

CHAPTER 1

OBJECTIVES AND SCOPE OF THE STUDY

1.1. INTRODUCTION

Procurement is described as the process, which creates, manages and terminates contracts. Procurement as such is concerned with establishing and documenting what is required; inviting enterprises to bid on providing goods and services, to construct or maintain infrastructure, awarding contracts to successful bidders, monitoring what was contracted to be provided, is indeed provided, and paying contractors for executing their contracts. (Watermeyer, 2000:1)

The African National Congress (ANC) in 1993 realised that public sector procurement could be used as an instrument to address imbalances (such as unequal distribution of income, poverty, unemployment, low productivity, low skills, and low levels of income growth faced by the majority of the population) arising from the system of apartheid particularly the skewed business ownership patterns on racial lines. Following South Africa's first democratic elections in 1994, a procurement Forum was established by the Ministries of Finance and Public Works, to initiate a process of Public Sector Procurement Reform in South Africa. A procurement task team was appointed to research and develop policy proposals. Procurement Reform in South Africa had two basic objectives: good governance and the attainment of socio-economic objectives through procurement. (Watermeyer, 2000:1)

Local Government in South Africa was assigned the task to promote local economic development (LED). Unlike National and Provincial Governments, Local Government is the nearest to the local community, and deals with it on a daily basis through the provision of services, which may involve the construction and maintenance of infrastructure. This may require buying goods and requesting services from the local

community and the private sector. More specifically Local Government may be involved in any procurement activities. In addition, Local Government may receive complaints about the poor services provided by the municipality, and is the first to know about the needs of the local community. One of the ways Local Government will promote LED is through the development of Small Micro and Medium Enterprises (SMMEs). From the experience of other more developed countries especially in Asia, it is proven that SMMEs can be an important motor for growth and development.

Preferential Procurement is a subject which other countries have been familiar with. In countries such as the USA and the UK, Governments saw the need to introduce legislation in favour of minority business enterprises, to promote socio-economic development among their communities. The legislation required majority firms to do business with minority firms in case of winning a contract to provide a service or supply goods to Federal Government.

As firms struggled to implement preferential procurement, many academics and business leaders formulated models to implement preferential procurement programmes. Although the circumstances are different, Local Government in South Africa may draw knowledge from those countries, and use it where it is beneficial for the community it serves.

1.2. PROBLEM STATEMENT

Given its great purchasing power, the South African Government identified public procurement as a tool to achieve certain socio-economic objectives. Local Government has been delegated the mission of promoting local economic development using the tools and infrastructure under its control.

Several preferential procurement policies have been drafted to facilitate the implementation of preferential procurement in Local Government. In this interim, various

councils and municipalities, which served the Greater Pretoria Area, were integrated into the City of Tshwane Metropolitan Municipality on the 5th of December 2001.

These events could open the debate on whether the City of Tshwane is able to cope with its new responsibilities regarding local socio-economic development in the new areas, which now fall under its control. One of the issues, which arise from this question, is whether the preferential procurement policies are being followed, and if so, whether they promote local economic development. Other points worth thinking about are whether the municipality has enough infrastructures and whether it needs specific policies adapted to the circumstances of each local area.

1.3. RESEARCH OBJECTIVES

1.3.1. Primary objective

The primary objective of this dissertation is to analyse the importance of preferential procurement in the Local Government as an instrument of socio-economic development. This will be done by firstly investigating the process of public procurement reform, which introduced laws into the New Constitution of South Africa. The analysis goes on by considering government's main socio-economic objectives and whether its purchasing power can help achieve them. To further consider whether preferential procurement can be used in Local Government as a tool to achieve its developmental objectives, the analyses looks at other countries, where governments saw it as an answer to promote economic development among minorities.

1.3.2. Secondary objectives

The secondary objective is to find out whether Local Government in the City of Tshwane is able to promote local economic development using preferential procurement policies. This will be achieved by formulating a case study based on structured interviews, which will be performed at the municipality.

1.4.2. Case Study

1.4. RESEARCH METHODOLOGY

Qualitative research in the form of a case study is used in order to provide insight for

This research study consists of qualitative research through a literature review and the formulation of a case study on the implementation of preferential procurement in the metropolitan area of Tshwane.

Developing a case study the researcher intends to analyse the claim that the City of Council is able to promote local economic development using preferential procurement policies.

1.4.1. Literature review

There is extensive literature which addresses the topic of preferential procurement and methods to implement affirmative purchasing programmes in organisations. In South Africa, various researchers have already written reports on how enterprises can implement preferential procurement. For instance, Badenhorst, (1995:1-20) has written about challenges facing enterprises, Nieman, (129:132) has suggested a framework to find and develop small suppliers and Watermeyer, Letchmiah and Mnikati, (2000:1-24) have written on targeted procurement and Watermeyer, Hauptfleisch, Jacket and Letchmiah (2000:1-27) have written on the subject of black economic empowerment.

However, little or no research has been done on how far government can go in using its purchasing power to achieve socio-economic objectives. The present literature does not cover the use of preferential procurement policies by Local authorities to promote local economic development and true economic empowerment by previously disadvantaged businesses/individuals.

ment in Local Government, while in writing, may be unavailable to an outside researcher. Therefore the researcher will seek information from persons

The present research study will attempt to uncover the reality surrounding the use of preferential procurement in Local Government. The results of the case study will allow the researcher to make an analysis and recommendations on areas, which have problems.

1.4.2. Case Study THE STUDY

Qualitative research in the form of a case study is used in order to provide insight for problem solving, evaluation and strategy. This detail is secured from multiple sources of information. It allows evidence to be verified and avoids missing data.

Developing a case study the researcher intends to analyse the claim that the City of Tshwane Municipality Council is able to promote local economic development using preferential procurement policies.

process of preferential procurement:

In order to develop a case study, qualitative research will be conducted which consists of an exploratory research methodology based on a small sample providing insights and understanding of the problem setting. Two techniques will be used: in-depth interviews and experience surveys.

The greatest value of interviewing lies in the depth of the information and the detail that can be secured: by detailed probing of the respondent, discussion of confidential, sensitive topics, interviewing professional people, and detailed understanding of the situation.

(Cooper & Schindler, 1998:325)

The reason for using experience surveys is that a significant portion of what is known on Preferential Procurement in Local Government, while in writing, may be unavailable to an outside researcher. Therefore the researcher will seek information from persons experienced in the area of study, tapping into their collective memories and experiences. When interviewing the persons under this method, the researcher will seek their ideas about important issues or aspects of the subject and discover what is important across the subject's range. (Cooper & Schindler, 1998:136)

as well as describing the problem statement, the research objectives, the research methodology, the benefits of the study and the outline of the dissertation.

1.5. BENEFITS OF THE STUDY

Chapter 2

Several studies have already covered the topic of preferential procurement also known as affirmative purchasing. This particular study will be beneficial for:

To conclude, the chapter justifies the use of Preferential Procurement in South Africa.

- A point of reference for academics, who wish to expand their research on the topic; components and its objectives are discussed.
- Decision Makers (suppliers, large businesses) who wish to participate in the process of preferential procurement:
- Practical policy makers who wish to know the effectiveness of the adopted policies aimed at reforming the procurement process;
- The Local Government as it will help it determine the effectiveness of the implementation of preferential procurement policies in promoting local economic development (BEE).
- Non Governmental Organisations who work with the private sector and the Local Government in the promotion of SMMEs and the upliftment of local communities

Looks at the use of preferential procurement in other countries. In chapter four it is

1.6. OUTLINE OF THIS DISSERTATION

countries saw the need to introduce preferential procurement laws in legislation so as to remove the historical obstacles which made it

The structure for the dissertation is as follows:

to compete in the market with majority firms. By removing these obstacles, the chances of surviving in the market for MBEs

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greater and as result, it would improve the standards of living of minority communities.

Describes the objectives and the scope of the study, as well as describing the problem statement, the research objectives, the research methodology, the benefits of the study, and the outline of the dissertation.

Chapter 2

Discusses the policies governing public procurement at all levels of government. To conclude, the chapter justifies the use of Preferential Procurement in South Africa. Affirmative Procurement is defined, as well as the need to implement it; its key elements, its components and its objectives are discussed.

Chapter 3

Analyses the use of public sector procurement by the South African Government in the achievement of certain socio-economic objectives. It describes government's national objectives, it explains the role of public sector procurement as a policy tool used to address socio-economic problems; it defines procurement and its use to achieve socio-economic objectives. It discusses Targeted Procurement as a developmental policy, which targets specific groups, and it looks at the some issues surrounding black economic empowerment (BEE).

Chapter 4

Looks at the use of preferential procurement in other countries. In chapter four it is discussed how governments in certain countries saw the need to introduce preferential procurement laws in legislation so as to remove the historical obstacles which made it difficult for minority business enterprises (MBEs) to compete in the market with majority firms. By removing these obstacles, the chances of surviving in the market for MBEs would be greater and as result, it would improve the standards of living of minority communities.

Concludes the dissertation reviewing its objectives and makes several recommendations to policy makers at the City of Tshwane. These recommendations are based on what the researcher has uncovered in the case study presented in chapter 7

Chapter 5 Theory behind preferential procurement discussed in the previous chapters, which make up this thesis.

Defines and discusses the use of AP programmes to economically empower previously disadvantaged individuals. It then discusses the use of AP programmes as a strategy to fulfil socio-economic responsibility requirements. It discusses various problems encountered in establishing AP programmes. It is followed by a discussion of factors, which can promote AP programmes. A model for a successful AP programme is given as well as a framework whose main objective is to find and to develop small and emerging suppliers.

Chapter 6

Describes the type of research design used in the thesis. Essentially, the research design is a plan for selecting the sources and types of information used to answer the research question. It is a framework for specifying the relationships among the study's variables. It is a blueprint that outlines each procedure from the hypotheses to the analysis of data.

Chapter 7

Investigates the role Local Government plays in local development, given the use of preferential procurement and the possibility to use its purchasing power to promote the development of previously disadvantaged businesses especially SMMEs. A case study is drawn on the use of preferential procurement in the City of Tshwane Metropolitan Council.

Chapter 8

Concludes the dissertation reviewing its objectives and makes several recommendations to policy makers at the City of Tshwane. These recommendations are based on what the researcher has uncovered in the case study presented in chapter 7

and the theory behind preferential procurement discussed in the previous chapters, which make up this thesis.

1.7. GENERAL

2.1. INTRODUCTION

The Harvard method was used as a standard method of reference.

The aim of chapter 2 is to look at the background of Preferential Procurement (PP) in South Africa. The concepts, Affirmative Purchasing, Preferential Procurement and Affirmative procurement will be used interchangeably, as they are synonymous.

Next, it discusses the policies governing public procurement at all levels of government. Under this topic, it looks at the role of the Local policy in the SMME development, the 1993 White Paper on Local Government is discussed, it works at the State tender Board Act of 1966, the Provincial Tender Board Act, the State Tender Board General Directives and Procedures; the Directives to Departments in respect of Procurement and the Ten Point Plan is discussed. In addition, it discusses the aim, key principles, objectives and pillars of reform of the Green Paper on Public Sector Reform in South Africa.

Furthermore, the chapter discusses at the Public Finance Management Act, the Municipal Systems Bill and the Municipal Finance Management Bill. The next topic discussed is the Preferential Procurement Policy Framework Act (PPPPA). It discusses the objectives of the Act, Framework for implementation of the procurement policy, and the preferential procurement regulations.

The PPPPA has certain implications on procurement by Local authorities. Then a discussion is made on what would be like the procurement environment in a Transformed Local Authority.