

CHAPTER 7

RESEARCH FINDINGS IN THE CITY OF TSHWANE METROPOLITAN MUNICIPALITY

7.1. INTRODUCTION

The objective of this chapter is to do a case study to determine the use of preferential procurement in Local Government, and whether the City of Tshwane Metropolitan Municipality is able to promote local economic development, (LED) given its new developmental responsibilities.

The procedure to get the information for the case study was to conduct interviews at Local Government with the Department of Local Economic Development policy makers, the people involved in the implementation of preferential procurement policies and in the buying process at the Municipality. The following people were interviewed:

- Mr Graham Gumbo, Acting Manager for the procurement Section in Tshwane Municipality;
- Mr Dirk Strydom, Contracting Officer at Tshwane Municipality;
- Mr Rassie Erasmus, Chief Buyer at Tshwane Municipality;
- Mr Stein Joubert, Senior Accounting Officer at Tshwane Municipality

Various attempts were made in order to interview the General Manager for Local Economic Development Mrs Kgomotso Matlala, who was always unavailable, that is, she was never able to talk on the phone, or to concede an interview on the topic.

However, the persons who work in the three key areas of her office were interviewed.

They were:

- Mr Andre Gouws Acting Manager for Policy and Research;
- Mrs Nomgqibelo Mdlalose Manager for Enterprise Development; and
- Mr Hendriks Kleynhans Acting Manager for Industrial Development

The questions asked were the same for all respondents and they constitute the headings of the case study. Respondents were not able to answer all the questions, as some of them were not part of their expertise area.

7.2. OBJECTIVES OF LOCAL GOVERNMENT AT THE CITY OF TSHWANE

Gumbo, (2002) argues that Local Government in the City of Tshwane has a major task to accomplish, which is the development of areas, which lack basic infrastructure and have a poor economic activity. This was the main objective for the amalgamation of the areas into one Metropolitan council.

The main aim of Local Government is to provide prompt high quality service delivery.

An important aspect, which cannot go unnoticed, is that Local Government deals directly with the local community. Local Government is more aware of the needs and advances of the community it serves. This is one of the reasons why the Local Government White Paper put the Local Economic Development under the responsibility of Local Government.

Local Government in the City of Tshwane intends to remove certain backlogs in the most adversely affected areas. For example, given two areas: Pretoria and Soshanguve; Local Government would prioritise the construction of roads in Soshanguve where there is a shortage of this important infrastructure, rather than constantly repair roads in

Pretoria. This does not mean that more developed areas would be neglected, and left on their own up to total degradation. What Local Government pretends to achieve here is to allocate scarce resources to the places where it is needed the most. Where there is a shortage of finance Local Government can get grants from National Government. In this way, more developed areas such as Pretoria would help areas such as Soshanguve to have basic needs met such as the provision of housing, water and electricity, roads, hospitals, schools, and other amenities.

Strydom, (2002) argues that although there was a need to centralise the provision of services in the City of Tshwane, there is a need to develop adequate regulations and rules for a bigger metropolitan service delivery.

The provision of services such as water and electricity supply, the construction of roads and housing, hospitals, schools and other developmental initiatives for the local community becomes viable once there are economies of scale. Economies of scale will allow for cross-subsidisation. This means that the most economically developed areas such as Pretoria may subsidise the provision of services mentioned above in areas such as Soshanguve which economic activity is still unable to produce the capital needed to fund its infrastructural projects. In addition, since money can cross geographical barriers, there would be no overdrafts for a particular area.

Joubert, (2002) says that the City of Tshwane is working hard towards the upliftment of rural areas, however, more discipline and cooperation (that working with previous officials) is needed. He argues that although the amalgamation of areas into one Metropolitan area is seen by many as necessary, he believes that cross-subsidisation will not cover the existent gaps. Places like Wintersweld and Soshanguve are very far away from the municipality. For instance, when it comes to supporting SMMEs, suppliers have to come from these far away places whenever they have to be aware of contract opportunities. Many AP firms do not have the means to effectuate these long trips on a regular basis. Even the use of the Internet is unlikely for those who do not have the means to own a computer. Unless the municipality creates an infrastructure capable to

cover the deficiencies of these far away places socio-economic objectives will take a longer time to be achieved.

Mdlalose, (2003) says that one of the main objectives of Local Government is to promote Local Economic Development. Her job function as manager for enterprise development involves micro and small enterprise development, and also covers trade promotion. At a micro and informal level people lack skills and therefore these are the ones who need more assistance for business development and orientation to be more formalised. In addition, it looks for the setting of business support centres. Trade promotion looks at promoting exports, ensuring that local businesses have a local broad market.

Tshwane is capable of doing the work previously done by councils before amalgamation. However, during the current transformation, there is a lot of instability. This is affecting everyone involved in this process where people are being changed and confirmed into positions in Local Government. In addition, there is a bigger challenge at the City of Tshwane Municipality because it is a bigger area to cater for. It is a fact, only three of the councils that were amalgamated into the City of Tshwane had economic development strategies. There is a need at present to include the other councils into the development plans of the Municipality. There is a need for the department to be boosted to be able to provide the services to the local community.

Kleynhans, (2003) says that Industrial Development and Technology as a function of LED has a number of sub-functions. One of them is to promote industrial development and attracting investment towards the Tshwane Area, promoting specific industrial clusters such as the automotive cluster. This cluster is going to become a very prominent part of the department's task. The idea in the entire process is to do it in a very integrative manner. The idea is not only to develop the cluster, but also to develop the supportive infrastructure needed to develop the cluster. That kind of approach needs to be done within all the clusters and networks that the department is going to seek. The department is in the LED inverted commerce and new responsibility within Local

Government, although in the Greater Pretoria and new Tshwane Area, the former Greater Pretoria Metropolitan Council had a Metropolitan economic Development department and they started some initiatives. The City of Tshwane Metropolitan Municipality is on the one side going to start to build on what was done in the past, although a lot of new things will have to be done, one of the focus is basically to establish a reference for the work that the Department has done. There is a good idea on what the Department needs to do, being that they still need to finalise within that frame, and that is going to be done towards the beginning of April 2003 when the department has a strategic session and there it is going to clarify "job descriptions". However, the department has noticed that within the industrial development component, a proper industrial development strategy will have to be put in place. The following will have to be looked at, where it will have to analyse the different industrial areas in terms of its composition, the kind of economic activity taking place there, the strains of the clusters being developed there and to look at the spatial distribution of those industrial areas located all over Tshwane. Some are going quite well, while others are experiencing extreme economic growth problems. The department will have to go with business retention/development strategies, just as a method to maintain what is already there, because it is a big loss if industries are going to move; then the Department would lose quite a number of economic growth opportunities. Once the Department starts working with these strategies it will have to go to those industrialists and try to find out, what problems they experience, what support the Local Government can give them to promote growth. The Department has to look at the possibility of offering incentive programs; incentive programmes have been implemented over the past 5 years and are working extremely well.

can bring a lot of new investment opportunities as long as it is done in an integrative manner through development facilitation.

The Department has to look at industrial clusters, evaluate the different clusters and at the end of the day part of the process will also be to compile an industrial list directory so that the department can make information available on all manufacturing activities and manufactures in the area.

rent functions, as well as to evaluate the functions and projects as agreed upon within the council

On the development facilitation side there are basically four to five main focuses. The first one being able to identify large-scale development projects, analyse those projects, and putting together business plans for implementation. The second part would be to get funding for those projects in other words, development funding to form an element of that function. Then the third element of that function would be to lead to the old concept of project management or project implementation and then to the Spatial Development Initiatives projects of both national and provincial Governments. Local Government needs to take part in initiatives and analyse the economic impact of those initiatives, like deciding how it is going to make use of opportunities that are brought towards Tshwane, putting together implementation strategies enough to make decisions on how the municipality is going to promote economic growth within industrial areas. This is something that has not been done yet. There is a need from Local Government to find what kind of support Local Government can provide to promote economic development within Tshwane. The last one, also making part of this initiative is the entire principle of industrial clustering which needs to be invested in this initiative through this function.

The other part of the function is development facilitation. It is a new concept within Local Government. The department is trying to use this function to coordinate the expenditure from different government departments both at national and provincial level. The Department has succeeded in co-ordinating a governmental expenditure of close to R1 billion. The turnover from buying the construction material can create income revenue for Local Government. People working on that project, will get more disposable income, jobs will be created, and Local government will gain financial benefits from service revenues. This function can bring a lot of new investment opportunities as long as it is done in an integrative manner through development facilitation.

Tshwane Municipality is capable of coping with its new developmental responsibilities but given the proper human capacity, the proper allocation of its financial resources, as being creative within the different functions, as well as to execute the functions and projects as agreed upon within the council

Gouws, (2003) says that there are two aspects concerning his job function at Local Government in the department of Local Economic Development. These are: (1) policy and research and (2) information. Information is partly marketing and partly the information the enterprise would need to do business. He coordinates the linkages among the businesses. Trade points look after trade promotion and Enterprise South Africa Tshwane look more after entrepreneurial development. This section co-ordinates the information for their clients as well as information meant for investors on the business side. On the marketing side this section needs to inform people about the functions involving place marketing, internal communications. The policy and research side is doing an overall economic development strategy and as soon as it is ready, the section the implementation plan will be put into place. There are a number of issues, which are going to be look at such as BEE, procurement access to markets, availability of finance and HIV-AIDS.

The objectives of the Municipality can be analysed through its vision statement, which says: "to be the international acclaimed African capital city that empowers its people to prosper in a safe and healthy environment. The first part of the vision means that it must be a first world. There are already first world things that the City has and those things need to be maintained and developed. For example, South Africans are world leaders in car assembly. South Africa has the Bureau of Standards, which had a big role to play in the adoption of ISO 9000, therefore being on the cutting edge of creating standards. There is a need to maintain these and other infrastructures, through proper support mechanisms.

If one looks at the second part of the vision statement that says, to empower its people to prosper in a safe and healthy environment, it is not referring to the social development, the department is not in the business of doing handouts, instead the department is in the business of getting people that are focused to move up, and covers a lot of issues such as: information, training, mentoring and networking. This is the strategy there. The main draft has been done on the strategy: some of the things are on legislation and others in terms of the needs of the City of Tshwane. The Strategy has

been set up into certain goal areas and the structure is set up according to that. From goals and objectives the department is coming up with tactics at the work place for a five-year plan. There are a lot of policy documents, which were framed and they form the backbone of what happens. The policy document has been refined by Mrs Kgomotso Matlala to a certain extent and just needs legs to become a proper implementation policy document.

The following person was unable to discuss this topic: Erasmus (2002)

7.3. POPULATION BENEFITS IN TERMS OF LOCAL DEVELOPMENT

Mdlalose, (2003) says that the department of Local Economic Development has initiated quite a number of projects, which have created jobs for the local people. However, it is not easy, because some of the people have never worked before. Therefore, it is a challenge to create someone who can work and create something sustainable. Nevertheless, the department has projects, which are sustainable, where people are making a living on a daily basis. A number of them are still on a developmental stage, where they are still learning entrepreneurship, in training. The department is also looking at poverty alleviation through agricultural projects where its main purpose is to feed one's family and be able to sell the surplus to get an extra income.

Kleynhans, (2003) says that local benefits differ from function to function, and from project to project. For example in the Mabopane Centurion Development Corridor project (Isindingi project) the department facilitated the construction of roads to the value of R150 million. Within the implementation of those projects, labour intensive methods were used to a large degree. So the local communities benefited in terms of job creation and gain of revenue during that period. In addition to creating jobs and after compiling the necessary business plans, proper investigation is necessary to make sure projects are feasible. The families that were involved in those projects started to receive a monthly income of R2200, which was of great benefit to them. One of those projects was for disabled people, just South of the Pretoria Station, and they ended up with a

monthly income of approximately R10 000 a month for the entire unit. The local people use this success story as a basis to get additional funding to expand the operations. Some of the other work that the department does is to appoint a consultant referred to as business development champion. That consultant company went to the corridor area and they identified different business development opportunities. The department took some of these opportunities, and categorised and prioritised them. Eventually from a list of more or less 150, the department selects those, which have a good bankability opportunity, and then starts to compile business plans and to link possible private sector jockeys who will start the necessary investment funds.

Some of the other initiatives, which are linked to the automotive clusters for example to the land incentive over a four to five year period, negotiated a contractual investment value in the vicinity of R2.5 billion and also with the contractual possibility of establishing 50 000 new jobs within the Rosslyn area. So there is definite benefit in terms of job creation for local people and revenue for Local Government.

Gouws, (2003) says that there has been a certain amount of jobs and markets created by the municipality in the past. The new policy is an extension of what has been done in the Greater Pretoria Metropolitan Council. The department has started to look at some training aspects, for example Ford and BMW have re-invested into the area; this is part of the department interventions.

However, on the ground, in townships and rural areas, it becomes more difficult to prove the Department's success and there are a lot more failures, and projects do not have such a good record.

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) and Erasmus, (2002).

7.4. THE NEED FOR LOCAL GOVERNMENT TO GET MORE POWER IN TERMS OF FUNCTIONS AND INCOME

Mdlalose, (2003) said that the department needs policies that will allow it to be entrepreneurial, just like the entrepreneurs themselves. If the department sees an opportunity, it should be able to take advantage of it whilst it is still there, but the procedures are as such, that it becomes difficult to achieve this. So, there is a need for a separate institution that will be able to act speedily to capture opportunities as they come. If one comes and says that they want to attend a training program, the department may not respond as quickly and the entrepreneur may miss it at the time when it needs it. Currently the department is not able to respond as soon as possible to entrepreneurs. LED hopes that local business centres should do that, but again most of the people in need for these services cannot afford to pay for it. So the ideal situation would be for the LED department to cover the costs in one way or another, having some kind of relationship to say if one has made some intervention, from this level to that level and these are the results that came out from those interventions. In terms of the LED plans, goals and objectives, they should be in line and in one way or another should be able to provide the people with the services they cannot afford, not to say that people should get services for free. But there are cases where a person needs to attend a training program worth R3000 and clearly that person does not have the capital. Therefore the LED department must be flexible on how those services are provided so as to avoid excluding the people.

In relation to income, Local government needs to be active in setting up the small financial institutions. From the LED perspective there is a need to identify real entrepreneurs and assist them setting up their businesses. Legislation should help reduce the interest rates to a level that would be more affordable for SMMEs.

Kleynhans, (2003) says that it is difficult to determine whether Local Government needs extra power at this point in time. The reason is that there are new local economic policies and through the new municipal structures Act and Assistance Act there are new

functions and responsibilities to Local Government and they still need to work exactly whether those functions and responsibilities are going to work.

Gouws, (2003) says that there is a need to define the department's role if it is going to do the projects, whether it is going to act as entrepreneur or as a facilitator. At this point the department's role is better as a facilitator and getting other agencies to do the work.

In addition, in a way it is good many micro businesses do not know about the role of Local Government so as to not create false expectations, as the department needs extra capacity to meet them. There are not enough qualified people and at the moment, money insufficient.

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) and Erasmus, (2002)

7.5. THE USE OF MUNICIPAL POWERS TO PROMOTE SOCIAL DEVELOPMENT AND ECONOMIC GROWTH

Mdlalose, (2003) says that Local Government is an independent entity from other spheres of Government, and its responsibility is to have its impact on the ground, that is why it comes out with policies. But its main focus should be making sure that services are delivered and this is what gives it all the power and the authority to be just that. It then depends on how the Department implements those programs, what processes and procedures are put in place to be able to do that as well as how much provincial and national support resources are tapped on, because there are different funds and programs available from National and Provincial Governments. The Department is in a much better position to make the impact right on the ground, because the Legislation allows it, although depending on how the Municipality set itself up to ensure that they deliver.

(2003) says that coordination is necessary so that the department can tackle all the different resources and put them together, and have that much needed impact. This should be the Department's major role rather than starting from scratch.

Kleynhans, (2003) says that LED has been in place within Tshwane since October 2002. The Department is still struggling trying to get the necessary budget in place. The issue of money allocated in LED is a big problem. Only once there are the necessary resources, the department will be able to promote proper economic growth and therefore social development. But in regard to the work that has been done so far in terms of job creation, housing and infrastructure development, there have been some steps towards social development within a number of regions.

Gouws, (2003) says that the Department's strategic document often refers to the bill to justify the existence of LED. Several municipalities do not have the capacity, and Tshwane was probably one of the first to promote LED. The development aspect ought to be done under the RDP and there is a lot of debate about what development is. The old definition of Local Government involves the three "R's": roads, rubbish and rates. These are the biggest divisions in the Local Government and they get the biggest share of resources. In LED the share of the budget that the Department takes is very small: the Department asked for R15 million but was only given R5 million. The Department has been told to cut costs and expenses. However, the department needs to provide infrastructure and facilitation. When the department builds roads it creates short-term jobs and the question arising is how many long-term jobs are going to be created. So there is a need to develop those models, but there is still a big debate of what developmental is.

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) and Erasmus, (2002)

7.6. ALIGNMENT BETWEEN PUBLIC AND PRIVATE INVESTMENT WITHIN THE MUNICIPAL AREA

Mdlalose, (2003) says that coordination is necessary so that the department can tackle all the different resources and put them together, and have that much needed impact. This should be the Department's major role rather than starting from scratch.

The department has projects, which are being implemented with the private sector. On the other hand, both National, and Provincial Governments were not really in a position or they were not ready to start working with Local Government as yet. There is not really an established system at Provincial and Local Government that says, "That is how we are going to work". Presently the departments of Provincial and Local Government are setting a system in relation to working in projects, in conjunction, but eventually the end result should be such that when working in Local Government one should be comfortable in working in another Government department.

There should be a specific, simple procedure, something like when two cities or two countries have a relationship where specific issues are defined. The department has defined, that from the beginning it would reduce the time individual's waste finding the right people to talk to, because at the moment time is lost by the wrong people being consulted. It also has a lot to do with connections and how well one is networked instead of being an established system that says: "this is how one relates to Local Government". If that had been in place, it would have been much easier. Most of programs that National Government supports have to be done via Local Government, but the problem is that it depends on how clued up one is, and what there is. It is not something that is given directly to the Municipality to say if you are in LED these are the channels or this is how it is done.

Although Legislation says that Local Government should assist Local Business Support, it does not say how. So it is a matter of constantly defining and being creative around it. It should be more straightforward, because it is meant to be used by the Municipality and all the other things like reducing the amount of time in just trying to establish just one project.

Kleynhans, (2003) says that in order to discuss this topic, there is a need to understand the kind of projects that the Department is implementing. For example the Isindingi project has basically five legs: the first one is referred as over-rural restructuring. The

second one is referred as transport integration. The third one is direct investment. The fourth one is referred as coordinated investment attraction and the fifth one is referred as human resources development.

7.7. DEMOCRATISATION OF DEVELOPMENT

The Department is dealing with those pillars on a simultaneous basis. One of the projects must focus on the development of a new central business district in the nearest area of Soshanguve. Through an integrated approach the department convinced the South African railway commuted corporation transportation, to build a new station. The local council developed a road master plan whereby all the major routes lead towards the station area in terms of the public transports. Therefore, the department is creating a benefit in terms of economic development as a result of the people that are working together. Now the rest of the planning has been done in such manner that for example the provision of library facilities, police facilities, buying points are being developed simultaneously.

The human resources development side will be captured within the provision of those facilities but also during the construction of infrastructure. There is some training and skill development taking place and emergent contractors from the area benefit greatly.

The kind of economic development that takes place is being rocketed simultaneously so the entire initiative is being done in a very integrative manner. To do this the necessary institutional structures are put together and within these institutional structures there are different Local Government department's councillors on board and community representatives also form part of the constitutional structure.

Planning is being done with the community and the department is trying to accommodate their needs as well. However, there are certain strategic elements, planning principles, and integrative transport planning, which need to be accommodated into the concept to ensure that there is a feasible economic growth at a specific location benefiting the entire community.

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) Erasmus (2002) and Gouws (2003)

7.7. DEMOCRATISATION OF DEVELOPMENT

Mdlalose, (2003) says that the democratisation of development at the Local Government has been done through the integrative development plan, where Local Government is using that model prescribed by the law. Since people have choices and preferences, Local Government cannot do things without involving them. Democratisation is a way of saying, "come tell me what you would like to see happening"; it is about giving a voice rather than something being imposed on someone. So if the department says that it wants to develop Tshwane it needs to get the people of Tshwane to come in and say exactly what they think their priorities are. The Department will take a direction according to what the majority of the people want. Local Government uses the Integrative Development Plan (IDP) where there are established structures, which permit it to communicate with the people and the people to communicate with Local Government. Those structures also provide for all serious of activities that one goes through to enable them to meaningfully participate because he/she may be in a situation in which they cannot give a meaningful input because they operate far below a required level. The plan allows one to go further down to a certain level and understand what the people say, and as a professional one is able to assess and try to put it in a manner which enables implementation thereof.

Kleynhans, (2003) says that in the case of the Isindingi project, it is being done entirely with the community's participation, especially during the planning process. The Department accommodated more than 10 different institutions during that process and the project is being done on a step-by-step basis. It is important to note that the technical part is separated from the participation part. There is a specific reason for that, being the fact that the department decided to investigate new development strategies within strategic planning; this is a difficult area to involve communities because, they do not understand that kind of concept. However, as the department finishes the technical

aspect, the community is involved through an empowerment process and before the department proceeds to the next step it is confirmed that the community has supported what has been done within the first step. It took the department 14 months to complete the planning process.

Gouws, (2003) answered that democratisation is definitely being done. There are 76 wards in communities, and each ward has economic development subcommittees. Some of them are more active than others. The less active ones are in rural areas. The more active are in wealthier areas and that is always going to be a problem. The all system feeds from grass roots all the way up. The department's strategic document has grouped together 20 to 30 meetings that will leave with SMMEs to discuss the department's strategic document.

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) and Erasmus (2002)

7.8. EMPOWERMENT OF MARGINALISED GROUPS WITHIN THE LOCAL COMMUNITY

Mdlalose, (2003) said that their LED strategy is specifically designed to target the youth, the women and the disabled, though they do not have many of those. There is however a belief in the department that the disabled must be treated like any other person; so other people would say that they would rather not have a special project for the disabled but would make sure they participate in the projects organised for normal people.

Kleynhans, (2003) said that inclusion of marginalised groups has been done in different ways during the Department Marketing activities. The department provided continuous information to the group referred to as "women in the construction group" which are basically being managed by the Development Bank of Southern Africa. Several opportunities were made. The industrial development section will not always be aware of their involvement because implementation often is the responsibility of another

department for another line functioning. And his section does not often get involved within those projects. But at least the Department has opened up the possibilities for them to become part of projects. A large percentage of the construction cost went to emerging companies. Some of them went to woman groups and some of them went to disabled people, as this is an existing policy that the Department has. What local Government also did was to create a motivational company, which provides the necessary training, mentorship, financial management assistance, and monitoring of the quality of the work for emerging contractors to make sure they work according to the programs that need to be implemented. Also the company will take the responsibility that the work has been done according to the necessary specifications.

Gouws, (2003) says that with the BEE policy there will be other training and human resources development strategic framework. For achieving social development the department will focus on trade areas such as business skills.

The following people were unable to discuss this topic: Gumbo, (2002) Strydom, (2002) Joubert, (2002) and Erasmus (2002).

7.9. POLICY INTERVENTION TO SUPPORT THE EXPANSION OF LOCAL SMMEs

According to Mdlalose, (2003) the department has Developed a strategy for local enterprise development, but that would have to be supported by various policies. The department previously had policies, but they are not on paper. But with the new strategies that have been developed the Department is planning to introduce quite a number of policies like for instance for informal trade. The Department wants to come up with a proper definition on who they are, how can they be classified, and how the Department can actually start grading them, because once they have graded them it can say: "you have started here, so you have to grow and go further". The Department also has a policy that promotes industrial development were it offers industrial incentives in Northern Pretoria, Rosslyn; so if an entrepreneur is starting business the Department would entice him/her to start business in those areas because of the incentives being

offered there. Another policy, which is being used, is that, interventions will be based in the growth industries. The Department is not just to take anything and work on that; it has to look at the trends in favour of development. But it still has to tighten up all its policies and ensure SMMEs are supported. The Department realised those SMMEs lack infrastructures, and therefore this is going to be the main focus.

Gouws, (2003) says that the easiest way to empower people is through awareness. People need to be aware that they can start a business. What the department needs is a method to identify the best potential for each individual. The next step is information. Information is cheap and easy to get people to a level where they can do business.

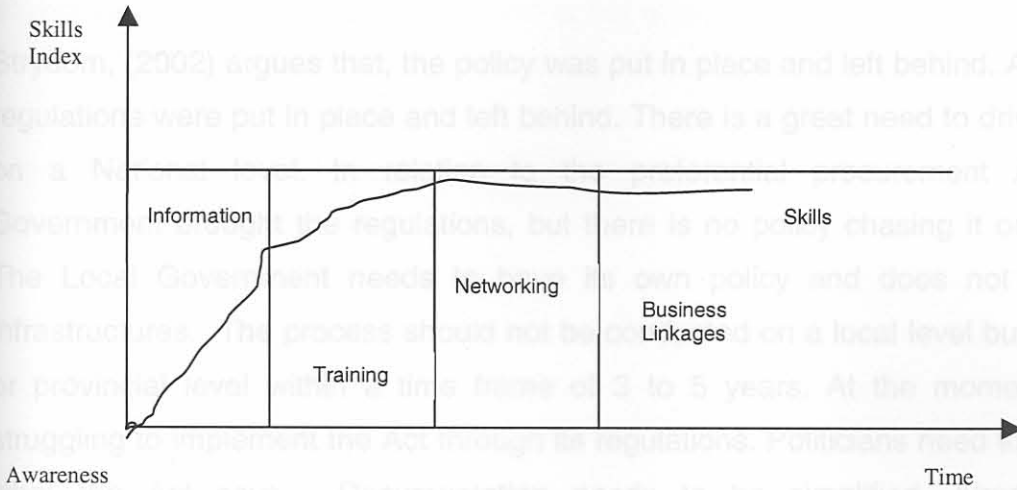
However, before any business can survive there is a need of a certain amount of skills, some of them being the hard skills. As people get skills they will be moving through a learning curve, which is initially steep and then stabilises. Information can be obtained through libraries, the Internet and other means. The department has publications, so that is going to be its strategy to inform. The next step is training, followed by mentoring to ensure the emergent firms are not making mistakes, and mistakes are being corrected; finally, business linkages will be established where emergent firms will get tender opportunities, export, and be involved in foreign missions. This can be represented in the following diagram (figure 7.1).

7.10. PROCUREMENT POLICY FOR THE CITY OF TSHWANE

Gumbo, (2002) says that the Municipality does not have an IT system to follow the achievement of goals pertaining to the implementation of the preferential procurement policy. The guide used for the implementation of the policy is the manual for implementation of preferential procurement. The 90/10, 80/20 price mechanisms are applied according to the Regulations of the Preferential Procurement Framework Policy Act.

In respect of the tender adjudication procedure, price review is done by estimating the study on job feasibility. A benchmark against prices being offered in the market is conducted. Risk analysis is conducted minimally: ratings at the bank are considered and previous work experience is evaluated. The waving for sureties is a common practice at

Figure 7.1: Skills Index Model



Source: Adapted from Gouws, 2003

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In respect of the tender adjudication procedure, price review is done by estimating the study on job feasibility. A benchmark against prices being offered in the market is conducted. Risk analysis is conducted minimally: ratings at the bank are considered and previous work experience is evaluated. The waving for sureties is a common practice at

the Municipality because many small businesses do not have the capacity to present them. This measure will help SMMEs to develop, become more independent and financially strong.

Strydom, (2002) argues that, the policy was put in place and left behind. A year later the regulations were put in place and left behind. There is a great need to drive the process on a National level. In relation to the preferential procurement Act Provincial Government brought the regulations, but there is no policy chasing it or monitoring it. The Local Government needs to have its own policy and does not have enough infrastructures. The process should not be conducted on a local level but on a national or provincial level within a time frame of 3 to 5 years. At the moment people are struggling to implement the Act through its regulations. Politicians need to be trained on what the Act says. Documentation needs to be simplified. Already, quotation documentation has been simplified by reducing the number of pages from 80 to 15. Risk analysis is conducted when contracts involve amounts above R500 000. Here the municipality conducts financial analysis, reputation, bank status, and legal position. In contracts below R500 000 the decision to tender is based on a more subjective opinion. The reason for this procedure is that at the beginning SMMEs are not as strong financially and are subject to a lot of difficult challenges to establish themselves in the market, they have to compete with major companies and ultimately survive. The preferential procurement policy is still cumbersome. Many people still do not understand the meaning of preferential procurement. In addition black officials who draft policies without considering the consequences are replacing the previous white officials.

Mdlalose, (2003) argues that the procurement policy is a good policy but it is a very cumbersome process in terms of the requirements of user-friendliness to SMMEs. For instance the payment method affects their cash flow negatively because they have to wait for 30 days or more before getting paid. There are still small business people, which cannot qualify for loans from commercial banks. So there is a need for a bridging fund, for entrepreneurs who have won a tender.

Kleynhans, (2003) says that in relation to a new policy, Kgomotso Matlala has already compiled a strategic development framework and she is now in the process of working towards a participative approach, whereby the business sector can take part in the economic development strategy. There is not a proper strategy in place at this point in time. But she is working towards that process and the idea is to have something ready towards the end of April 2003. However, the department will need approximately two years to put detail and specific strategies in place, which will provide support for the implementation of the policy.

Gouws, (2003) says that the Local procurement policy will be still debated in future and needs to be enhanced, but the Department already has seven to eight businesses information centres set up. The department is busy drafting a policy. The policy that it has is a little old and policy makers are working on the national and provincial legislation. They allowed certain economic development aspects but it is more specially related and more South African related. Very little is being done in relation to BEE. The policy does not cater at the moment for BEE and certainly does not cater for SMMEs. So it will look at the Small Business Acts definition of SMMEs it will be acceptable but emergent businesses and BEE still needs to be addressed.

The following people were unable to discuss this topic: Joubert, (2002) and Erasmus, (2002)

7.11. CHALLENGES ENCOUNTERED BY LOCAL GOVERNMENT

Gumbo, (2002) says that the main problem encountered by the Municipality is limited budget. Also, the New Legislation requires established companies to have business with AP firms. However, there is significant resistance towards AP from established companies. In addition there is too much fronting in companies, for example some companies employ previously disadvantaged people for posts other than managerial. In addition, they may appoint employees to posts they are not fit for, just to comply with the law. The municipality does not blacklist companies, which have practiced fronting in the

past. Instead it demands them to eliminate fronting practices and once they are reorganised, can apply for contracts with government. There are still institutional arrangements, which act as a barrier to AP enterprise development. Lack of education is one of the blocks.

Strydom, (2002) says that there is resistance from both established companies and AP firms. The first in several instances demonstrate racism, and the second displays a desire for enrichment. Other major challenges Local Government encounters are the problems facing AP firms, which are: access to finance, complicated documentation, cumbersome bureaucracy, and lack of skills to understand Regulations pertaining to the implementation of the Preferential Procurement Policy Framework Act. In addition joint ventures are not catered for. In many instances the legal requirements are not completed and guarantees are not supplied.

Gouws, (2003) says that the Municipality is barely able to cope with its current responsibilities given the new development framework. The Municipality is trying but it is difficult because of insufficient funds and a lack of human resources capacity. Many people from the previous councils have left and have been replaced by new people who do not understand Local Government or developmental government. The challenges the department encounters are mainly to get a structure, and to get the integrative development plan to work as such.

Mdlalose, (2003) says that problems in implementing preferential procurement policy are present and there are certain challenges. The area, which the Municipality has to cater for is bigger than before. The very people that Local Government is targeting have a problem just filling in the forms and making sure that they comply so that they are considered. The way the information is disseminated is inefficient. Information is not readily available. For example people come and ask where the Municipality display the tender. The municipality should have a situation where everyone could have access to tender information. Because of the fact that monitoring is not done in an effective way, it becomes difficult to trace within the system the problems encountered by the people,

because some of the problems involve situations where the work has not been done, the standards are low and they are no corrective measures in place. Another major challenge is the availability of capital, where the Municipality has a budget, which is not sufficient enough to cover its developmental projects. There is resistance towards preferential procurement at Local Government, in the sense that no one wants to be the one who is empowering others and there will be always doubting about whether the AP firm will be able to do the job or not.

The following people were unable to discuss this topic: Joubert, (2002); Erasmus (2002); and Kleynhans (2003)

7.12. THE USE OF PREFERENTIAL PROCUREMENT AS AN INSTRUMENT OF LOCAL ECONOMIC EMPOWERMENT AND DEVELOPMENT

Gumbo, (2002) argues that there is a need for preferential procurement in South Africa in order to reverse past racial discrimination, which brought about socio-economic disparities among racial groups in South Africa. Preferential procurement can be used as a powerful tool to promote economic development because government buys goods and requests services worth millions and millions. Therefore, when government buys from AP firms, it promotes their economic empowerment.

Strydom, (2002) argues that preferential procurement can be used as an instrument of empowerment. However, the policy itself is worth nothing if the people responsible for it do not implement it correctly. There is a need to place the right people in key posts and to use the right tools to measure the results that is whether the previously disadvantaged people have gained or lost with the implementation of AP.

Erasmus, (2002) argues that preferential procurement is very important to give those who have never had a chance in the past.

Mdlalose, (2003) says that preferential procurement can be used as an instrument of economic empowerment. She argued that if one looks at the kind and amount of work that local municipality has in a year that is when one sees a lot of impact. That is why for Local Government, BEE is one of its key issues because just through the procurement process it could have quite a large impact and definitely could go a long way.

With respect to Tshwane, it is difficult to evaluate the impact of preferential procurement, because there is not a mechanism in place that would measure or monitor the impact. However, looking at the Department's database one would see several historically disadvantaged individuals (HDIs) or businesses have got certain kinds of jobs. But by getting a certain job, one cannot say that this is the impact of preferential procurement because eventually one must verify whether that business has grown from that particular job and if it is able to get repeated business.

The Department needs to look at a preferential procurement policy as a way of also allowing HDIs access to markets. And as they provide those services they need to be growing in terms of their service delivery that is, they need to improve. But because they only get jobs or tenders once in a while, when they get a second tender at a later stage they are still at low-level skills as much as when they have started. So unfortunately, there is not that much impact, mainly because the department does not monitor it. In relation to targeted procurement she is not aware of anyway that this has been measured. In service delivery there would be a training program that HDIs would go through for an awarded tender for example. The department is not fully following up, to an extent to say that this person with this job started here and then moved on and acquired these skills or that these person started with these much assets and the assets have grown this much. The department does not have this kind of data, which gives that information. Also, there is no single department that has targets for BEE, although each department should, because of the amount of work, which is outsourced. If service delivery would have targets, one could easily ask to show the results achieved by targeting and if not, ask why they have not been achieved. Therefore one would be able

to identify the problems encountered in the implementation of the policy and that prevent the department from meeting its targets.

Another issue is the one of targeting local companies. Different departments do it differently, and there is not much monitoring on how things are done. Therefore it is quite a loose process, where there are many ways of not complying with the legislation pertaining to the preferential procurement regulations, because the mechanism to ensure that the process is measured is not there.

There has been a compliance office in the Office of the Executive Mayor, which has been suggested to take all the statistics on preferential procurement, and in her opinion this office would have to ensure that all the departments set the target and should be able to identify problems and assist as necessary by providing training. So LED should have information in relation to preferential procurement, and problems encountered by companies. The LED department has made a recommendation for that an office to be established and they are still waiting for its outcome.

Kleynhans, (2003) says that preferential procurement is part of the policy in Local Government and that it is being organised through specific legislation. There is a system, whereby all consultants can list themselves and if the department wished to appoint someone it would take at least three companies from that list asking from project scopes. The department has a system whereby the previously disadvantaged and emerging companies receive the benefits in terms of the allocation of specific points when the bigger evaluation of the project proposal is being done. Preferential Procurement is necessary in some cases depending on the situation in Local Government. In some of the cases where there is a need for specialised expertise, it is often most probably necessary, to appoint two companies: an experienced one when specialised input is required and another one that can develop under training, thus promoting LED.

not sure if the Department has to come to that point. The Department of Public Works
The following people were unable to discuss this topic: Joubert, (2002) and Gouws
(2003) people. In the case of Local Government, if packages projects has they come
and then start classifying which of those are suitable for SMMEs and which are not.

7.13. THE ROLE OF PREFERENTIAL PROCUREMENT TO THE DEVELOPMENT OF SMMEs

a certain amount allocated for SMMEs. Targets are necessary because they
would allow Local Government to evaluate the impact it is causing, for example by
Gumbo, (2002) argues that one of the ways Local Government sought to promote LED
was through the promotion of SMMEs. Targeted procurement plays an important role in
the development of SMMEs. For instance, if one looks at target markets, one can notice
the development of joint ventures with HDIs and the disabled. Joubert, Erasmus (2002),
Gouws, (2003) and Kuyubang (2003)

Furthermore, BEE is a policy, which promotes the development of SMMEs. Some of the
tools used to achieve this are the establishment of tender advice centres, the ten-point
plan, the waving of securities, simplification of forms, the use of quotations for contracts
less than R12000. Gouws (2003) argues that regardless of current global trends, the main objective of
Tshwane is for contracts to be sustainable. Longer contracts can be beneficial to AP

Strydom, (2002) argues that there is a need to monitor the process in order to assess
the role of targeted procurement on the development of SMMEs. For instance, people
do not give the correct information because of the revenue section. Therefore, it is
difficult to assess this aspect at this point.

In the construction industry Government found the easiest form to promote BEE.
However, the resources are quickly getting exhausted and therefore there is a need to
identify other industries, which can offer opportunities for empowerment. In addition
government is too involved in the process and the industry should strive to regulate
itself. contracts. In order to assure high quality standards, the municipality trains the staff
and reviews the procedures and processes.

Mdlalose, (2003) argues that the department's targeted procurement system should
have specific targets. The department has the preferential procurement system but does
not have the target system, because in the target system there are set asides and she is

not sure if the Department has to come to that point. The Department of Public Works has a targeted procurement system, where they know which kinds of jobs go to a certain kind of people. In the case of Local Government, it packages projects as they come and then start classifying which of those are suitable for SMMEs and which are not. There are no targets and one cannot say for example that for the procurement system there is a certain amount allocated for SMMEs. Targets are necessary because they would allow Local Government to evaluate the impact it is causing, for example by looking at the value of the jobs it is providing. The next step would be to measure this impact and evaluate whether objectives are being met.

The following people were unable to discuss this topic: Joubert, Erasmus (2002), Gouws, (2003) and Kleynhans (2003)

7.14. CURRENT IMPACT OF PROCUREMENT TRENDS IN LOCAL GOVERNMENT

Gumbo, (2002) argues that regardless of current global trends, the main objective at Tshwane is for contracts to be sustainable. Longer contracts can be beneficial to AP firms to give them the time to buy machinery, have a positive cash flow, experience, a good credit rate at the bank and acquire the needed capital to expand the business. At the end of the third year the HDI would be more independent, and capable to compete with established companies

The reduction of the supplier base is not felt in Local Government. The database includes all suppliers including SMMEs. The municipality intends to differentiate between databases for SMMEs and for other suppliers. This system does not promote preferred suppliers. Instead AP suppliers are rotated to avoid one firm from getting all the contracts. In order to assure high quality standards, the municipality trains the staff and reviews the procedures and processes.

Strydom, (2002) argues that there is a need to regenerate the mind sets in companies, for the inclusion of AP suppliers in their supplier bases.

Joubert, (2002) says that as a result of the amalgamation of municipalities into the city of Tshwane, there is a bigger supplier base, which caters for all suppliers. There are more and more AP firms being part of the supplier base and as a result more money is flowing to them.

Buyers have sole suppliers instead of preferred suppliers. This means that certain items such as cables, these suppliers are the sole importers and no one else can provide these goods. JIT is not used at present as a requirement for a contract, mainly because the municipality is a services provider not a producer of goods.

In relation to high quality standards the municipality demands suppliers to deliver goods promptly. Certain AP firms are still struggling in providing goods of acceptable quality standards. When this happens buyers, contact and inform them that they have to upgrade their standards before their services will be requested again. When it comes to delay delivery, the municipality will send three warning letters before cancelling the contract.

In relation to cost reducing activities it is difficult to cut costs because the area the Municipality has to cover is so big. At the time, transaction costs are high, when it comes to the collection of orders, cost of delivery, and so on. A factor, which could help reduce these transaction costs, would be the installation of a computer system that would link one area to another.

Erasmus, (2002) argues that the awarding of longer-term contracts is not efficient. Instead he believes in the awarding of yearly contracts to show whether a supplier is really working and to spot illegalities. A contract longer than a year is economically unhealthy. For instance, a bad supplier may be given a three to five 5 years contract and perform badly in all of those years, where a better supplier could have won the contract in the second year. In relation to high quality standards, the buyers adjudicate contracts

according to sample and in this way storekeepers must assure goods supplied satisfy those specifications.

Mdlalose, (2003) says that it is currently difficult to say whether Local Government is moving to that trend or not, because most of the time the Department deals with people who get small jobs all the time and do not get bigger jobs. The market should dictate and the trend should be for people to get bigger projects than they previously did, and make an impact on customers, so that they request services again. The preferential procurement system should lay the foundation, so that AP firms can compete at market rates. At this point this is not happening and very few people get repeat jobs. The department does not have documentation that gives a synthesis or analysis of Local Government's procurement system right now.

Kleynhans, (2003) says that certain trends are already taking place and are being especially driven by the private sector. For example, there is a very strong automotive cluster in the City of Tshwane Municipality. The Municipality, in conjunction with the Provincial Government is busy with the development of a supplier park. The development of a supplier park is focused to accommodate specific component manufacturers as to improve the logistical chain between those component manufacturers and then through the logistical centre provide the necessary local component to the local manufacturer. This is being driven by globalisation. Tshwane accommodates approximately 90% of all research and development taking place within South Africa. Innovation at Tshwane is becoming extremely prominent. The Department is busy with a project referred to as the Tshwane Global Digital Program. Again this can only work on a long-term contract basis incorporating numerous partners taking globalisation into account. There is a need to consider performance targets with those contracts, and if one cannot meet them, then, it is going to create problems. The awarding of contracts, which are too short, can cause a loss of continuity. This is part of the department's existing problems within the municipality. The Department works on a financial year basis starting on the 1st of July up to the end of June. If a consultant is appointed to identify business development opportunities for someone and then

establishes a process whereby these opportunities are identified, business plans are compiled and this is a process that takes more than a year. Therefore, there is time to get the necessary funds on a 3-year basis, avoiding losing continuity and having to start from the beginning. The municipality would not allow the use of preferred suppliers.

Gouws, (2003) says that the EDI system is a complex system that needs to be put in place. If one is going to set an EDI system we are looking at a few millions for a company. That would certainly help to do a better job but at the same time, create barriers of entry in the industry.

In terms of the Municipal Finance Act the Department is looking at longer-term budgets. So it is not going to do budgets in a year. The Department will opt for longer-term contracts. In terms of preferential procurement it will be beneficial because it will allow making some interventions on trading and setting the AP firms into a standard and permit assistance towards their growth. This has not been done but would be beneficial. At this stage, in relation to supplier base reduction, the municipality is going to widen its supplier base rather than reduce it and it is going to start looking more in that areas where there were found pockets.

7.15. THE CREATION, MAXIMISATION AND DISSEMINATION OF OPPORTUNITIES FOR AP FIRMS

Gumbo, (2002) says that the creation of AP opportunities is at the moment difficult, because the budget is limited. Currently, the budget does not have set-asides for AP firms. The municipality intends to allocate a certain percentage of the budget for example 25% for SMMEs and AP firms.

Strydom, (2002) says that the municipality attempts to create opportunities for AP firms. For instance, the unbundling of projects give AP firms the opportunity to participate in contracts, which they would not be able to win on their own. The unbundling of contracts

requires contractors to use more labour intensive practices, so those small firms, which do not have yet the infrastructure, can start with what they can do.

In relation to the maximisation of opportunities AP firms will not be able to do it on their own. It is difficult to maximise opportunities without the necessary support from the banking system, well-established companies, Government institutions, and all other entities which can contribute to this effect.

Joubert, (2002) argues that the unbundling of projects as a way to create opportunities for AP firms, will not work. For instance, one cannot put apples with bananas. In real terms, what may happen is that a part may not perform as required and sabotage the whole project. As a result the chain will be broken, and the contract may be fulfilled. At the moment previously disadvantaged individuals/businesses need more discipline.

Erasmus, (2002) believes that unbundling is an effective way to give opportunities to AP firms. In doing so, the municipality is giving AP firms a chance to be part of the economy by producing goods and the offering of services. In order to improve supplier-buyer relationships it is essential that representatives visit companies and show new lines of supplies and at the same time be interested on the types of services the municipality's requests. After winning a contract, suppliers must be able to perform promptly.

Mdlalose, (2003) believes that the Department has not been active in assisting AP firms at all. It has been more active with those companies that buy services from Local Government. What the Department normally does is to respond in terms of what it has at that point, if it does have an enquiry. This is an area where the Department has been lacking action, and has not been proactive, assisting as and when. For example, in case Anglo-American Corporation wants to buy from AP firms the Department should prepare them adequately. In order to maximise opportunities for AP firms the Department needs to get in touch with firms and find out exactly what kind of products they would like to buy, the quality, standards and then find a way to assess if AP firms are capable of providing them, and then prepare them as well as finding whether firms are able or not

to support AP firms. The creation of opportunities is actually one of the functions, which is allocated to the Department's proposed Assistant manager for BEE.

In relation to the unbundling of projects the Department has been implementing it, not without experiencing some problems. Problems in projects occur when people are given jobs which they are not capable of doing, and when the project manager is not briefed properly. Project managers must be told that empowering people is part of their functions, because they have certain kind of skills; this means that the project manager has to be there if the AP firms make mistakes and be able to correct them. So it is a matter of taking or not responsibility for empowering others. An empowerment group means that it lacks certain skills; therefore the project manager has to be there to monitor and identify where there are gaps in skills and fill those gaps as soon as possible. By the time the project is finished the AP firm should be able to accomplish the tasks involved in the allocated job description. Also if AP firms are constantly given small jobs, it will take longer for them to improve; however, if they are given bigger jobs it would be possible to measure improvement in terms of skills and complexity levels required. The ultimate success depends on managing the whole process, in a way that the contractual relationship is nurtured. Unfortunately, these aspects are not spelled out and many project managers do not see themselves as playing a monitoring role.

Kleynhans, (2003) says that part of the Insingidi project is to identify business development opportunities and then involve such as the Ga-rankuwa case. For example, the Department has a proposal for a business development center, and that opportunity will be for emerging people. The municipality through the major's cruise is busy with the Department of Public Works program and the initial construction of a glass plant has been launched. That initiative will be for emerging people and there is definitely some action being taken by Local Government to benefit those people.

Opportunities can only be maximised firstly if backed by the necessary funds and secondly through public partnerships. Presently, the Department is going to work towards public and private partnerships, within the automotive sector, which can also be

private-to-private partnerships whereby the idea is to identify within the automotive cluster specific subcomponents forming part of a component manufacturer. And the idea is to use that subcomponent as an opportunity for an emerging SMME development. In some cases it has been done already, but the Department would like to enhance that process.

Gouws, (2003) says that opportunities are created in an ad hoc basis. When this happens the system is always vulnerable to corruption, so what the Department did was to put firms together to form consortiums, and the Department has been involved where it is been located. But it is difficult to do it as a policy. The sooner there is a policy to form a consortium, the better. However, what would be better is to have a structure in place where people could be trained to get up to speed. What the Department also does is to form tender advice centres. They all have the tender opportunities and they have a bulletin board where they have notices displayed. There is also a service that helps the person complete the tender forms.

In order to maximise opportunities there is a need for more awareness. The problem with micro firms in Soshanguve in the period of three months is that a third of them are gone. Firms start and die; the reason for this is that a lot of enterprises start out of need; they are very survivalist, they are hungry for food, and as soon as the person gets a job they leave the enterprise and move to fixed employment. So, there is a need to create awareness. There is a need to identify potential in people with entrepreneurial characteristics that would want to take the risk to make a profit. In addition, the Department will start working with awards and give them to real entrepreneurs recognising real excellence.

7.16. SUPPLIER DEVELOPMENT

Gumbo, (2002) says that the municipality does not have a supplier development program in place. There is no supplier development department or team, instead the buying department deals with all suppliers. Supplier performance is evaluated in terms

of prompt delivery. If the supplier does not perform accordingly the municipality can cancel the program according to the contract. Successful suppliers are required to deliver goods promptly and when necessary, be reliable in the provision of services.

When AP firms start their businesses, they are not ready to be supplier contractors yet, and there will be another five to ten years for AP firms to become world class suppliers. Instead, AP firms can start as subcontractors, because they do not have the infrastructure, the capital and the skills to assume more onerous contracts. Contracting firms can subcontract AP firms enabling them to acquire the experience and to grow its financial and infrastructural capabilities. Therefore, subcontracting can be used as an instrument of economic development. In addition, subcontracting can also be seen as a form of strategic alliance through unbundling. In unbundling, the parts involved in the contract depend from one another to deliver the final good. For example, in a contract the contractor may have the task to build the foundations since it has the machinery and the capital for that; the subcontractor, being the AP firms would have tasks such erecting the walls or paving the floor. These tasks do not require the employment of heavy machinery, but would give the small firms to start growing.

The major advantages from this strategic alliance would be capacity and skills transfer, the ability to grow into a more independent business. For the contractor, the major advantage would be the expansion of its supplier base and the fulfilment of social responsibility requirements namely economic empowerment of previously disadvantaged individuals.

Supplier development in the 1990s was characterised by the introduction of the New Legislation pertaining to preferential procurement. The predictions for supplier development include the increase of the municipality's supplier base to make room for AP suppliers. In addition, the future may open doors for more previously disadvantaged individuals in directorships. There will be more state intervention in relation to supplier development.

Joubert, (2002) says that a growing state intervention is not desirable to avoid dependency. He says that successful AP suppliers must have a reliable infrastructure in the form of human, finance and other resources necessary to grow

Mdlalose, (2003) says that the only programme that the Department has so far is the automotive component supplier development program, mainly because it is driven by the growth of the automotive industry. The objective is to now study other activities and see what clusters could be there and start developing right away.

The suppliers that are already established just come and enquire. What LED does is to go out and encourage people to come and reach LED as service providers or suppliers, for the City of Tshwane. There is no specific criterion, but each Department would identify the services that they need and then go and encourage people who provide those services to be on the municipality's list of suppliers.

As service providers, good suppliers it would be those who have the willingness to learn, although they may come to offer a skill, as well as the capacity to improve their services and grow their businesses. The ones that give other people opportunities as they benefit from the process and as they get more opportunities, for example by employing more people as they grow. In addition, a successful supplier uses efficient cost-effective methods. The end result should be a positive impact in the society and not just to make money. A good supplier is the one that in situations in which the money is not sufficient still tries to deliver the results.

Kleyhans, (2003) says that his job is not involved in buying at this time therefore cannot evaluate supplier's performance.

Gouws, (2003) says that the Department does not have a supplier development program but needs one and if there are no suppliers that can supply the municipality competitively then it is going to pay much more than it should.

The following people were unable to discuss this topic: Erasmus, (2002) and Strydom (2002).

7.17. THE IMPACT OF PREFERENTIAL PROCUREMENT ON BUYING PROCEDURES

According to Gumbo, (2002) the formal policy used in the municipality is targeted procurement and there is no tracking of AP firms in the municipality. The municipality participates in trade fairs where it makes SMMEs aware of the opportunities available and the services it can offer. Tenders do appear in Sowetan, Pretoria News and Web sites.

According to Joubert, (2003) preferential procurement has the following effect on the buying process at the Municipality, formal training is not given to buyers to support AP programmes. Buyers' performance review does not include AP programme effectiveness as a factor for evaluation. At present the municipality does not provide resources such as finance or information system, or technical assistance to improve AP supplier's capabilities. The municipality does not establish goals for AP firms. There is no full-time AP coordinator.

All the other respondents were unable to comment on this point

7.18. ACHIEVEMENT OF NATIONAL SOCIO-ECONOMIC OBJECTIVES

According to Gumbo, (2002) the GEAR programme was not imposed on Local Government, and therefore it has never been used. It merely consists of a framework, which is applicable at a national level. Local Government is currently guided by the objectives sought by the RDP. One of the socio-economic objectives the municipality is trying to achieve is the creation of employment opportunities. The way it sought to achieve this objective is through the encouragement of the practice of labour intensive methods and the unbundling of projects.

Strydom, (2002) argues that several socio-economic objectives have not been achieved yet, at a ground floor level. In relation to Government socio-economic objectives, some basic resources have been placed in the hands of Government. Since deregulation, Local Government is now responsible for the provision of water electricity, housing. He argues that structurally Government should have considered a 10-year plan step-ladder. It is a mistake to consider this goal as a once-off project, instead it should be considered as a continuous process. Politically, no one would accept this 10-year plan. In his opinion the RDP must be a continuous process. The GEAR programme was not politically acceptable. For unions its implementation meant layoffs, privatisation, and enrichment of individuals. On the other hand they perceived the RDP as a way to empower the people economically.

Joubert, (2002) argues that at the moment several AP firms have the knowledge on how to get empowered economically but do not have the right infrastructures to accomplish their goals. Government must therefore become more involved in the development of the community and monitor procurement policies and evaluate and measure results.

Erasmus, (2002) argues that many socio-economic objectives have not been achieved yet. However, the municipality is moving in this direction, making this a continuous process.

Mdlalose, (2003) says that the RDP is a broad program involving housing, job creation and there has been a lot done in those spheres but not everything has been achieved. For instance, job creation is still at very low levels. A lot has been done but there is still a long way to go to be able to provide employment opportunities that would be meaningful and that would have an impact on the economic growth of the country. There are mitigating effects that are out of the Department's control.

Kleynhans, (2003) says that the principles of the RDP were incorporated in the Isindingi project and into the Garsfontein CBD development project. It is incorporated by innumerous activities.

Gouws, (2003) says that the objectives are still far from being achieved. When one looks at the RDP principles and its focus areas developed from the mission and vision statement, economic development is one of them. But any project, which is done in Local Government, has got an economic developmental aspect. So, what needs to be done is partly aligning it to meet national objectives: it must create jobs, it must create wealth and when relating to tenders it must include economic empowerment and unless there are funds available it will not happen. If an engineer is going to build a road as an engineer he /she has to empower the AP firms so that the standards to build the road are maintained.

7.19. CASE STUDY ON THE USE OF PREFERENTIAL PROCUREMENT IN THE CITY OF TSHWANE

7.19.1. Introduction

On the 5th December 2001 several municipalities and councils were integrated into the City of Tshwane Metropolitan Municipality, giving Local Government a greater role regarding local economic development. Local Government intends to use its purchasing power in the form of preferential procurement to develop SMMEs from disadvantaged background.

7.19.2. Objectives of Local Government at the City of Tshwane

The objectives of the Municipality can be analysed through its vision statement, which says: "to be the international acclaimed African capital city that empowers its people to prosper in a safe and healthy environment.

The City of Tshwane intends to promote local economic development in areas, which lack infrastructure and have poor economic activity, because it deals directly with the local community and it is more aware of its needs. In doing so, Local Government has to provide high quality service delivery as well as maintaining the first world infrastructure which already exists in the most economically developed areas. The LED department is made of three main functions, which are enterprise development, industrial development and technology and policy research and information.

The enterprise development function involves micro and small enterprise development, covers trade promotion, assistance for business development and orientation, setting of business support centres and trade promotion.

Industrial Development and Technology as a function of LED has a number of sub-functions. One of them is to promote industrial development and attracting investment towards the Tshwane Area, promoting specific industrial clusters and to develop the supportive infrastructure needed to develop the cluster. The Department sees that within the industrial development component, it will have to do proper industrial development strategies. It will have to analyse the different industrial areas in terms of its composition, the kind of economic activity taking place there, the strains of the clusters being developed there, and to look at the spatial distribution of those industrial areas located all over Tshwane. The Department has to look at industrial clusters, evaluate the different clusters and at the end of the day, part of the process will be to compile an industrial directory list so that the department can make information available on all manufacturing activities and manufactures in the area.

On the development facilitation side there are basically four to five main focuses. The first one is to identify large-scale development projects, analyse those projects, and putting together business plans for implementation. The second part would be to get funding for those projects in other words, development funding to form a common element of that function. Then the third element of that function would be to lead to the old concept of project management or project implementation and then to the Spatial

Development Initiatives projects of both National and Provincial Governments. Local Government needs to take part in initiatives and analyse the economic impact of those initiatives, like deciding how it is going to make use of opportunities that are brought towards Tshwane, putting together implementation strategies, enough to make decisions on how the municipality is going to promote economic growth within industrial areas. This is something that has not been done yet. There is a need from Local Government to find out what kind of support Local Government can provide to promote economic development within Tshwane. The last one, which will also make part of this initiative, is the entire principle of industrial clustering, which needs to be invested in this initiative through this function.

The other part of the function is development facilitation. It is a new concept within Local Government. The Department is trying to use this function to co-ordinate the expenditure from different Government departments both at national and provincial level. This function can bring a lot of new investment opportunities as long as it is done in an integrative manner through development facilitation.

The policy research and information section co-ordinates the information for clients as well as information meant for investors on the business side. On the marketing side this section informs people about the functions involving place marketing, internal communications. The policy and research side is doing an overall economic development strategy taking into account issues such as BEE, procurement access to markets, availability of finance and HIV-AIDS.

Although it is a bigger area to cater for, Local Government intends to use subsidisation as a strategy to avoid overdrafts. This means that scarce resources will be spread evenly throughout the area, where the most economically developed areas, which produce the most capital, will finance the ones that lack development. This in turn will improve the standards of living of its inhabitants. However, there is some scepticism towards cross-subsidisation as whether it will be capable to cover the existent gaps due to lack of discipline and cooperation as well as the fact that SMMEs which stay far away

from the Municipality may miss opportunities due to poor awareness high transport costs, and computer illiteracy.

7.19.3. Local benefits in terms of local development

The kind of projects, which were initiated by the municipality created job opportunities. For example, in the Isindingi project labour intensive methods were used to a large extent to create job opportunities. Creating sustainable jobs are not easy because some of the people have never worked before. Sustainability depends on the nature of the projects and the training, which is given to the local people.

7.19.4. The need for Local Government to get extra power

The LED department sees the need for policies, which allow the Department to be more entrepreneurial and to respond quickly to the entrepreneurs needs. Local Government also needs more money in order to finance potential entrepreneurs which cannot afford to pay for the services the local business centres offer. Local government needs to set up small financial institutions and assist entrepreneurs. Local Government needs extra capacity in terms of human resources who understand about Local Government and developmental Government.

7.19.5. The use of municipal powers to promote social development and economic growth

As an independent entity, Local Government is creating policies, which will allow it to have its impact on the ground, making sure it delivers its services. However, it needs National and Provincial Governments support in terms of funds and programmes. Only when Government has the needed budget will be able to promote proper economic growth and social development. There is also a need to create long-term jobs.

7.19.6. Alignment between private and public investment

There is not a system at Local Government which co-ordinates all the different resources available and which permits an efficient relationship with Local Government where people do not waste time going to the wrong offices or have to recur to unlawful connections. In addition, Legislation does not say how Local Government should assist local businesses. However, there are some projects, such as the Isindingi project where Local Government Department councillors and community representatives form part of the constitutional structure.

7.19.7. Democratisation of development

Democratisation of development at Local Government has been through the integrative development plan, where there are established structures, which permit it to communicate with the people and the people to communicate with the Local Government. For example the Isindingi project is being done with the community participation especially during the planning process, except for the technical part where a certain kind of expertise is needed. There are 76 wards in communities and each one has economic development subcommittee. The less active wards are in the rural areas.

7.19.8. Empowerment of marginalised groups

The LED strategy is specifically designed to target the youth, the women and the disabled though the department do not have many of those. The inclusion of marginalised groups has been done in different ways during the Department Marketing activities. The Department has opened up possibilities for women and the disabled to become part of projects.

The main challenge the Municipality has to face is the insufficient budget it has to use in order to promote development in local communities in the Tshwane area. The municipality struggles to cope with its new developmental responsibilities due to both

7.19.9. Policy intervention to support the local SMMEs

The Department has developed a strategy of local enterprise development and is planning to introduce a number of policies to support informal trading. Another policy, which can support SMMEs, is industrial development where it offers industrial incentives in growth industries. The Department realised that SMMEs lack infrastructure and policies will be designed to support them. The Department needs a method to identify potential entrepreneurs that is, people willing to start a business and grow it at a risk for a profit. The Department must create the awareness that people can start a business. The people need information and a certain amount of skills. In this process, people need to be trained and mentored and establish business linkages.

7.19.10. Procurement policy for the City of Tshwane

At the present, the guide used for the implementation of the policy is the manual for implementation of preferential procurement. In relation to the preferential procurement Act, there are the Regulations to implement it, but there is no monitoring policy. There is a need for local Government to have its own policies, but it does not have enough structures for it.

7.19.13. The role of preferential procurement to the development of SMMEs

The actual procurement policy is said to be cumbersome and not user friendly. The Department is at the present drafting a local procurement policy, which has certain economic development aspects. At the moment there is a need for catering for BEE and SMMEs. The actual drafting will look at the Small Business Act definition of SMMEs so as to develop a strategy, which benefits the development of SMMEs.

7.19.11. Challenges encountered by Local Government

7.19.14. Current impact of procurement trends in Local Government

The main challenge the Municipality has to face is the insufficient budget it has to use in order to promote development in local communities in the Tshwane area. The municipality struggles to cope with its new developmental responsibilities due to both

insufficient finance and human resources capacity. Another challenge is to get a proper structure and to get the integrative development plan to work. The Municipality has to improve both information dissemination and monitoring of the implementation of preferential procurement policies.

7.19.12. The use of preferential procurement as an instrument of LED

Preferential procurement can be used by Local Government to promote LED and to empower economically the local communities. Disadvantaged people can be empowered when Government buys goods and services from them through the process of preferential procurement. However, this process must be implemented correctly as a policy. At the moment, it is difficult to evaluate the impact of preferential procurement because there is not a mechanism in place to monitor and measure it. There is no documentation that gives a synthesis or analysis of the Local Government procurement system. There are no targets for BEE or monitoring system improvements achieved by SMMEs. It will not always be possible to use AP firms for expertise work, instead, the Department will have the request the services of both an established firm and the AP firm.

7.19.13. The role of preferential procurement to the development of SMMEs

Two policies can be used to promote SMMEs development: target procurement and BEE. Target procurement set asides projects and funds for SMMEs. BEE enables previously disadvantaged people to participate in a more competitive way in the economy. Again the process needs to be monitored and Local Government needs to find various industries where it can promote BEE instead of one or two.

7.19.14. Current impact of procurement trends in Local Government

The Municipality looks forward for awarding longer term contracts to AP firms as this will give them time to acquire the necessary finance experience and other resources to

expand the business. There are no signs of reduction of the supplier base at the municipality. Instead, there is been an increasing of the supplier base with more AP suppliers and SMMEs included. There are preferred suppliers. Quality is evaluated from prompt delivery. Quality standards are to be kept at a certain level. It is difficult to keep costs down because the Municipality has a greater area to cater for making transaction costs high.

7.19.15. The creation, maximisation and dissemination of opportunities for AP firms

The creation of opportunities is difficult at the present because there are insufficient funds to have set-asides for AP firms. However, the Municipality intends to allocate a certain percentage of its budget to AP firms and SMMEs. The Municipality intends to create opportunities through the unbundling of projects. This is beneficial because it requires contracts to use more labour intensive practices thus creating more job opportunities and giving experience to AP firms. In order to maximise opportunities, there is a need for a greater banking system support. The Department needs to be in touch with firms and know the kind of products they offer and assess whether they are able of providing them.

There is a need to form a policy of consortium of firms to maximise the opportunities offered to them. Tender advice centres display the tender opportunities available. More awareness is needed to maximise opportunities and to identify real entrepreneurs. A system of rewarding excellence will be established through the creation of an awarding system.

7.19.16. Supplier development

The Municipality does not have a supplier development program. However, it has an automotive component supplier development program driven by the growth in the automotive industry.

7.19.17. The impact of preferential procurement on buying procedures

At the Municipality, no formal training is given to buyers to support AP programmes. Buyer's performance review does not include AP programmes as a factor for evaluation. There is no full time AP coordinator.

7.19.18. Achievement of national objectives

Local Government is currently guided by the objectives sought by the RDP. The achievement of these goals do not constitute a once-off project, instead it is considered a continuous process. At the present unemployment is still high but many job opportunities have been created through the projects implemented by Local Government.

7.20. CONCLUSION

The objective of chapter seven was to present the results of a research study conducted at the City of Tshwane Metropolitan Council. The topic of the research study was the use of preferential procurement in Local Government. The method used to collect the information was by conducting structured interviews and from there formulate a case study, whose subtitles are essentially the topics covered in the previous chapters, as well as issues surrounding how Local Government uses preferential procurement to promote LED.

With this in mind various policy makers and implementers (Chief buyers) were interviewed at the municipality. The questions posed attempt to uncover real problems encountered and success achieved in using a preferential procurement policy in LED.

The issues discussed in the interviews were related to the use of preferential procurement in Local Government as a way to promote LED. There are summarised below:

The objectives of Local Government at the Municipality are to promptly deliver high quality services as well as to promote LED in the local communities especially in the poorest areas. However, it encounters challenges such as insufficient money, inefficient monitoring and dissemination of information, lack of human resources, resistance towards preferential procurement and it is struggling to get a proper structure and to make the Integrative Development Plan to work

The local population is benefiting in terms of local development through the creation of jobs when Local Government implements a project. Local people are also empowered through the democratisation of development where there are given the opportunity to say their needs and to participate in the planning phase of projects. The department has also taken some steps to empower marginalised groups such as the women, the youth and the disabled.

In relation to get extra powers, the LED department saw a need for Local Government to have a policy which would allow it to be more entrepreneurial and more responsive to the needs of AP firms, and also more money to finance those entrepreneurs who cannot afford the services offered by local business centres as well as extra capacity in terms of human resources. In relation to the use of Municipal powers to promote social development and economic growth this can only happen as long as the budget allocated is sufficient to cover its developmental responsibilities.

At the present there is no proper alignment between private and public investment. There is not really a system which coordinates all the different resources available and which permits an efficient relationship with Local Government. Legislation says that Local Government should assist local business but does not say how it should do it.

The procurement policy for the City of Tshwane presently being drafted at the Department; the policy has certain economic development aspects and will look at the Small Business Act definition of SMMEs but still needs to look at BEE. In relation to a

policy intervention to support the local SMMEs the Department has developed a strategy for local enterprise development and is planning to introduce a number of policies to support informal trading. The use of preferential procurement as an instrument of LED as been recognised at the Department as a tool to empower previously disadvantaged people. However, this process has to be implemented correctly as a policy, having at the same time a mechanism to monitor its implementation. The Department needs a system of targets for SMMEs. When the Department sets targets and funds for SMMEs in a monitored system then preferential procurement can be used to the development of SMMEs.

Current procurement trends do not really have an impact on Local Government, where the Department intends to establish longer-term contracts with AP suppliers, to increase the supplier base to include historically disadvantaged individuals. The Department believes that presently it is not possible to use an EDI system because this would constitute a barrier of entry to AP firms.

Preferential procurement does not presently have an impact on buying procedures. For instance buyer's performance review does not include preferential procurement achievements and the buyers do not receive training in relation to the implementation of the regulations of the preferential procurement Act.

The creation of opportunities at the Municipality is difficult because there are insufficient funds to cater for the development of the whole Tshwane area. However, some opportunities have been created through the unbundling of projects, which gives the chance to small firms to participate in projects they would not be able to participate alone. Maximising opportunities also involve an increase in the availability of finance. Dissemination of opportunities needs a greater awareness and support from local business centres towards AP firms and SMMEs.

The Department does not have a supplier development program in place. However, it has an automotive component supplier development program due to the growth of the automotive industry.

SUMMARY AND CONCLUSION

National objectives proposed by the RDP have not been achieved yet. The department regards this as a continuous process and not as a once off achievement. Although many job opportunities are being created the level of unemployment is still high. The other objectives described by the RDP are still to be achieved to the majority of the population.

The next chapter concludes and presents the summary of the research study. It reviews the literature research, the objectives, and limitations as well as gives recommendations for future research study concerning the topic addressed in this thesis.

8.2. LITERATURE RESEARCH REVIEWED

There is extensive literature, which addresses the topic of preferential procurement and methods to implement its programmes in organisations.

The Department of Trade and Industry (DTI, 1995:1) and Ntsika, (Ntsika, 1997:1, 5,7) have written on the aspects addressed in the 1995 President's Conference. Sharp, Mashigo and Burton, (1999:12-16) have said that the importance of the local policy sphere and the potential role of local governments in SMME development are increasingly recognised. The Government Gazette (RSA, 1997:13-16, 131, 134) presented the Green Paper on Public Sector Procurement Reform, discussed the need for AP in South Africa, (RSA, 1997:134-136), and has published the regulations of the preferential procurement policy framework Act, (RSA, 2001:4). Watermeyer, discussed