approaching individual officials participating in the procurement policy committee to get minutes and statistical reports on the policy performance. A further step involved approaching the procurement-monitoring branch requesting statistics from 1999 to 2000 from various council departments. The statistics report provided did not have reliable information i.e. for some months information was provided but not all departments. However, the procurement-monitoring branch advised that this

challenge is being addressed and the audit department is working on it. This stalled the research process. However, a follow-up on statistics was made again at a later stage with the audit department and fortunately a report on procurement statistics from the main council procurement department was obtained and analysed accordingly. The statistics duration was for the financial year July 2000 to June 2001 as well as for July 2001 – June 2002. The intention had been to analyse data from August 1999 since Letchmiah's assessment covered September 1998 to August 1999, but this did not prove possible. Nevertheless, the data available for the two financial years does not leave too excessive a gap since there are some indications for 1999 and at least Letchmiah's results could be used as a benchmark. The main departments captured in the audit report statistics are: Water, Electricity, Durban Transport, and City Engineers. The audit department used monthly payment system to determine payments made by departments on a monthly basis. These statistics were then analysed and informed the interview design, selection of the sample and the development of questions.

## **4.2 Interviews**

The first sets of interviews were with council officials. A sample was selected from focus group consisting of officials involved in daily procurement issues in four main departments namely Water, Electricity, Durban Transport and City Engineers. These officials also participate in the targeted procurement implementation task team. The task team is responsible for information sharing, co-ordination and looking at various challenges experienced in implementing the policy and possible solutions. It was set up in the year 2000



after the procurement policy preliminary assessment report conducted by Letchmiah and discussed by the policy unit committee consisting of politicians and officials as indicated in chapter three. This task team is therefore tasked to make recommendations to the policy unit responsible for affirmative procurement policy review.

The key departments, which form part of this task team are: Water and Waste, Electricity, Architectural Services, Parks, Procurement Monitoring Branch, Durban Transport, Roads, Traffic and Transportation, Coastal Drainage, Housing, Materials Management, Economic Development Department and representatives from other local councils such as Outer West, Inner West, South. Only Outer and Inner West operational entities' representatives attended the meetings, other local councils experience capacity problem hence were not yet part of this team.

Individual interviews were then set up and conducted with procurement managers and other procurement officials who work with the managers and were invited by some managers, probably for more information, while other managers handled interviews by themselves. These interviews were conducted in each department of the selected departments namely; Electricity, Water, Durban Transport and City Engineers for these are the main procurement departments with big capital budgets and were the only departments properly captured by the audit procurement statistics report for 2001-2002 mentioned earlier on. Open-ended and closed questions were used for interviews and were centred on the implementation of the policy and the reflection of

statistics. Some of the questions included the reasons for the different percentages, both number and values, for procurement spent on affirmable businesses and non-affirmable businesses, which are mostly categorised as SMMEs and PDIs. Another question was on figures for women's participation as part of the target group. Questions also included challenges encountered in implementing the policy and strategies adopted in dealing with those challenges as well as possible suggestions for addressing challenges and making the policy more effective.

The second set of interviews was conducted with SMME support-service providers during the period January to May 2001. Individual appointments were made with relevant persons for each agency. The reason for the spread of months was determined by the availability of respondents. The SMME service providers selected included; Thekwini Business Development Centre, Khuphuka, and Dedela. The reason for selecting these agencies was that they are the main tender advice centres in Durban accredited by Ntsika Enterprise Promotion Agency. This is an agency for the national Department of Trade and Industry and is responsible for supporting and promoting SMMEs throughout the country. Information on the services of these agencies is attached in appendix A.

People interviewed in these agencies are those who are involved with contractors in tender issues e.g. providing tender training, and giving advice in terms of completing the tender documents and of price estimation. The key questions were to determine whether the council's affirmative procurement

policy had benefited SMMEs, if so to what extent, if not what are the challenges and what could be done to address these or make the policy add value to the SMMEs.

An interview was conducted with the chairpersons of the contractors' association, the South African Federation of Civil Engineering Contractors. The South African Federation of Civil Engineering Contractors was selected because it is an organised body and has established and emerging contractors. A joint interview was conducted with both the chairperson for the emerging and the established contractors. The South African Federation of Civil Engineering Contractors refers to their emerging contractors as members from the PDIs or ABEs as defined according to the South African targeted procurement specification (RSA: 1998). The South African Federation of Civil Engineering Contractors also define their emerging members according to their annual turnover limit, which is not more than R1 million. This then makes their emerging members relevant for they fall within the category of SMMEs as per the Small Business Act of 1996. The key questions with these interviewees was their view on the council's targeting policy, whether it benefits their members, particularly the emerging contractors, and what they consider as challenges and what needs to be done to make the policy effective or more effective.

In all the interviews, open-ended questions were used to allow discussion. No tape recorder was used because some people feel uncomfortable being recorded and the writer felt people might not be honest in criticising the

council for fear of being victimised. The writer opted for taking notes during interviews.

Further interviews were conducted with SMMEs particularly from the PDI/ABEs. A request to the SMME support agencies was made to provide a database of SMMEs particularly from PDIs whom they have assisted in getting or attempting to get council tenders. The intention was to randomly select SMMEs such that there was a balance of sectors, and gender, and to have a total number of 40 participants.

In gathering data from the SMMEs, a structured, standardised questionnaire with closed and open-ended questions was designed and used to gather detailed information. The questions were designed to get details of the participants in terms of gender, business ownership, date of establishment of the business, involvement with council officials, numbers of tenders, tenders won, when tenders were completed, which were not complete, reasons for non-completion, the value of contracts and whether the contracts were joint ventures or not. This was used to determine skills-transfer as one of the empowerment objectives of the policy specification. The number of employees was a key question as well in order to determine job creation. Also asked were difficulties encountered in filling in the tender document, other challenges, their view on the policy and possible solutions.

Unfortunately there were some challenges in getting the 40 participants. Some of those on the database did not have telephone numbers listed but only

addresses. Writing to the participants would have been too time consuming, added to the fact that face-to-face or telephonic interviews allow respondents to clarify their statements. Other challenges included the fact that many telephone numbers had been discontinued, some were for the neighbours who denied knowing the person, and some would say it is a long distance and therefore they would not go and call the person. Some SMMEs even though contacted could not come to appointments unless they were after work, while others did agree to be interviewed but did not honour their appointments. Only eight people out of fifteen who were contacted honoured the appointments and were interviewed using a standardised questionnaire. In addition to these, a request was made to South African Federation of Civil Engineering Contractors' chairpersons to interview members from the emerging contractors. A meeting was organised with members specifically from emerging contractors. A briefing session was held with these members at the South African Federation of Civil Engineering Contractors' offices.

The original plan was to set appointments and also interview those who were available at the meeting. However, after the briefing session, members proposed that the questionnaire be distributed to them and be collected a few days later so that they could have sufficient time to respond to the questionnaire. Probably the main reason was that it was already late in the afternoon when members started with their usual meeting items and this was the last item on the agenda. Another reason could be that there were only three people to conduct the interviews. Two colleagues from the council were to assist with the interviews. One from the Department of Informal Trade and

Small Business Opportunities who was also a member of the targeted procurement policy, and the other a colleague from the Economic Development section. Both were familiar with dealing with SMMEs. It was felt that the results would be beneficial to the council, and these departments in particular, in terms of developing appropriate SMME support in line with implementation of the targeted procurement policy. Forty questionnaires were then distributed to the members present and the agreement was that the chairperson of the emerging contractors would submit them to the researcher. Thus, instead of interviews a questionnaire was used. Only twenty questionnaires were returned. However, due to the lack of clarity and the inadequate information on the questionnaire responses, telephonic interviews were then conducted. These focused on specific questions where information was not adequate, lacking or not clear. Thus in total twenty-eight interviews with SMMEs were done. Twenty-eight interviews is still a good sample in comparison to previous literature assessments, which had even fewer interviews. The Sharp et al, (1999:32) study interviewed only 27 SMMEs instead of 48. In the Manchidi and Harmond (2002:) study only 15 SMMEs were interviewed when 20 were planned. In the previous assessments telephonic interviews through structured questions were conducted. In this study, the intention was to have face-to-face interviews guided by structured questionnaires due to the depth of information required. The face-to-face interview was meant to ensure that clarity was provided immediately.

Lastly, a workshop was held where SMMEs participated. Those who had participated through interviews and questionnaires in phase one, and those

who were not part of the sample, attended. Also attending were officials from the affirmative procurement task team and key officials from the four main departments under study. The chairperson of the tenders and contracts committee and the chairperson of the economic development and planning committee and SMME service providers (from the Thekwini Business Development Centre, Khuphuka, Dedela/African Bank) as well as the South African Federation of Civil Engineering Contractors attended.

A presentation was made on the study's findings particularly on the views regarding the policy and its implementation as well as challenges experienced by PDI SMMEs. The findings of interviews with SMMEs were made to the participants and the objective was to solicit a response from the interviewees regarding study findings, get additional views from SMMEs who were not part of the study, and to check whether the larger group agreed with the sample responses. In total 400 people, of whom 227 were SMMEs, attended the workshop at the City Hall on 20 September 2001. SMMEs were invited through departmental notices, notices at SMME service providers' notice boards and the use of radio. The reason for a large attendance at the workshop could be the fact that the notice boards highlighted that the chairperson of the tenders and contracts committee as well as the chairperson of the economic development and planning committee and all the officials dealing with tenders would be present at the workshop.

### **4.3 Limitations and bias**

The lack of readily available and updated data has posed a challenge, which narrowed the approach. Firstly, the original plan was to select SMMEs from various databases. However, there were problems with contact details that have been outlined above. The other challenge relating to SMMEs was unavailability due to work constraints. This led to the majority of SMMEs responses coming from one organisation, South African Federation of Civil Engineering Contractors, and very few were from the SMME support-service provider agencies. The number of interviews had to be reduced from 40 to 28 and the use of a mix of data collection instruments was necessitated. Even though a face-to-face interviews were planned using a structured questionnaire only eight SMMEs were interviewed face-to-face. For the rest questionnaires and telephone interviews had to be used. The telephone interview, even though costly, assisted in covering the gaps and getting more information and honesty. The workshop also assisted in filling gaps and getting a broader range of SMME views. The workshop confirmed what was ascertained already from the interviews but also assisted in getting some new views even though there were few issues that had not been raised by interviewees.

The fact that a council official conducted the study may have intimidated people and they may have thought that they would be discriminated against if they were negative about the council and its way of doing business. The explanation given regarding the intention of the study, and the fact the official conducting the survey was not directly involved in procurement per se, but



was from a department that focuses on business support strategies, alleviated some fears but it cannot be assumed that it did so completely. There may also be a bias from council officials who are colleagues but this is strongly counteracted by the fact that the same officials need a solution to the political pressure for the implementation and effectiveness of the policy. Hence this was an objective approach to conduct research that will bring solutions and change rather than just research for the sake of a research.

In conclusion, despite the challenges, the methodology used was wide enough to capture qualitative views and gather quantitative data, which has been the issue of main concern in the previous assessments.

#### **4.4 Presentation of findings**

Graphs and tables are used to demonstrate the extent of ABE participation and departments' performance in terms of involving ABEs in their procurement activities. Data is also categorised in terms of common content and key assessment indicators and interpreted accordingly.

## **CHAPTER FIVE: Presentation and analysis of results**

This section gives detailed information on the research results from the departmental procurement statistics particularly, the perspective of the procurement personnel from key procurement departments within the council, the views of the SMME support agencies on the affirmative procurement policy and its impact on SMMEs as well as the views of SMMEs.

### **5.1 Departmental procurement statistics**

The procurement-monitoring branch within the Audit Department compiles the monthly statistics report. Departments are expected to send their monthly purchases to the procurement-monitoring branch as a mechanism to ascertain council's performance in terms of work allocated to ABEs. Departments also send information to the procurement-monitoring branch for ABE verification. The data is captured through a computer system from the audit payment section as each departmental payment is attached through the audit department. The computer system is able to detect the amount of money paid by departments to various companies, the name of the company, date of payment, value and whether ABE or non-ABE and whether it is awarded through a public tender or not.

The tables below summarise the procurement statistics for 2001/02. Council statistics are gathered for work that goes on whether public tender – referred to as contracts – or work that is advertised internally, referred to as non-contract/quotes. Non-contract refers to all orders for stock and non-stock

items including services that have been approved by departments on requisitions per authorised signatories. A department can only go the latter route if the value of the purchases is less than R120 000. Contracts include orders for stock and non-stock items including services, construction and civil works advertised as public tenders or resolutions as approved by the council or accepted departmentally where the value is less than R120 000. Some work, which is supposed to be advertised as public tender in terms of its total value, is sometimes not advertised publicly but departments are given authority to use or choose suppliers or service providers due to the fact that there are few specialists in that particular field in the city/ province/ country. Sometimes the nature of the work requires that work be done on a smaller scale in phases even though the total contract is bigger than R120 000.

The two tables that follow illustrate the procurement statistics for the period July 2001 to June 2002. The second line labelled 'Total' is for the period July 2000 to June 2001 and is included for purposes of comparison.

**Table 1:****Summary of procurement statistics for the DMA, 2001/2, non-contract**

| SERVICE UNIT   | PERIOD       | ABE<br>R    | NON ABE<br>R | TOTAL<br>R  | % ABE  |
|----------------|--------------|-------------|--------------|-------------|--------|
| Electricity    | Jul-Jun 2002 | 18,823,315  | 59,213,701   | 78,037,016  | 24.12% |
| Water          | Jul-Jun 2002 | 45,180,450  | 185,397,514  | 230,577,964 | 19.59% |
| City Engineers | Jul-Jun 2002 | 65,674,096  | 129,514,084  | 195,188,180 | 33.65% |
| DBN Transport  | Jul-Jun 2002 | 12,454,677  | 44,293,778   | 56,748,455  | 21.95% |
| TOTAL          | Jul-Jun 2002 | 142,132,538 | 418,419,077  | 560,551,615 | 25.36% |
| TOTAL          | Jul-Jun 2001 | 121,297,242 | 401,228,879  | 522,526,121 | 23.21% |

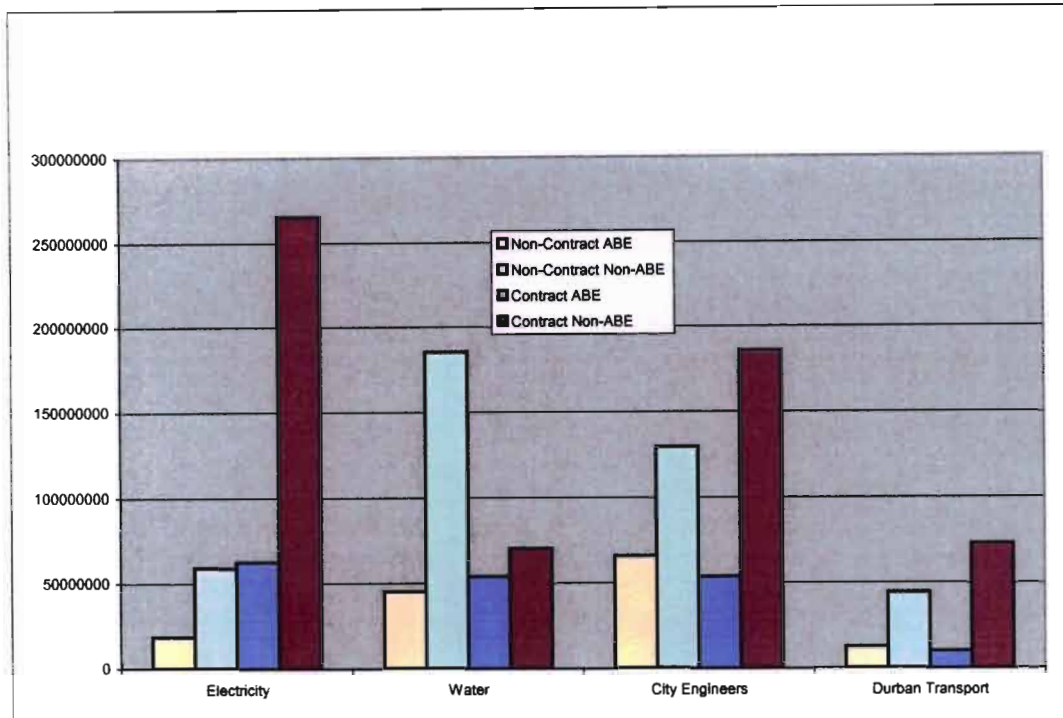
Source: Audit Department, 2002

**Table 2:****Summary of procurement statistics for the DMA, 2001/2, contract**

| SERVICE UNIT     | PERIOD         | ABE<br>R    | NON ABE<br>R | TOTAL<br>R  | % ABE |
|------------------|----------------|-------------|--------------|-------------|-------|
| Electricity      | Jul-Jun 2002   | 62,740,0009 | 265,323,555  | 328,063,564 | 19.1  |
| Water            | Jul- Jun 2002  | 54,097,630  | 70,360,482   | 124,458,112 | 43.4  |
| City Engineers   | Jul – Jun 2002 | 53,741,348  | 185,883,407  | 239,624,755 | 22.4  |
| Durban Transport | Jul –Jun 2002  | 10,064,192  | 72,935,087   | 82,999,279  | 12.1  |
| TOTAL            | Jul- Jun 2002  | 180,643,179 | 594,502,531  | 775,145,710 | 23.3  |
| TOTAL            | Jul- Jun 2001  | 207,713,970 | 715,354,375  | 923,068,345 | 22.5  |

Source: Audit Department, 2002

**Figure 1: ABE v. non-ABE, contracts July 2001 – June 2002**



Source: Audit Department- Special Services Branch 2002.

The overall summary indicates that the council has increased its expenditure on ABEs on contracts from 22.50 % in 2001 to 23.21% in 2002. For non-contracts, ABE participation increased from 23.30% in 2001 to 25.36% in 2002. Although all departments have implemented the affirmative procurement policy, some departments have higher performance than others in contracts while some have higher in non-contracts. Metropolitan Water for example has the highest results on contracts, which is 43.47 % followed by City Engineers with 22.43%. However with regard to non-contracts City Engineers has the highest percentage at 33.65% followed by Electricity with 24.12 %. Despite the increase in ABE participation, the statistics particularly on total expenditure for the financial year 2001 and 2002, ABE versus non-ABEs, indicates a considerable difference.

**Table 3:****Non-contract order value < R120 000**

| SERVICE UNIT   | PERIOD       | ABE<br>R   | NON ABE<br>R | TOTAL<br>R  | % ABE  |
|----------------|--------------|------------|--------------|-------------|--------|
| Electricity    | Jul-June2002 | 6,266,692  | 13,288,669   | 19,555,361  | 32.05% |
| Water          | Jul-Jun 2002 | 38,952,786 | 125,834,870  | 164,787,656 | 23.64% |
| City Engineers | Jul-Jun 2002 | 65,518,035 | 128,592,589  | 194,110,624 | 33.75% |
| DBN Transport  | Jul-Jun 2002 | 8,983,575  | 22,091,015   | 31,074,590  | 28.91% |

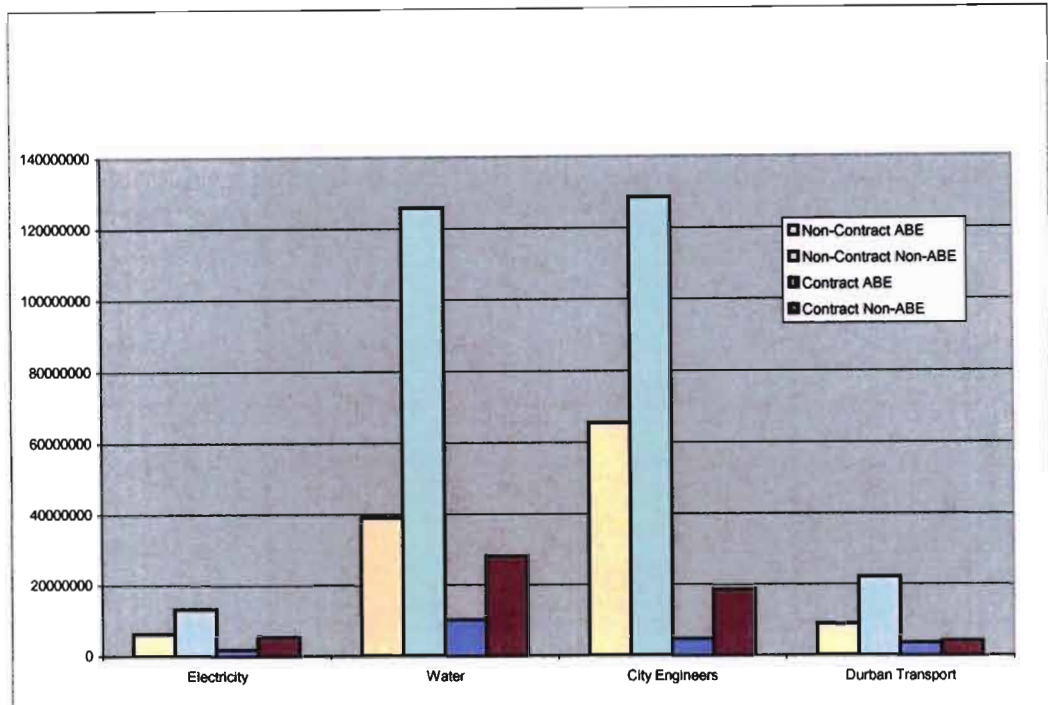
Source: Audit Department, 2002

**Table 4:****Contract order value < R120 000**

| SERVICE UNIT   | PERIOD        | Contract   |              | Contract   |        |
|----------------|---------------|------------|--------------|------------|--------|
|                |               | ABE<br>R   | NON ABE<br>R | TOTAL<br>R | % ABE  |
| Electricity    | Jul-June 2002 | 1,944,544  | 5,523,723    | 7,468,266  | 26.04% |
| Water          | Jul-Jun 2002  | 10,330,575 | 28,210,276   | 38,540,851 | 26.80% |
| City Engineers | Jul-Jun 2002  | 4,809,027  | 18,655,492   | 23,464,519 | 20.49% |
| DBN Transport  | Jul-Jun 2002  | 3,683,770  | 4,197,842    | 7,881,612  | 46.74% |

Source: Audit Department, 2002

**Figure 2: ABE v. non-ABE (contracts) July 2001 - June 2002 order value < R120 000**



Source: Audit Department- Special Services Branch 2002.

The above results indicate that for contracts less than the value of R120 000, Durban Transport uses more ABEs i.e. 46.74 % followed by Water and Electricity with 26.80%. For non-contracts, City Engineers is the highest (33.70%), followed closely by Electricity with 32.05%. Generally all departments performed well the average being 20.49 %.

**Table 5:**

**Order value > R200 000 non-contract**

| <b>SERVICE UNIT</b> | <b>PERIOD</b>  | <b>ABE</b>  | <b>NON ABE</b> | <b>TOTAL</b> | <b>% ABE</b> |
|---------------------|----------------|-------------|----------------|--------------|--------------|
| Electricity         | Jul- Jun 2002  | 10,597,15 9 | 41,955,72      | 52,552,882   | 20.16        |
| Water               | Jul – Jun 2002 | 4,229,222   | 53,251,90      | 57,481,123   | 7.36         |
| City Engineers      | Jul – Jun 2002 | 0           | 641,507        | 641,507      | 0.00         |
| Durban Transport    | Jul- Jun 2002  | 671,047     | 17,474,192     | 18,145,239   | 3.70         |

Source: Audit Department- Special Services Branch 2002.

**Table 6:**

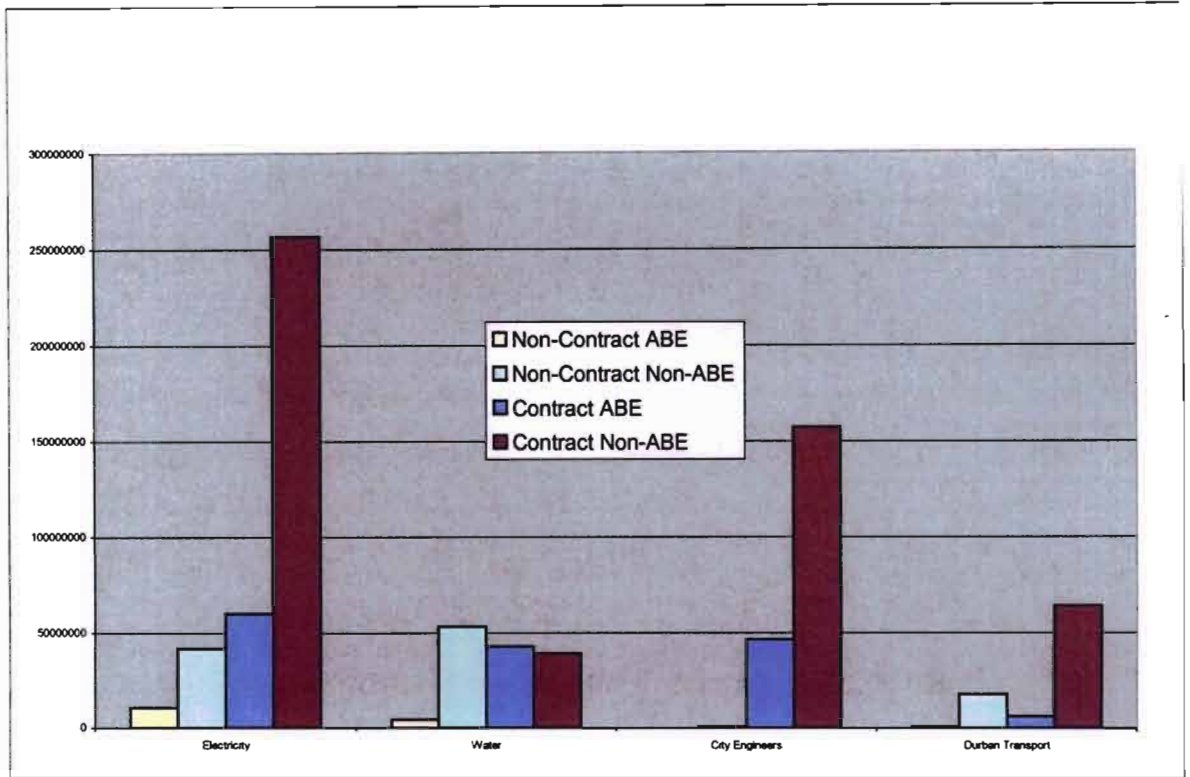
**Order value > R200 000 Contract**

| <b>SERVICE UNIT</b> | <b>PERIOD</b> | <b>ABE</b> | <b>NON ABE</b> | <b>TOTAL</b> | <b>% ABE</b> |
|---------------------|---------------|------------|----------------|--------------|--------------|
| Electricity         | Jul-Jun 2002  | 60,003,400 | 256,371,907    | 316,375,307  | 18.97%       |
| Water               | Jul- Jun 2002 | 42,869,615 | 39,233,189     | 82,102,804   | 52.21%       |
| City Eng            | Jul- Jun 2002 | 46,469,139 | 157,218,165    | 203,687,304  | 22.81%       |
| Durban Transport    | Jul- Jun 2002 | 6,003,447  | 63,921,628     | 69,925,075   | 8.59%        |

Source: Audit Department, 2002



**Figure 3: ABEs vs. Non ABEs (contracts) for order value > R200 000**



Source: Audit Department- Special Services Branch 2002

Figure five indicates that the Electricity Department uses more ABEs (20.16 %) on its procurement for non-contracts above R200 000 as compared to City Engineers with 0%, Water with 7% and Durban Transport with 3.7%. For contracts, Metropolitan Water uses the highest being 52.2 %. However, the overall results indicate that departments perform very low on contracts and non-contracts above R200 000 and particularly for non-contracts.

## 5.2 Challenges identified by departments

Departments identified various challenges that lead to the policy not being effectively implemented hence ABE participation varies. The section below highlights various reasons for not successfully using ABEs and also reasons for having increased ABEs in certain categories and not in others as indicated

in the previous tables. In addition, the section covers possible solutions proposed by departments. This finding represents the views of five officials who are procurement managers in City Engineers, Department of Electricity, Department of Water and Waste and Durban Transport. The reason for five officials is that for Metro Water there were two officials available for the interview. In addition there are other officials who were not available for face-to-face interviews but provided information telephonically and through e-mail on the list of sectors from Water and from Electricity and their views are incorporated on the views in their sectors. These officials are working with the main interviewees; hence their responses are incorporated as one. The findings show internal constraints i.e. institutional arrangements within the municipality and external constraints referring to challenges experienced by SMMEs as well as their weaknesses and those of the SMME service providers.

The common barrier identified by departments for ABE participation is the lack of appropriate equipment, most of which is expensive. Lack of access to finance to purchase equipment and execute projects is another common challenge for SMMEs. Inability to produce high quality products disqualifies many ABEs from getting tenders, as does poor costing. The findings also show that there is a lack of ABE participation in various sectors and this is across departments.

## **City Engineers**

The official from City Engineers (04/06/2003) cited the following reasons for low ABE participation on work above R120 000: Firstly, no ABEs tender for the supply and maintenance of specialist equipment particularly for drainage, coastal engineering and storm water. Secondly, there is a lack of ABEs in the supply of plant material, nurseries and turf farms, relocation of plant material with cranes and trucks and supply of bulk palms and trees. Thirdly, ABEs fail to deliver on time and as a result lose the job. Fourthly, some ABEs are not accredited, so cannot be used. The fifth challenge is the lack of costing skills and business management skills. Poor costing affects their chances of getting a tender. Lastly, lack of access to finance prevents some ABEs from starting the projects. Some start but fail to complete due to cash flow problems.

In dealing with the issue of access to finance, City Engineers introduced in 1999 a provision called a Cession, which is a letter to material suppliers or financiers confirming that the municipality has awarded a contract worth a specific amount to a specific contractor. The second mechanism is that officials are required to give their reasons for not using an ABE in writing. This reduces bias and forces officials to implement the policy. The official believes that the two mechanisms have led to an increase of ABE participation particularly for contracts less than R120 000. Despite these actions and an increase on quotes, the statistics still reflects considerable disparities between ABEs and non-ABEs. This implies that, for those tenders adjudicated by the tender board, there is no support provided at that level for ABE contractors hence the increase is with regard to quotes that are directly handled by the

department. It is easy for the department to assess individual cases and be able to provide minimum support.

### **Electricity Department**

An official from Electricity department (21/05/2003) reported the following as negative factors in the implementation of the policy:

The first problem identified was the shortage of staff in the department. The official then went on to explain that there was a lack of ABEs in various sectors namely; computer equipment, power tools, furniture, transformers (current), stationers, computer cablings and repairs, drilling and blasting, printing companies that design, print and supply brochures, under-road boring, X raying of 132 kV cable and repairs to 132 kV, repair and calibration of meters, repairs to electricity vending machines in the field, repairs to hi-tech equipment i.e. circuit breakers, alarm fencing, courier services, bee removal and bird control, carpeting and roller door companies, cleaning of contaminated rivers (oil spillage), window blinds, instant lawn, corporate clothing and gifts, switchboard repairs, and consultant hire.

Most equipment required is imported from overseas thus it is difficult for SMMEs, particularly ABEs, to get involved especially in the supply of equipment. Another challenge raised is the lack of costing skills, which has led to some ABEs not getting tenders and others that do, not growing. Some become unsustainable because they do not make a profit due to poor costing. The official further indicated that lack of telephones makes communication

difficult, as on some occasions there is more information needed on the submitted document and failing to fill the information gaps on time may disqualify the ABE.

In dealing with the shortage of staff the Electricity department has hired ABE liaison officers. However, they are on a temporary basis and as a result the department cannot rely or invest in them for they could leave for better benefits and permanent jobs at anytime.

### **Water Services**

Reasons for low ABE participation as noted by the officials from Water (21/05/2003) are firstly a lack of ABE participation in certain sectors such as; air-conditioning systems, pre-cast concrete manufacturers, security and access control and vehicle hire. A second problem is the poor quality, especially of work wear, as a result there is low ABE participation on clothing. The third difficulty is a lack of communication or communication breakdown where an ABE has provided a mobile number and when contacted, is not available. Fourthly access to finance seems to be a common problem among many ABEs. Fifthly a lack of financial management skills and project management results in cash flow problems and project delay. Finally a lack of communication and co-ordination between the Thekwini Business Development Centre and the department to provide relevant support and to address challenges facing ABEs in a co-coordinated manner creates difficulties.

There has been an increase of ABEs involved in refuse removal as well as on low level water connections but actually there has been very low participation on high level connections for it requires qualified technical people and appropriate equipment which most ABEs do not have. The construction of pit latrines in the rural areas and uMzinyathi Reservoir has targeted the use of local SMMEs and local labour and this has increased the ABE participation statistics.

### **Durban Transport**

An official from Durban Transport (04/06/2003) notes that the department has low ABE participation because firstly most equipment required is engines and body parts manufactured by big companies. Some of the equipment has to be imported from overseas. Lack of sufficient capital is a barrier as well for SMMEs for most equipment costs over R10 million and this automatically excludes them. Secondly the transport industry is complex and requires high standards. Eighty percent of ABEs that tender lack appropriate competency. In addressing the quality challenges, officials have provided advice to ABEs with potential, visited them at their work place and have found that most work in back yards and have no proper systems in place. However, through advice and mentoring, the standard of these ABEs was improved and this led to an improvement of ABE participation in the awarding of contracts.

The common problems as indicated from the above results include ABEs' lack of access to finance, inability to cost appropriately, failure to finish projects on time due to cash flow management, failure to produce or meet the

required high quality standard, communication breakdown, not coming forth to tender on certain sectors, and not having relevant equipment to undertake the job. Failure to participate in certain sectors is probably due to an inability to purchase relevant equipment or it could mean failure to meet the required standards or it could mean lack of awareness. These difficulties outweigh the interventions the departments have attempted in order to address challenges and their efforts to increase ABE participation. Hence the statistics still reflects a large gap between ABEs and non-ABEs. These challenges owe more to external factors i.e. from ABEs than departmental challenges such as capacity in terms of staff.

### **5.3 Departmental suggestions about ABE and SMME involvement**

The findings below indicate a need for council to commit funds to training and mentorship of ABEs in order for them to access more opportunities and to grow. In supporting ABEs, the findings point to the need for and importance of a working relationship between SMMEs, support-service providers and procurement departments to ensure that challenges affecting ABEs are addressed appropriately. The findings also indicate a gap in terms of monitoring systems and give input in terms of broadening the scope by using all specifications such as joint ventures, local labour and job creation. They also stress the need for monitoring for impact rather than just using ABE statistics. The training of staff in implementing the policy is also identified as a crucial component.

The results presented below are possible solutions identified by various departments. Some suggestions are similar but it is worth noting how each department has put their views and it is these details that enhance the richness of the research and the recommendations thereof. Hence each official's response is presented under the relevant department.

### ***5.3.1 Capacity building and training of ABEs and officials***

The City Engineer's official noted that costing is one of the main problems encountered by ABEs and the department feels it is the responsibility of SMME service-providers, such as Thekwini Business Development Centre, to advise SMMEs on correct pricing rather than being the responsibility of the department concerned. The official argues that some ABEs have improved as per advice from Thekwini Business Development Centre but some still experience this problem. The department has decided that a company is allowed to withdraw if the owner realises that the project will fail due to the low cost tendered. However, some companies continue even though they have under-costed and eventually have to abandon the project. Unfortunately they get blacklisted. Therefore, the official maintains it is important for ABEs to be trained on pricing and tendering by the SMME service-providers.

Secondly, officials also need reorientation and training in implementing the policy. The Electricity official stated that in order to assist black-owned companies to access opportunities within the electricity department, the council needs to subsidise ABEs who want to procure services and work within the Electricity department and train them in the council training



academy, which trains electricity staff. The requirement for training is a kit worth R6500 and payment for the course is upfront. Most people are unable to buy the kit and pay for the course upfront. Hence, the official suggested that the council should subsidise ABEs who want to be trained.

The Durban Transport official emphasised that the council must be committed to putting money into ABE development and perhaps training SMMEs in less sophisticated jobs, giving them job opportunities and monitoring their performance and growth.

Encouraging large companies to sub contract work to ABEs by giving them incentives will build the capacity of ABEs in the electricity field said the electricity official. The official added that this could also prevent fronting for there are companies who claim to be ABEs in order to get preferential points.

The Water Department officials argued that some ABEs identify big companies to help them or nurture them because they are still emerging, but are unfortunately penalised by the procurement monitoring branch for they are perceived as fronting for big companies who want ABE preferential points to get tenders. However, the officials argue that in some cases fronting does occur but in other cases the ABEs link up with well-established companies just to get support. An example cited is a company which got a tender from the Water Department but when an investigation was done by the monitoring branch to confirm its ABE status, the tender was cancelled because the owner was accused of claiming to be an ABE and got preferential points yet was

being used as a front by a big company. The officials from the Water Department argue that the company was a true ABE but was sharing premises with a big company. However, when an investigation was done, it appeared as though the ABE company was used. The officials argued that the emphasis on one specification prevents ABEs from growing and being nurtured under large and well-established companies.

On the issue of training of officials, the Water department suggested that training in dealing with the disabled entrepreneurs is necessary. While the National Affirmative Procurement Framework encourages the inclusion of disabled entrepreneurs, officials are not trained to deal with disabled entrepreneurs. The officials cited a case where one official had to deal with a deaf person. The official tried to use sign language but it was not effective because she was just taking a chance. She then decided to write what she wanted to say and the entrepreneur would respond. As a result this entrepreneur has been used several times for grass cutting contracts because he is capable of doing the job.

The officials argue it is also important to liaise with the Durban Deaf Association to assist in this regard and see which jobs can be done by the disabled. This will encourage more disabled people to come forward because it is possible that there could be many who have the potential and skills but are afraid or have not been encouraged to come forward or perhaps they came but encountered difficulties.

### ***5.3.2 Monitoring system***

An official from the Electricity Department suggested that procurement monitoring branch's monitoring system must be broadened for it presently requires departments to submit statistics on ABE versus non-ABEs and the value for contracts and non-contracts. That prevents departments from really assessing and giving a true picture of the policy impact. For example, the Electricity Department has realised that most ABEs contracted are from Indian owned companies as compared to other categories of ABEs. If the system is broadened it will be easy for the monitoring branch to detect this and come up with intervention strategies to ensure that all ABEs benefit from the policy and grow.

The official notes that the ABE-status database or statistics format excludes the few black companies that the Electricity Department has engaged for work worth R14 million because their turnover limit is not considered appropriate under ABE or SMME. The official suggested there should be a category for black economic empowerment to reflect or capture companies with over R1 million in turnover and this will also indicate whether departments are progressing in this or not and where the barriers are.

The Water officials also called for a review of the monitoring system. The officials suggested that the monitoring system should also capture the use of local labour or rather jobs created through the use of local labour. The motivation for this is that the Water Department spends about R15 million per

year on the use of local labour in following one of the procurement policy specifications rather than just focusing only on ABEs used.

Secondly, the Water officials suggested that the monitoring system should also capture the joint venture initiatives that include ABEs. The procurement policy specification has this and if it is not required for monitoring impact it seems as though it is not useful yet it is a useful specification for ABE empowerment.

### ***5.3.3 Long-term contracts as opposed to short-term contracts***

The Electricity official suggested that the council should consider giving companies three-year contracts instead of twelve months because it is difficult for a company to start and develop within twelve months. However, if a company is given a three-year contract, it can be monitored and assessed on a yearly basis and the company can learn and begin to build its financial status. The official argues that all this would increase ABE participation within the Electricity Department and in the electricity field in general.

### ***5.3.4 Mentorship***

The Water officials proposed that, for the affirmative procurement policy to be effective, there has to be a follow up and a mentorship programme for ABEs. At present there is just pressure for ABEs to get tenders but no support mechanism is provided for the success of those tenders and the growth of those ABEs.

The officials further argued that Thekwini Business Development Centre is supposed to be providing support services to SMMEs but there is no proper communication between procurement departments and the Thekwini Business Development Centre to ensure that the Thekwini Business Development Centre is aware of the problems and that proper referral and intervention is provided. Some council officials are not aware of the services that the Thekwini Business Development Centre offers. Hence the suggestion is that the Thekwini Business Development Centre needs to familiarise itself with council procurement departments and problems encountered in dealing with SMMEs so that appropriate support can be given. This will have a positive impact on SMMEs and on procurement policy implementation.

Mentorship has proven to be effective in getting more ABEs to access tenders from the Durban Transport department, notes the Durban Transport official. However, it has been realised that it is costly and not all officials were willing to do that nor did they have the time and patience. When a company submits a tender it is expected to be competent and be able to deliver good quality on time. Otherwise it is disqualified. However, the official indicated that even though mentorship costs more money and time, it is the way to go in order to develop ABEs.

In summary, the issue of mentorship training for ABEs and officials were the main suggestions made by most departments. More interesting is the fact that some see it as a responsibility of the council to set aside money for ABE training and mentorship, especially the Department of Transport and the

Electricity Department. The Electricity Department also suggested subsidisation of the kit required for ABEs. Another interesting point to note is the issue of long term contracts for development purposes as noted by the Electricity official. Durban Transport also alluded to this but put it in different perspective by saying that the council should train and provide job opportunities and monitor their performance and growth. The Water Department and Electricity Department have also highlighted the issue of encouraging the use of joint ventures as part of skills development. More importantly, and raised by these departments, is that targeted procurement policy monitoring or impact should not only be viewed regarding the use of ABEs as sole or main contractors but should consider joint ventures between ABEs and non-ABEs. The use of local labour and jobs created should also be monitored. These are useful points which encourage the use of all targeted procurement specifications in order to maximise their benefits.

#### **5.4 SMME support-agency views**

A face-to-face interview was conducted with the staff of the following small business service provider's organisations; Khuphuka (22/09/01), Thekwini Business Development Centre (24/05/01), Dedela Securities (10/04/01) and South African Federation of Civil Engineering Contractors KwaZulu-Natal Emerging Contractors Association (10/05/01). People interviewed included managers, tender advisors and chairpersons of the contractors' association.

Open-ended questions were used and the main questions asked were:

- 1) Whether council procurement policy has benefited the SMMEs,
- 2) Problems encountered by SMMEs,
- 3) Problems encountered in dealing with SMMEs,
- 4) Support suggestions for addressing the problems..

### **5.5 Support agency comments on policy implementation and challenges**

All four institutions interviewed regard targeted procurement policy as a good vehicle for SMMEs to access opportunities. However, there are requirements and problems that prevent SMMEs from growing or even accessing tenders. Some of these challenges include SMMEs' lack of skills such as business management and costing, and lack of access to finance. Some include council's inefficiencies such as awarding tenders to contractors with the lowest prices who eventually fail to complete the work or complete the work but operate at a loss and as a result do not grow and perhaps eventually collapse. The institutions further argue that the council has a tendency to award tenders to contractors who lack appropriate technical skills. In addition, the institutions argue that the council does not give feedback to tenders and service providers in terms of reasons for failure and areas of improvement. As a result this has a negative impact on the SMMEs' growth.

Each institution gave its reasons, but the writer will indicate a few common areas. All four agreed that the procurement policy is a good instrument for

SMME development. However, there are some things that need to be addressed for the policy to be effective.

#### ***5.5.1 Access to finance and skills***

All four service-providers identified access to finance as a common problem for SMMEs. Three service-providers, namely Khuphuka, Dedela and Thekwini Business Development Centre, identified lack of costing skills and business management skills as a challenge for SMMEs.

#### ***5.5.2 Officials' attitudes and council adjudication***

Another problem identified by Dedela, Khuphuka and the Thekwini Business Development Centre is the council's tendency to award contracts to the lowest tender. This encourages SMMEs to ignore service-providers' advice and go for the lowest price with the intention of getting the tender, hoping that they will be able to manage. Unfortunately most are unable to manage and even those that do, do not grow because they work at a loss.

The South African Federation of Civil Engineering Contractors, the Thekwini Business Development Centre and Dedela identified common problems when it comes to officials' attitudes towards ABEs. They argue that some officials do implement the policy with a developmental attitude, i.e. they do assist ABEs where necessary by advising them if there are problems and how they need to tackle those problems. Some do not have a developmental attitude. They do not advise ABEs when there is a mistake and deal with it. Instead,



they wait until it is too late and they are quick to move on rather than engaging in ways that could help the SMME finish the job.

### ***5.5.3 Payment***

Khuphuka and the South African Federation of Civil Engineering Contractors identified delay of payments as having a negative impact on contractors but they did acknowledge that the metropolitan council has speeded the process by paying within fourteen days, which is much better than thirty days and more. However, they argue that despite the fourteen-days policy being in place, sometimes payment is still delayed.

### ***5.5.4 Communication***

Both the Thekwini Business Development Centre and the South African Federation of Civil Engineering Contractors argued that the other reason for the targeted procurement not being effective is the lack of communication and feedback to clients and to the service providers. The Thekwini Business Development Centre argues that few people are aware of quotes because quotes are put on a department's notice board and the majority of ABEs do not see them.

## **5.6 Support-agency suggestions**

### ***5.6.1 Training***

Khuphuka suggests that training, particularly in business management and costing, should be a requirement that is built into the tender. If a contractor does not have this skill then he or she must agree to undergo training in this

area. However, Khuphuka noted that training should be provided at appropriate times with an appropriate methodology to avoid the exclusion of some contractors. Like Khuphuka, Dedela has also indicated that SMMEs do need training on proper costing.

The South African Federation of Civil Engineering Contractors has also highlighted training as a necessity particularly in the electricity field. The South African Federation of Civil Engineering Contractors argue that the council should put aside a training budget for contractors who have experience and knowledge of electricity related work but do not have professional training and certificates. The South African Federation of Civil Engineering Contractors believes this will enable more ABEs to access electricity tenders.

Dedela suggests that council need to encourage joint ventures for skill transfer, and also subsidise mentorship and project management. Not only do SMME need training but those council officials who do not effectively engage SMMEs in their procurement need reorientation and an understanding of the objectives of the targeted procurement policy and the importance of supporting and developing the SMMEs.

The Thekwini Business Development Centre argued that the council should ensure that mentorship and project management is provided for all large contracts given to SMMEs.

### ***5.6.2 Access to finance***

Dedela suggests that the council must provide a guarantee fund and work with financial institutions to deal with the administrative issues in order to enable SMMEs to access finance. The South African Federation of Civil Engineering Contractors also proposed that the council should work in partnership with a financial institution to address the issue of access to finance. The South African Federation of Civil Engineering Contractors mentioned the name of a bank arguing that if the council uses this bank for their transactions they should partner with it to address challenges the council faces.

### ***5.6.3 Long-term contracts***

In addition Dedela argued that for sustainable growth and development of SMMEs, the council should give SMMEs long-term contracts rather than just one contract. Short contracts make it difficult to assess the effectiveness of the policy in terms of skills development and the contractor's performance. The South African Federation of Civil Engineering Contractors like Dedela suggests that council needs to encourage joint ventures and provide long-term work rather than once-off work.

### ***5.6.4 Completion of affidavits***

The South African Federation of Civil Engineering Contractors also suggested that instead of ABEs filling ABE affidavits every time they tender, they should do that once, and there should be a system that is able to track an ABE's status.

### ***5.6.5 Communication and problem solving***

The South African Federation of Civil Engineering Contractors suggested that the council should create a platform whereby contractors are able to engage with the council on solving problems. The Thekwini Business Development Centre argued that the council should devise a transparent mechanism particularly in the issuing of quotes so that more contractors can access these opportunities.

### ***5.6.6 Adjudication process***

The Thekwini Business Development Centre suggested that the council should review its adjudication procedure particularly that of putting an emphasis on the lowest tender. Instead adjudication should be based more on technical skills and competency. Accepting the lowest tender prevents sustainability of most SMMEs who cost very low just to get tenders. The Thekwini Business Development Centre suggested that contractors should be accredited prior to getting tenders in order to reduce failures.

## **5.7 SMMEs' views**

The SMME views come from two sources; one is based on the survey and the other based on the workshop, which included SMMEs who were not interviewed. The workshop also included all council officials from departments involved in procurement and service providers. Issues raised at the workshop are presented as well. However, the focus of the findings and

the study is more on the survey conducted with individual SMMEs as indicated in the methodology chapter.

## **5.8 Profile of SMMEs interviewed**

The twenty eight SMMEs interviewed are involved in various sectors such as cleaning services and refuse removal, manufacturing, project management, engineering testing and inspection but the majority are involved in construction, plumbing, painting, maintenance, grass cutting and landscaping. All these companies are registered as close corporations and most were registered between 1997 and 1999 except one that was registered in 1982 and a few registered between 1995 and 1996. Few companies focus on a specific sector however most of them cover a combination of sectors i.e. construction, painting, plumbing, landscaping, grass cutting and cleaning services in each company.

### ***5.8.1 Gender and ownership***

Only three companies out of twenty-eight are owned solely by women and have woman equity status. Two other companies are owned by both women and men.

## 5.8.2 Employment

**Table 7:** Employment

| No of employees                                | Full time     | Part time     | Total number of employees | No of companies |
|--|---------------|---------------|---------------------------|-----------------|
| 1- 9   | 22            | 44            | 66                        | 12              |
| 10- 20   | 17            | 25            | 42                        | 4               |
| 25- 40   | 39            | 26            | 65                        | 5               |
| 50 – 52  | Not disclosed | Not disclosed | 52                        | 1               |
| 80- 89   | 89            | None          | 89                        | 1               |
| Did not disclose/employ whenever job available |               |               |                           | 5               |
| <b>TOTAL</b>                                   | <b>167</b>    | <b>95</b>     | <b>314</b>                | <b>28</b>       |

The above table shows that in total the twenty-eight SMMEs created jobs for 314 people with the exception of five companies that did not disclose how many people they employed. The table also shows that more people are employed on a full-time basis (167) as compared to part-time but again this comparison might not be a true reflection. One company that employs 52 people did not indicate whether those are full-time or employed on a temporary basis. The results also show that most companies (12) employ one to nine people and the second highest (5) employ between twenty and forty people.

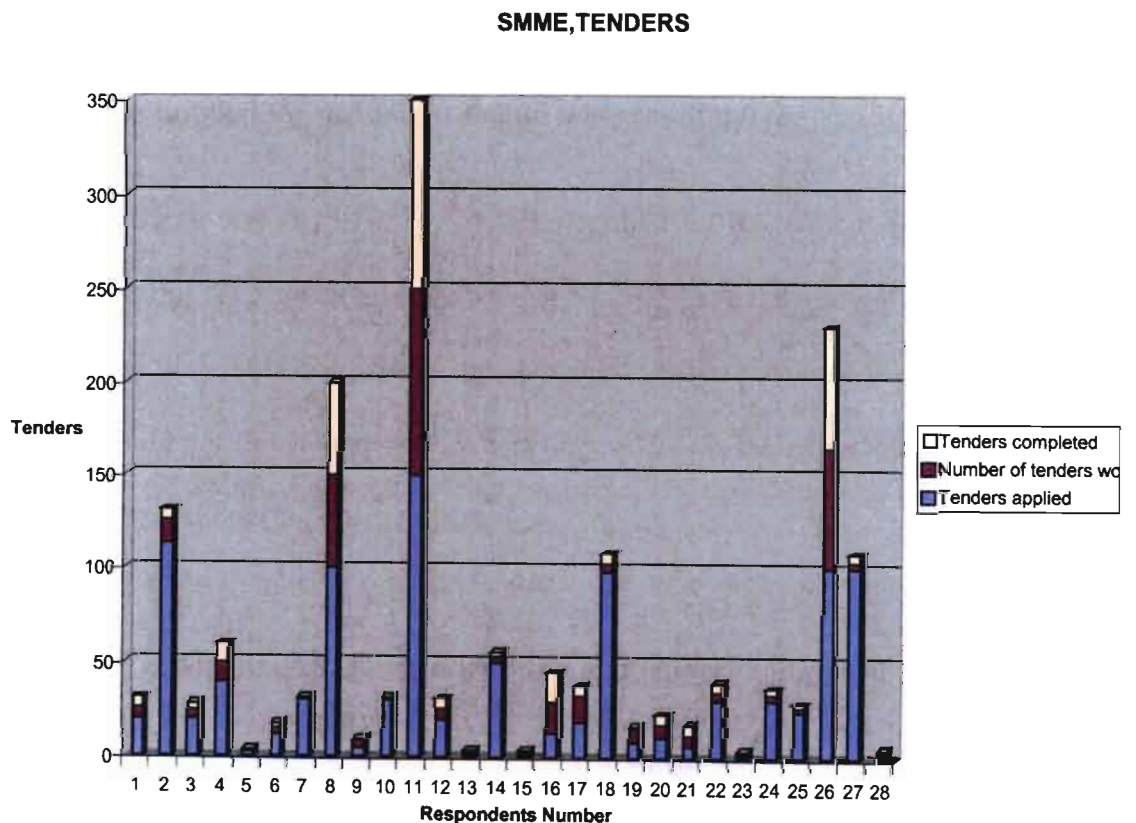
In terms of sectors that employ most people, construction, cleaning and, manufacturing employ the most people. In manufacturing, there is only one company and that company employs 29 people on a full-time basis. In the cleaning sector, there are two companies, which focus on cleaning and others, even though they do cleaning, cover a combination of sectors. Of those that focus on cleaning, one company employs 89 people and the other 20

employees on full time basis. One cleaning company focuses mainly on refuse and employs 25 people on full time basis. In the construction sector regarding full-time jobs, one company employs 35 employees, another one 40 and a third company employs 52 people. The latter is mainly focused on plumbing.

### 5.9 Tenders applied for, tenders won and tenders completed

The graph below shows that many SMMEs applied for tenders but very few were successful. The graph also shows that SMMEs generally completed the tenders they won. However, the graph also shows that a small percentage of SMMEs could not finish tenders. Reasons for tenders not being completed are stated under challenges.

**Figure 4: Tenders applied for, tenders won and tenders completed**



### **5.10 Characteristics of companies that won most tenders**

Three companies that have won most tenders have been selected from the graph and those are company eight, eleven, and twenty six. One company is involved in manufacturing, another involved in engineering inspection and a third involved in construction. The construction company was established in 1997 while the engineering one was established in 1991 and the fence manufacturing company was established in 1982. In terms of tenders applied for, company eight applied for 100 tenders and won 50 tenders. Company eleven, applied for 150 tenders and won 100 while company twenty six applied for 100 tenders and won 65 tenders.

Reasons for winning tenders differ from company to company. The construction company (26) argues that tenders were won due to various reasons one being the assistance received from the Sunflower construction support project based at Thekwini Business Development Centre. Secondly, the cession from the council has assisted in getting finance and material but it had some limitations because only one cession is issued therefore one cannot take it to different suppliers. Hence the contractor suggested that the cession must not be restricted to one per job and a progress payment should be made to assist in the cash flow and speed up the payment as well. Thirdly, a good working relationship with the project manager has helped. However, the contractor argue that this does not mean that things have been smooth all along, there were challenges encountered when the project manager gave wrong advice and the contractor ended up being suspended. As a result the



work was given to someone else. The contractor argued that this was done deliberately to set the contractor up to fail so that work could be given to someone else.

Another challenge cited by the contractor is that sometimes he receives a letter notifying him of the award of the tender fourteen days late but was expected to start work on time. As a result, the contractor had to start late and finish late. However, the contractor argued that despite all these challenges, the relationship with the project manager was well handled and they developed a good working relationship. The contractor also suggested that the council should consider using internal quantity surveyors for setting prices rather than using external ones for this is open to abuse.

Company eleven, an engineering inspection and testing entrepreneur, believes that he won tenders because he was the lowest in price. Secondly, he added that he had a good relationship with the project manager even though sometimes there were challenges in terms of changing timeframes.

Company eight believed that he got most tenders because of being the lowest price. The reason for tendering low was that he discovered that most people who were buying concrete fence material from him were putting tenders in to the council and winning those tenders. He then decided to reduce his prices and since then he started winning tenders. However, he argues that this keeps him going but he is not making the profit he should to be making. This entrepreneur alleged that the officials are racist for there was an incident

where a tender was awarded to him but somehow it was cancelled and given to a white-owned company. Company eight argued that the council needed to visit those people tendering for manufacturing to check if they are indeed manufacturing those products for the entrepreneur believes this will eliminate those people who exploit manufacturers. Then manufacturers could be competitive.

What emerges from these three companies is that even though they won most tenders, they encountered a lot of challenges and some had to tender at a low price in order to get tenders and have also gradually developed a good working relationship with project managers. The support received from the SMME service provider has also helped especially the construction entrepreneur who started his business in 1997 while the other two started their companies in the early 1980s and early 1990s. Obviously their experience might have contributed to their success even though they did not mention it. It is also worth mentioning that the manufacturing and engineering companies are Indian entrepreneurs, and a black entrepreneur owns the construction company.

### **5.11 Companies that won few tenders**

Three companies, which applied for many tenders but won few, have been picked out from figure six. Company two applied for 113 tenders and won only 13. Company eighteen applied for 98 tenders and won only five and, lastly, company twenty seven applied for 100 tenders and won only four. These companies were established in 1997 and 1996. These are the years

when the SMME policies were already in place from national government including the affirmative procurement policy being implemented then as a ten point plan. The ten-point plan was already implemented in the Durban Metropolitan Council, especially in City Engineers and Architectural services, in 1997 even though it was only officially adopted in 1998 for implementation in all council departments. The three companies are involved in construction related work that includes road construction, maintenance, plumbing, and electrification. One also does grass cutting and landscaping. These companies as per figure 6 are company two, eighteen and twenty seven.

Company eighteen and twenty-seven cited completing the tender document as a challenge for it is difficult. Company twenty-seven also argued that the tender document was difficult when he started but as time went on he was able to fill it and he believes that is why he managed to win some tenders. However finding finance has been one of the challenges encountered and at certain times this has led to a delay in starting the project. Hence this entrepreneur suggested that support in terms of finance is crucial.

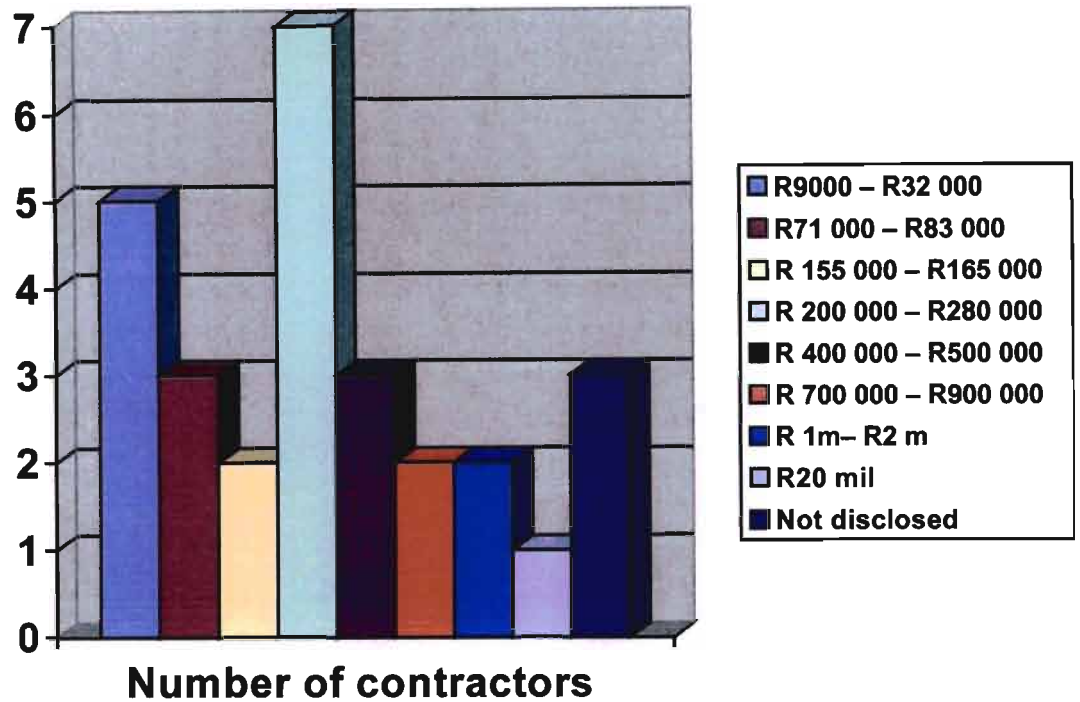
Company eighteen besides finding difficulty in completing the tender document also has difficulty in pricing, as he stated that he sometimes prices very high and sometimes prices very low. Company twenty-seven believes that the tenders that he managed to get were through low pricing and he also argues that lack of finance has been a challenge which led him to start late on the projects he won. However, he does acknowledge that the council cession has helped in the other two projects as he has won four in total.

What emerges from these three is the challenge in filling in the tender document and lack of proper pricing skills and access to finance. It is also interesting to note that even though lack of access to finance is a challenge at least one company acknowledged the council cession as being helpful in the few projects won. What is also interesting to note is the common reasons for winning tenders among these three and the first three are that tendering low has made it possible for them to win tenders. The difference between these three and the others is that the first three did not have problems in completing the tender document and the one that had a problem got assistance from the SMME service provider and hence was able to win more tenders. Another important point as well was that the construction company among the first three also raised access to finance as a challenge but acknowledged the issuing of a cession as being helpful but felt there was a problem as only one cession is issued. It should also be noted that not all departments are issuing cessions but from the interviews with departments it was City Engineers that mentioned the issuing of a cession and indicated that it contributed to an increase in ABE participation in their procurement.

The scenario on the six companies presented above confirms some of the JICA study findings done on SME development in KwaZulu-Natal in 2002. JICA (2002:45,46) found that operations operated by PDIs, particularly black-owned, are few in number and are mostly in construction, building maintenance, gardening, laundering, catering and security. In the present study among those regarded as successful only one is owned by a black

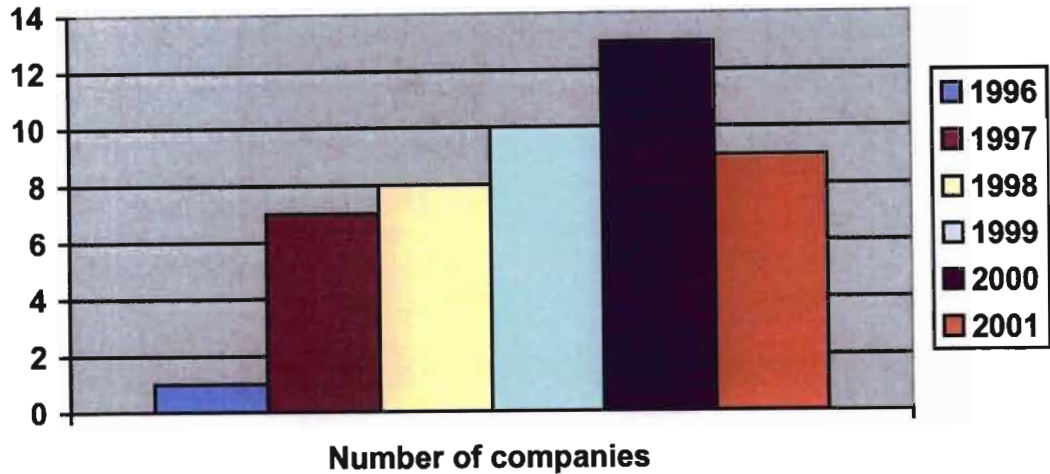
entrepreneur, and is in construction and Indian entrepreneurs own the other two companies that are involved in engineering testing and inspection as well as concrete fence manufacturing. The three companies that have applied for many tenders and won only a handful are owned by blacks. They have cited challenges in pricing and filling in tender documents as well as problems with finance. This finding also confirms some of the department's responses on ABE participation that most ABEs benefiting from the procurement are those owned by Indian companies and that black-owned ABEs are the ones that are experiencing most challenges. This therefore calls for targeted policy intervention with support mechanisms rather than just using the targeted procurement policy in isolation.

**Figure 5: Number of contractors and highest value of contracts won**



The above figure indicates that most contractors won tenders to the value of R9000 – R280 000, the majority being those between R200 000 – R280 000. All these contractors are prime contractors. Only three contractors won tenders to the value of R1 million and above, the highest being R20 million. Two out of the three contractors that won millions are joint ventures and one did not disclose if it is a joint venture or a prime contractor.

**Figure 6: Years tenders won and number of companies that won tenders**



This figure indicates that from 1997 to 2000, in the small group interviewed, the winning of tenders gradually increased on a yearly basis but started dropping slightly in 2001.

## **5.12 Challenges faced by SMMEs**

### ***5.12.1 Access to finance***

Eight companies from the sample of 28 cited access to finance for the performance guarantee and cash flow as the main problems they encountered. Some of them lost tenders as a result of these problems. Two companies from the eight indicated that even though they managed to get access to finance, they encountered high interest rates. One company refers to this as exploitation by financial institutions. In addition, one company reported during the interview that they lost a R4 million tender because they had to pay R100 000 upfront to the council and did not have the money. He adds that even though they could have tried the bank, they would not have succeeded

because they were only notified a day before and was supposed to meet that requirement the following day. No bank would assist them, at such a short notice, for the banks have their own processes. This contractor reported that even though access to finance is a challenge for SMMEs, he believes that the way council officials do things, specifically poor communication, also contributes to SMMEs not getting tenders and finance.

#### ***5.12.2 Tender forms and ABE affidavit forms***

Six companies reported that tender forms are complicated and difficult to complete. Three companies complained that the requirement that affirmable business forms be filled every time a company tenders is time consuming and unnecessary. If a company has been investigated before by the procurement-monitoring branch and been granted ABE status, there is no need to fill ABE tender forms again.

#### ***5.12.3 Payment delays***

Only two companies cited payment delays as a problem in dealing with the council. This could be due to the fact that most council departments now pay within 14 days instead of 30.

#### ***5.12.4 Attitude of clerks of works/officials and exploitation by joint venture partners***

Two companies complained about the attitude of clerks of works as being discriminating and gender insensitive. One ABE noted that the clerk of works added jobs without reviewing the agreed upon time frame, as a result the



contractor was penalised for not finishing within the agreed timeframe. One company complained about exploitation by a joint venture partner.

Only five companies reported no challenges in delivering their work. However, two of these companies recommended that the council should give more sessions and help SMMEs to obtain finance.

### **5.13 Support received by SMMEs**

Some companies received support from the council and outside the council while some did not receive any support from the service-providers nor from the council. Fourteen companies did not receive any support from the council or outside the council. Seven companies acknowledged support from the council through the provision of a session, which helped them to acquire material and two of them managed to get finance. In addition, three companies stated that officials' support and advice has helped them. One company acknowledged assistance from a councillor in a labour dispute.

Four companies acknowledged support received in filling in the tender documents from Thekwini Business Development Centre, Khuphuka and from a private consultant. Khuphuka and Thekwini Business Development Centres are accredited tender advice centres funded by government and the private sector to provide SMME support-services.

#### **5.14 Suggestions by SMMEs**

Fourteen companies out of twenty-eight suggested that council should help them to access finance. Some suggested that the council should provide bridging finance while some specifically said that the council should work in partnership with one of the banks to help companies who won council tenders obtain finance.

Other suggestions are that the council should give reasons why a company has not won a tender so that companies can rectify their mistakes and work on problem areas. Two companies suggested training in business administration and financial management as well as fleet control and construction laws.

Two companies requested that tender documents be simplified and written in Zulu including the affirmable business forms so that companies can easily understand the documents. Other companies indicated that the council's tender conditions should be flexible to small contractors and council should rotate contractors in order to give more work to small contractors. They felt that the council should set aside specific work for small contractors and ensure that in the previously disadvantaged areas local companies are awarded contracts. One company suggested that council should communicate their programmes to contractors if they are serious about empowerment as the provincial department of Transport and the national Public Works department do.

These SMMEs argue that empowerment also means that the council should give work to companies for at least a five year period so that companies could develop and grow, rather than giving small and short contracts. They also suggested that project executives should be employed to deal with disputes with clerks of works and contractors. One company suggested that contractors should be given bigger contracts and that project managers should not be reluctant to give work to small contractors.

Another suggestion is that the adjudication criteria should be based on potential to deliver rather than experience since some businesses owners have technical expertise but lack experience. Another suggestion is that council should provide more sessions because suppliers require original copies. As a result contractors fail to acquire material from other suppliers.

Lastly, SMMEs argue that the council should consider interim payments that will enable companies to deal with the cash flow problems. Finally, one company suggests that the council needs to encourage big companies to work with small and local contractors. However, one company argued that council needs to follow up on black empowerment joint venture projects to avoid exploitation by well-established white partners.

### **5.15 Findings from the workshop**

These views were gathered from the workshop and the recorded views are those that are not mentioned in the survey. The workshop was attended by 227 SMMEs from different sectors such as cleaning services, catering, security,

clothing, plumbing, electricity, painting, professional services (consultants) and from the construction sector but the majority were from construction.

The workshop participants raised the following as difficulties facing SMMEs; the ten percent performance guarantee required upfront, high wage demands by local labourers, submitting tender applications but not getting jobs due to corruption in the council, interference by councillors in the project in terms of who to be employed as local labour, and community liaison officers whose role is not clearly defined. Often the councillor determines wages for local labour and for the community liaison officer. This was sometimes not included in the tender pricing and sometimes these wages exceed the tender limit.

Challenges that were not raised in the questionnaire but were raised in the workshop include the lack of a complaints office. Contractors do not know where to lodge complaints when they encounter problems with engineers. Women entrepreneurs felt that even though the council claims to be giving preference to women owned companies, through the affirmative procurement policy, that is not happening in practice. During the workshop SMMEs raised the issue that corruption by officials in the award of tenders prevents some contractors from obtaining tenders.

It was suggested that councillors need to be trained in how to deal with contractors, or else pass their concerns to departments that will deal with

contractors, rather than directly interfering with contractors themselves. The council should open an avenue for contractors to lodge their complaints.

### **5.13 Overall findings, analysis and concluding remarks**

The findings show that the Durban Metropolitan Council's affirmative procurement policy has stimulated the establishment of SMMEs particularly by previously disadvantaged individuals. The policy has encouraged and increased the number of ABEs participating and accessing tender opportunities within the council. The SMME survey results show that most of the companies were registered between 1997 and 1999. This period links with the Durban Metropolitan Council's affirmative procurement policy adoption, for the policy was adopted in 1997 and implemented in 1998. The procurement statistics for the financial year July 2001 to June 2002 also indicate an increase of ABE participation in the council's procurement expenditure for both contracts and quotes. Thus, the overall procurement summary indicates that ABE participation for public tenders or contracts increased from 22.50 % to 23,21% in 2001. In 2002, ABE participation for quotes or non-contracts increased from 23.30% to 25.36%.

In addition, the SMME survey results show that since 1997 there has been an increase in the number of ABEs applying for tenders. Most companies however won tenders in the period 1999 (10), 2000 (13) and 2001 (9). Despite the increase of ABE participation in the council procurement, there is little benefit in terms of monetary value since only 25% of companies won tenders

worth R200 000 to R280 000. Seventeen percent won tenders valued between R9000 to R32 000. This finding correlates with the overall procurement statistics, which indicates an increase of ABE participation on quotes, particularly those worth less than R200 000. Only three companies won tenders worth a million and above and all but one of these were joint ventures. Thus procurement has provided income distribution but not growth. This statement is based on the amount or value of contracts won and on the fact that ABEs have been getting short-term contracts as opposed to long-term contracts as reflected in the findings from both departments, ABEs and from the service providers. Long-term contracts were a common suggestion from all the respondents in order for there to be sustainable development of SMMEs.

The results show that the joint venture has a potential to really enhance the growth of the ABEs but in this case they only fulfilled this financially but not in terms of capacity building for there were incidents of exploitation according to the SMME views. Hence the SMME survey results recommend joint ventures for empowerment and access to big contracts but emphasise the need and importance of monitoring to ensure that joint ventures achieve socio-economic objectives rather than just being used to get preferential and development points.

Even though the affirmative procurement policy includes a joint venture specification to achieve development objectives, the results show that officials do not often use this specification. Only three companies out of the twenty-

eight were in a joint venture. Letchmiah's (Durban Metropolitan Council 2000) assessment for council has highlighted this as a weakness arguing that officials do not encourage the use of the specification for joint ventures. Manchidi and Harmond's (2002) assessment for Public Works and other government departments and agencies' findings indicates that joint ventures have proved to be useful for ABEs to access big tenders and obtain some skills from big companies but there is also a concern that some big companies use joint ventures just to get preferential points instead of real empowerment of ABEs.

The findings show that SMMEs do have a potential in terms of employment creation for the total number of employees created from twenty-seven companies is 314 of which 167 are in full-time employment and 95 in part-time employment. This number could in fact be higher since one company did not disclose the employment statistics. In addition, the results show that although many companies employ one to forty people; the majority (that is twelve companies) employ one to nine people. The number employed correlates with the value of tenders these contractors get since most tenders are between R10 000 and R280 000 and are short contracts. This implies that if these ABEs could get big contracts and long-term contracts, as well as financial support to be able to start and finish their contracts, they could employ more people. Nevertheless, despite the low value of tenders won, the affirmative procurement policy has stimulated job creation through SMMEs and could do more if all specifications are applied such as the use of joint ventures, the use of local suppliers and the use of local labour.

Even though the affirmative procurement policy intends to encourage women-owned companies, it was difficult to assess this since the council monitoring record system only records ABE or non-ABE. It does not give a clear breakdown. When officials were asked they said their departments do use women-owned companies but they record that under affirmable businesses because that is what the monitoring system requires. Thus, it is difficult to say how many women-owned companies exist or have benefited from the Durban Metropolitan affirmative procurement policy. The SMME survey only had three companies owned entirely by women and a further two co-owned by women. One of the issues raised during the workshop was that the council policy claims to be supporting women but in reality women are discriminated against. They are not awarded tenders. In the survey one woman who owned her own company complained about being mistreated by the clerk of works because she was a woman. During discussion with the relevant officials there was an indication that the monitoring system would be reviewed to take into cognisance the breakdown of categories i.e. women owned, the disabled and also race.

The issue of recording the use of women owned companies is a common problem identified by Manchidi and Harmond (2002). Manchidi noted that only the Western Cape and North West province, particularly in the Department of Agriculture and Economic Development and Tourism Affairs, records PDIs and in addition indicates women-owned companies. In terms of the breakdown of PDIs neither Manchidi and Harmond, (2002) nor Sharp et



al, (1999) mentioned that. Letchmiah (Durban Metropolitan Council 2000) highlighted that African PDIs/ABEs in terms of the demographics have not benefited much from the policy. In this study it was difficult to ascertain this data, however officials gave an indirect indication with no specific figures. For example, one official indicated that other categories of ABEs get more tenders particularly the Indian owned companies. Other officials indicated that most ABEs that experience challenges are African owned companies. However, they could not give data to support this. Thus it was difficult to ascertain that due to the lack of readily available data unless one reviewed all contracts per department and tender board, which is a research project on its own.

In terms of disability, during the time of the research, the Durban Metropolitan Council's policy did not include the disabled in the policy. However, one of the officials from the Water department mentioned this as part of challenges encountered. The disability challenge was hearing. What is interesting about this is that despite the difficulty this official showed willingness, patience and innovative ways of breaking the communication barrier and eventually they were able to understand each other. As a result this disabled entrepreneur has managed to access and execute tenders from the Water department. A suggestion from this official was that it would help if officials are trained to deal with the disabled as they are part of the target group in terms of Affirmative Procurement Act (2000) and this would encourage more disabled entrepreneurs to come forward, (21/05/2003).

The results shows that city officials are committed to implementing the policy but they experience challenges and some officials are innovative in dealing with the challenges while some are unable to deal with those challenges and some are concerned with good quality service delivery on time at a minimum cost. Each department has demonstrated an initiative to assist, for example City Engineers started providing cessions to companies that won tenders, which enabled them to access building material while some managed to get financial assistance. Despite the limitation of the cession as stated by the ABEs, it has really helped many ABEs hence City Engineers has the highest ABE score on quotes.

In terms of officials' attitudes, only one company raised an issue of negative attitude and the service-providers also indicated that most officials are positive in terms of the implementation of the policy and its developmental objective. But it was indicated that there are those who are only concerned about doing business and do not consider developmental objectives. Durban Transport has also managed to improve their ABE participation by providing mentorship even though on a limited scale for they realised that mentorship requires time and money. Despite monetary and time constraints, the procurement officials made an effort and identified ABEs that have relevant skills but have problems in a few areas and these officials went out of their way to advise and monitor these companies for a period of one to two years. These companies improved tremendously and were able to obtain more and better tenders.

In summary each department has individuals who have shown initiative and tried to understand the challenges experienced by entrepreneurs and find ways to deal with those challenges. An advantage of local government is its closeness to the people. Not only does closeness count but also developmental local government's attitude and right mindset makes a difference. These officials have made that difference.

The findings also indicates that the monitoring system still needs to be reviewed for it limits departments in terms of giving relevant information as to the number of women-owned companies, number of local labourers used, as well as joint ventures. The existing recording system of ABEs and non-ABEs and contracts and non-contracts and values is good for assessing the impact of the policy but it is not enough since the policy has socio-economic objectives. Therefore the above-mentioned information is critical. In addition, there has to be clearly set targets coupled with support, not only for SMMEs but for officials as well.

The procurement success stories of Brazil, Botswana and the United States noted by Rogerson (1998) and the Enterprise Research Institute (1998) report were based on a working relationship and clear responsibility and objectives. They found commitment among the SMME associations; SMMEs support agencies, SMMEs and government departments. This study's findings have shown a gap and lack of co-ordination among departments as well as with SMMEs support agencies and SMMEs. However the interviewees have

identified the gap and realised the need to address it for effective affirmative procurement policy implementation and SMME development.

Even though SMMEs/ABEs participation increased in terms of tender application and winning tenders following the affirmative procurement policy adoption and implementation, there is still a considerable disparity between ABE and non-ABEs. Most ABEs have shown an interest and patience and hope in applying for tenders even though they still do not often get tenders. Those who manage to get tenders get minimum contracts in terms of monetary value, most get less than R120 000 and some manage to obtain contracts up to R280 000. Very few won tenders above R500 000. The result has also shown that most ABEs that win tenders are capable of doing the job for most of them completed tenders awarded to them and very few could not start the project or abandoned the project due to financial challenges.

The common problems identified by SMME service providers and officials are access to finance, lack of business management skills and low costing of projects. The service-providers spoke strongly against the practice of awarding the tender to the lowest bidder even though the tender board and officials see that the person has under costed. The service-providers argue that even though the intention is to increase ABE participation in the tender opportunities, the developmental objective must not be neglected.

The findings also show that the affirmative procurement policy did achieve its objective of encouraging SMMEs to participate in council contracts and that

officials do put it into practice. Unfortunately other factors prevent SMMEs from benefiting maximally and growing from these initiatives and being unable to create the maximum number of jobs.

The results show that in order for SMMEs to access the tender opportunities, there is a need for support in terms of filling in the tender document, assistance with finance and also feedback as to reasons for not winning tenders. Many keep on applying for tenders without knowing exactly where the problem is. If there is communication between tenderer, officials and relevant SMME service providers this will make the process transparent and officials would be accountable and there would be clear reasons as to why SMMEs are not getting tenders and which areas need to be improved.

The results also demonstrate a need for integrated support and co-ordination between SMMEs, the officials and the service-providers. This confirms Berry (2000) and Rogerson's (2002) findings that SMMEs do have a major role to play in employment creation but their success, in terms of economic growth and job creation, depends on the quality and type of support given and the access to markets. The results also confirms Joffe et al, (1995), Honderich (1999) and Berry et al, (2002), Wilson and Beamer's (2002) arguments that the affirmative procurement policy does have an impact on SMME development but there are still constraints that need to be addressed. The need for appropriate support such as training, mentorship and access to finance is also stressed.

The USAID and Durban Metropolitan (2003) study on constraints to SMMEs' growth and employment in Durban states that their survey revealed that there is a low level of business ownership by PDI, particularly black entrepreneurs, in Durban. This study also shows low PDI participation in certain sectors particularly in manufacturing. Instead, most black SMMEs are involved in the construction sector, prepared food and beverages, tourism and retail. This survey further highlights that the low skill requirement and experience in a particular industry has been a reason for most black SMMEs to choose or be involved in the industries or sectors that they are involved in. Thus, this requires a commitment from the council to devise an integrated development approach to SMMEs and particularly black SMMEs for them to participate meaningfully in the economy of the region and benefit from the targeted procurement policy. The procurement policy has a significant impact but without addressing these other factors it becomes less effective and will continue benefiting the well-established big companies and only limited sections of the PDIs.

## **CHAPTER SIX: Policy recommendations**

It is clear from the previous chapter that the Durban Metropolitan Council has shown commitment to implementing their affirmative procurement policy. Some progress has been made. There are however problems within the council and also capacity problems within SMMEs. In this the concluding chapter policy recommendations are made.

### **Review council requirements**

A council requirement raised by the SMMEs as a hindrance is the ten percent performance guarantee. Linked to this, as is the timing of the issue of the tender and notice to the person who won a tender. SMMEs indicated that they are advised at short notice, which makes it even more difficult to raise the performance guarantee from the banks due to the time-consuming processes that banks follow prior to approving a loan. Hence, a review needs to be considered that will ensure that the SMMEs will complete the job and will ensure a balance in terms of a time-frame when a tenderer is advised that a tender has been accepted and when the tenderer is expected to start and complete the job.

### **Improved monitoring and evaluation systems**

There is a need for improved information gathering to enable the council to monitor progress. As already pointed out, insufficient data is currently gathered. More information is required on race and sex as well as on disability. Further information should be recorded about the number of ABEs who applied for each

tender. This information needs to be analysed and to feed into ongoing refinement of the policy and its implementation.

#### **Feed back on tenders lost**

SMMEs who have submitted tenders and lost need to be given feedback as to why they lost. This needs to become standard practice in council procedures. In order for this to work effectively additional staff will be required rather than stretching the existing human resources. Even though this might seem an additional cost to the council it has long-term benefits to the economy of the city in terms of developing competitive businesses. SMMEs will know their weaknesses and be encouraged to improve and this will also lessen the repeated use of a very small number of SMMEs which is a problem at present.

#### **Greater support for council officials**

Council officials are under pressure from politicians to deliver. Genuine support of SMMEs and particularly ABEs can be more time consuming than awarding tenders to more established firms with a track record. The council needs to give incentives to officials to encourage them to support ABEs through the council processes and through the process of fulfilling the contract. One way of doing this would be through an award system recognising good work. Despite difficulties some departments have shown initiatives to make targeted procurement policy work and these officials need to be encouraged rather than being dismissed with the statement often heard in corridors that “officials need a mindset shift” in order to be able to implement the targeted procurement policy.



### **Set targets**

Setting targets makes it easier for everybody to work towards achievements that are easily monitored rather than working on a general objective. For example, the policy also targets women but not much has been done on engaging women, and officials assume that women are being used but that is not the case. The use of targets will enable officials to see timeously where there is a gap.

### **Greater tender and business support**

The research results indicate that those who are awarded tenders tend to secure small contracts and struggle to graduate to winning bigger contracts. Support services need to be put in place that target firms with this kind of track record. One suggestion would be to attach business mentors to such firms to help owners of enterprises to understand and unblock the barriers to winning larger tenders.

The council grants the tender to the lowest bidder. This encourages companies to cost very low just to get a tender. This has led to the closure of SMMEs that have won contracts, due to unrealistic costing. Again this points to the need for greater support services to SMMEs so that they can better formulate their costing.

The support mechanism needs to consider the issue of sector development. This issue of lack of ABE participation in certain sectors has to be looked at in an integrated manner for some departments indicated that they think ABEs do not participate in some sectors because of the requirement of expensive equipment that they cannot afford. Some factors relate to the training and skill required while some

relate to the quality and standard required. Therefore this issue needs a multi-strategy approach. It should also be noted that some entrepreneurs get involved in a particular business because of ease of entry and some because of knowledge and experience as indicated by the USAID – Durban partnership survey results.

### **Access to finance**

Access to finance has been raised as a serious challenge to SMMEs and it is also an indirect cost to the council and ratepayers when SMMEs are forced to abandon a project due to cash flow problems. While this is a national issue and discussions are going on reforming Khula, the council could play a role in influencing the Khula transformation processes or engage with Khula in exploring partnerships that will benefit SMMEs procuring with the council. The other option would be to forge partnerships with the financial institutions the council has an account with as suggested by some service providers and SMMEs. This should not only be limited to those particular financial institutions but could be broadened to take advantage of the financial charter that has recently being released. A third possibility could be to increase cessions. It has been indicated by SMMEs that these have been helpful but only to a limited extent as only one is issued and as a result the SMMEs can only use it for one supplier. If the route of issuing more cessions is taken, this will have implications administratively hence more staff will required to deal with this. All these options need to be weighed and perhaps could be implemented at different levels.

### **Assistance in establishing joint ventures**

Joint ventures with more established firms offer a learning opportunity for ABEs and SMMEs. The established firms gain, as they are more likely to win tenders if they have ABE partners. The council or council-supported business advice centres could set up a twinning service whereby they have databases of SMMEs/ABEs and also of other firms who are looking for business partners. There is clearly a problem however with ABEs being used as fronts. This service needs to be matched with business mentoring services that support ABEs through the joint venture process. Joint ventures clearly need to be closely monitored by the officials awarding the contract as the study results has shown that even though joint ventures have benefits, they tend to be exploitative if not closely monitored.

### **Further research**

The use of women-owned companies and the verification of the use of other ABE categories still needs further investigation for the available data could not clearly unpack or give satisfactory answers to this question. Even though officials argued that women companies have been used, there was no clear system of capturing this kind of information. This also applies to the issues relating to the African owned ABEs. Officials indicated that African ABEs do not get more tenders due to problems they are encountering but there was no data to support this. Probably if the procurement monitoring system is reviewed and targets and indicators are set in place, it will be possible to assess this.

In conclusion if the council is to make significant progress more resources, both financial and human, need to be dedicated to this issue.



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Sunday Times, Business Times. Government Thinks Big on Small Enterprises. 17  
February 2002

Big News Newspaper. Government tender system a sham – expert. No. 69 October  
2002

## **APPENDIX A**

### **BACKGROUND INFORMATION ON THE SMME SERVICE PROVIDERS INTERVIEWED**

Thekwini Business Development Centre (TBDC) is a Section 21 Company providing SMME support services such as tender advice and training, registration of businesses, assistance with business plan development, referral to financial institutions and other relevant institutions, provide relevant information, and provide business advice and training in business management and marketing, and facilitate business linkages. TBDC also serves as incubation for emerging and small businesses.

Khuphuka Education and Training Trust provides technical training focusing on construction, woodwork, metal and electrical work. Khuphuka also provides information on tenders and assists contractors to complete tender documents, provides product and process design and support for metal work and wood work, serves as an incubation for emerging small businesses involved in fibre glass products, oil package and distribution, carpentry, construction, metal fabrication and electrical.

Dedela Security is a sub section of Khuphuka, a pilot programme established by Ntsika in the year 2000 to provide procurement services with bulk buying economies, offer book keeping, invoicing and collection, provide working finance

(i.e.30 day payment guarantees to material suppliers and perform guarantees to clients against cession of payment on secured contract and offer project management). However, during the time of the interview Dedela was then out of Khuphuka and operating under the African Bank but the person interviewed was the same person who was involved at Khuphuka and still continued to provide the same services to the emerging contractors.



**APPENDIX B**

**Durban Metropolitan Council Survey – Towards the Development of  
Affirmable Business Enterprise Support Mechanism**

**QUESTIONNAIRE FOR SMMEs: 2001**

**1. Bibliography Details**

|                              |            |  |                        |
|------------------------------|------------|--|------------------------|
| <b>Name of Person</b>        |            | <b>Interviewers Name</b>                               |                        |
| <b>Sex</b>                   |            | <b>Date</b>  |                        |
| <b>First Language</b>        |            | <b>Telephone &amp; Fax</b>                             |                        |
| <b>Name of Business</b>      |            | <b>Location of Business</b>                            |                        |
| <b>Business Address</b>      |            | <b>Are you Leasing/<br/>Renting/Owner</b>              |                        |
| <b>Date of Establishment</b> |            | <b>If renting<br/>How much<br/>Are you<br/>Paying?</b> |                        |
| <b>Type of Business</b>      | <b>Cc.</b> | <b>Ltd.</b>  | <b>Sole Proprietor</b> |
|                              |            | <b>Partnership</b>                                     | <b>Other</b>           |

**2. Which sector is your firm involved in/what is the nature of your business?**

|                           |  |                                       |  |
|---------------------------|--|---------------------------------------|--|
| <b>Construction</b>       |  | <b>Machinery &amp; Equipment</b>      |  |
| <b>Cleaning services</b>  |  | <b>Metals &amp; Engineering</b>       |  |
| <b>Manufacturing</b>      |  | <b>Paper &amp; Paper products</b>     |  |
| <b>Building products</b>  |  | <b>Petroleum products</b>             |  |
| <b>Roads construction</b> |  | <b>Rubber</b>                         |  |
| <b>Clothing</b>           |  | <b>Plastics</b>                       |  |
| <b>Plumbing</b>           |  | <b>Publishing &amp; printing</b>      |  |
| <b>Grass cutting</b>      |  | <b>Painting</b>                       |  |
| <b>Electrification</b>    |  | <b>Sports goods</b>                   |  |
| <b>Landscaping</b>        |  | <b>Stationery</b>                     |  |
| <b>Glass</b>              |  | <b>Catering/ food &amp; beverages</b> |  |
| <b>Refuse removal</b>     |  | <b>Computers</b>                      |  |
| <b>Fumigation</b>         |  | <b>Computers</b>                      |  |
| <b>Painting</b>           |  | <b>Other</b>                          |  |

3. What is your level of expertise in this business (owner)?

\_\_\_\_\_

4. Number of employees and their profile:

| <b>Number of Permanent Employees</b> | <b>Number of Temporary Employees</b> | <b>Skills Level/ Responsibilities</b> | <b>Gender (Male or Female)</b> |
|--------------------------------------|--------------------------------------|---------------------------------------|--------------------------------|
|                                      |                                      |                                       |                                |

5. Number of tenders **APPLIED** for and when:

| <b>No of tenders</b> | <b>When</b> |
|----------------------|-------------|
|                      |             |

6. Number of tenders **Won** and when:

| <b>Number of tenders won</b> | <b>When</b> |
|------------------------------|-------------|
|                              |             |

7. Number of tenders **completed successfully**:

8. How many tenders were **Not completed successfully**:

9. Where did you get the information regarding tenders?

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10. Did you get assistance in filling the tender form?

|             |            |
|-------------|------------|
| <b>YES:</b> | <b>NO:</b> |
|-------------|------------|

11. If completed by yourself, how did you find it?

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12. During the implementation of the project did you receive any support from the council or other institutions, if so in what form (e.g. financial support, training, etc).

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13. Who was your project manager (council or outside) and how was your relationship (good or bad and why?

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14. What support do you require from the council during tendering and implementation of projects?

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9. Tenders **COMPLETED** successfully

| <b>Tender</b> | <b>Value</b> | <b>Place</b> | <b>Duration</b> | <b>Consortium/<br/>JV/Separately</b> | <b>Year</b> | <b>Reason</b> |
|---------------|--------------|--------------|-----------------|--------------------------------------|-------------|---------------|
|               |              |              |                 |                                      |             |               |
|               |              |              |                 |                                      |             |               |
|               |              |              |                 |                                      |             |               |

10. Tenders **NOT** completed successfully

| <b>Tender</b> | <b>Value</b> | <b>Place</b> | <b>Duration</b> | <b>Consortium/<br/>JV/Separately</b> | <b>Year</b> | <b>Reason</b> |
|---------------|--------------|--------------|-----------------|--------------------------------------|-------------|---------------|
|               |              |              |                 |                                      |             |               |
|               |              |              |                 |                                      |             |               |
|               |              |              |                 |                                      |             |               |