

Difficulties associated with the implementation of the preferential procurement policy in conjunction with a low-cost housing programme: a South African contextualisation

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Abstract

The South African government makes extensive use of a procurement policy to provide goods and services to its citizens. In this article, the use by the government of the preferential procurement policy to deliver low-cost housing is discussed. In addition, the way in which this practice exacerbates the existing housing backlog is explored. The article contends that the Provincial Departments of Local Government and Housing in South Africa are largely incompetent when it comes to implementing the preferential procurement policy. Consequently, the question of how the implementation of this policy could be improved is considered. In the process, the difficulties encountered in implementing the preferential procurement policy in conjunction with the low-cost housing programme are examined.

Keywords: Housing backlog, housing policy, low-cost housing programme, policy implementation, procurement policy, socio-economic objectives

1 INTRODUCTION

In all societies problems arise that it is the responsibility of the government to solve. Government policies are formulated in order to do so. The article examines the difficulties encountered in implementing the preferential procurement policy in conjunction with the low-cost housing programme in South Africa.

Although its collapse signalled the long overdue restoration of the basic human rights of all South Africans, the apartheid regime left a great number of problems

in its wake. The South African government faced the tasks of eliminating the extensive housing backlog inherited from the apartheid government and reforming the procurement policy in such a way as to turn it into a tool to serve the needs of the previously disadvantaged. In South Africa, the preferential procurement and low-cost housing policies are inextricably linked. The failure of preferential procurement may therefore have profoundly negative consequences for the provision of low-cost housing.

The ten-year review report (1994–2004) revealed the estimated housing backlog to be 300 000 households. According to Statistics SA's *Community Survey* of 2007, formal housing stood at approximately 83.2 per cent, which translates into a housing backlog of about 16.8 per cent (Dali, Ameermia, Nonyana and Setati 2009: 20). Consequently, it is imperative that the rate at which low-cost housing is delivered be greatly accelerated. However, the fact that the preferential procurement policy is a requisite part of this process slows matters considerably, presenting decision-makers with the dilemma of choosing between conflicting considerations. Most public officials of the Department of Human Settlement in South Africa can attest to the fact that adherence to the preferential procurement policy as an instrument of socio-economic change has brought with it many challenges in the provision of housing.

The article builds upon the findings of other authors with regard to the difficulties encountered in the implementation of the preferential procurement policy, and also to illuminate the relation between the preferential procurement policy and the provision of low-cost housing. This is achieved by drawing the reader's attention to a number of issues: the framework that is applied in the implementation of the preferential procurement policy in South Africa; the objectives of this policy; its practical implementation within the Provincial Departments of Local Government and Housing; the principles that underlie it; and the factors that affect its implementation.

2 DEFINING THE PROCUREMENT POLICY

Procurement is the process by which goods and services are acquired from external service providers. Watermeyer (2003: 11) broadly defines procurement as

the process that creates, manages and fulfills contracts relating to the provision of supplies, services or engineering and construction works, the disposal of property, the hiring of anything and the acquisition or granting of any rights or concessions. A preferential procurement policy is a procurement policy that promotes socio-economic objectives in addition to those associated with the immediate objective of the procurement policy itself.

This quotation illustrates the enormous extent of the procurement contracts. No single institution has the resources to carry out an entire project of this magnitude on its own. Each institution is therefore faced with the fundamental decision of whether to buy the product they are contracted to supply or to manufacture it themselves. It should be noted that procurement is not simply about arranging for the execution of projects outside of an organisation's range of expertise: it also includes the realisation of socio-economic objectives such as the creation of employment, the use of local labour and the reduction of poverty.

3 RESEARCH PROBLEM

This article is concerned with the difficulties encountered in the implementation of the procurement policy as part of the low-cost housing programme in South Africa. In spite of the fact that, each fiscal year, the Department of Human Settlement's budget is increased in order to accelerate the delivery of housing, the South African government continues to face an immense housing backlog.

The budget for 2004/5 (R4.8 billion) rose to R5 172 083 000 in 2005/6, and to R5 483 928 000 in 2006/7. In the 2006/7 financial year, the Limpopo Department of Local Government and Housing (DLGH) was allocated 3.6 per cent (R834 million) of the total budget. R521 million of this was granted conditionally for housing and the upliftment of informal settlements (Mashamba 2006). The slow progress of the various Provincial Departments of Local Government and Housing in eliminating South Africa's housing backlog can be attributed largely to incompetent implementation of the procurement policy. There is a significant disjunct between the official policy and that which actually transpires in practice.

This is largely because the sections of the Constitution governing this matter are unclear as to the manner in which the procurement policy is to be implemented. The Preferential Procurement Policy Framework Act 5, 2000 (South Africa 2000), stipulates that an organ of state must establish its own procurement policy in accordance with section 217(1) and (2) of the Constitution of the Republic of South Africa, 1996. No detailed guideline is provided as to how best to initiate and go about this process and, as a result, far too much is left to individual discretion. This clearly leaves the system open to mismanagement and even corruption. Consequently, the Provincial Departments of Local Government and Housing have failed to facilitate the effective construction of low-cost housing.

The dismal state of monitoring and evaluation mechanisms in place to oversee the progress of construction work further exacerbates the problem. This is evidenced by the absence of regular progress reports on the construction work process. The next section provides some background to the procurement policy in South Africa.

4 FRAMEWORK OF THE PROCUREMENT POLICY

In South Africa, the procurement policy is implemented in accordance with the Preferential Procurement Policy Framework Act, 2000, which stipulates that any organ of state must determine a preferential procurement policy for itself and must implement it within the parameters of its provisions. The archetypal framework of the preferential procurement policy postulates a preferential points system. Points are to be administered as follows: for contracts below the value of R500 000 a formula of 80/20 must be applied, while the formula of 90/10 is to be followed for contracts over R1 million in value. Section 217(1) of the Constitution stipulates that when an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislature, contracts for goods or services, it must do so in accordance with a system that is fair, equitable, transparent, competitive and cost effective. In addition, section 217(2) of the Constitution specifies that, during the implementation of the procurement policy, categories of preference in the awarding of contracts and the protection or advancement of persons or categories of persons disadvantaged by unfair discrimination must be considered (South Africa 1996). The framework of the procurement policy encompasses objectives which are profiled in detail below.

5 OBJECTIVES OF THE PROCUREMENT POLICY

Before it is possible to ascertain whether or not the procurement policy is achieving the objectives set out for it, it is necessary to profile these objectives, bearing in mind that, in this context, the procurement policy is considered specifically in terms of its usage as a policy tool in the delivery of low-cost housing. It is therefore once again apparent that any misstep in the implementation of the procurement policy must be assumed to have negative consequences for the low-cost housing programme. The procurement process must be fair, equitable, transparent, competitive and cost effective, and in the awarding of contracts, persons previously disadvantaged by unfair discrimination are awarded preference and protection to enable them to reverse the impoverishment imposed on them by past injustices (South Africa 2000).

The Preferential Procurement Policy Framework Act stipulates that an organ of state must determine its preferential procurement policy and implement it in accordance with the preferential points system and section 217(1) of the Constitution. The various South African organs of state have each determined a procurement policy suited to their particular circumstances. In some provincial governments of South Africa, the preferential procurement policy is conducted differently, in that the awarding of a contract is not the result of competitive bidding. In the province

of Limpopo, for example, the principle of competitive bidding (specifically with regard to contracts relating to the provision of low-cost housing) does not come into play at all. This is because in Limpopo the price of the unit to be constructed is predetermined, and contractors are therefore selected on the basis of the proposals they submit for specifically advertised construction projects.

6 THE IMPLEMENTATION OF THE PROCUREMENT POLICY

Once the various Provincial Departments of Local Government and Housing have each determined their own preferential procurement policy, the procurement process can commence. Certain attributes of the various companies contending for a tender are deemed particularly important in the selection phase and are therefore used as the selection criteria by which to evaluate these prospective contractors. Contenders are evaluated in terms of their directorship (points are awarded for young, female, disabled and/or equity-holding directors), experience (the requirement is a minimum of three years) and delivery capacity, company registration certificate, VAT registration and valid tax clearance (Limpopo Department of Local Government and Housing 2009: 5). In practice these criteria are grossly oversimplified, and lead to difficulties and even corrupt practices during the implementation of this policy. Errors made as a result of these difficulties naturally extend to the low-cost housing programme itself, worsening the backlog. These problems occur largely because the principles underlying the procurement system – fairness, equitableness, transparency, competitiveness and cost-effectiveness – often are, or appear to be, in conflict with one another (Watermeyer 2003: 13). In order to eliminate this confusion, it is necessary to profile each of these principles and their respective implications.

7 IMPLICATIONS OF THE PRINCIPLES OF THE PROCUREMENT POLICY

It is extremely important to recognise the applicability of the principles of the procurement policy during its implementation. This involves a critical analysis of the vertical and horizontal relationships between the various principles. Pauw and Wolvaardt (2009: 71–76) provide an analysis of the five principles of public procurement. The principle of fairness ensures that the individuals who are awarded contracts are deserving of them. It also ensures that potential suppliers in a tender process receive treatment that is just, unbiased, and free from corruption. The

principle of equitableness also refers, in part, to fairness. In this particular context, equitableness refers to the 'levelling of the playing field', when competing bodies are not equal because one has been unfairly disadvantaged in some way (for instance through discrimination).

Transparency in practice entails the advertising of tenders, pre-disclosure, public bid opening, and the accessibility of policies and regulations. It relates to divulging all relevant procedures and regulations to the public and explaining the criteria by which tenders will be evaluated. The principle of competitiveness allows for a sufficient number of people to bid on a particular contract, so that the contractor who is ultimately selected is truly the best contender among many. The principle of cost-effectiveness makes sure that tenders are also evaluated based on their value for money. This ensures that maximum gains are reaped from the amount of money invested in a particular contract.

A careful comparison of these five principles reveals an unsettling number of contradictions. As a result, the procurement policy, however well intended, is itself riddled with contradictions.

The intention of lawmakers in introducing the principles of fairness and equitableness is to offer the necessary competitive edge to previously disadvantaged groups or individuals, as against large firms in the tendering process. In the analysis of Pauw and Wolvaardt (2009: 74) equitableness is achieved when equal shares (equal treatment on a numerical basis) are awarded. However, difficulties arise once the principles of transparency and competitiveness are added to the mix.

According to *these* principles, tenders should be awarded to the tenderer who scores the highest points, these being awarded on the basis of whether or not the tendering organisation meets certain criteria. This underlies the competitive nature of the procurement system. In terms of the provisions of section 2, subsections (e) and (f) of the Preferential Procurement Policy Framework Act, 2000, contracts must be awarded in this way, *unless* objective criteria in addition to those contemplated in section (2), subsections (d) and (e) justify the award to another tenderer. What these additional criteria might be is not, however, clearly specified; they appear to be largely a matter of individual discretion.

Clearly, the principles of competitiveness and fairness, in terms of which preference is given to the previously disadvantaged, are in conflict, and one must ultimately win out over the other. It falls to the individual or group entrusted to awarding the tender to weigh such conflicting principles up against each other in order to decide which is more important. This process is clearly open to abuse and error, as it is very easy to award contracts without sufficient justification to those who scored the lowest points. Such ambiguities associated with the principles of the

procurement system paralyse the implementation of the preferential procurement policy, and this increases instead of decreasing the low-cost housing backlog.

Giving preference to the previously disadvantaged in awarding a tender to a low-scoring tenderer is hardly justifiable in light of the requirement that the procurement system be competitive. Bolton (2004: 627) argues that the organs of state are given little discretion by the national government when awarding tenders owing to a lack of justification for the procedure, and this has a detrimental effect on the implementation of the preferential procurement policy. As long as ambiguities prevail in the formulation of the preferential procurement policy, the myriad difficulties involved in implementing this policy are unavoidable. The introduction of a mechanism for improving the implementation of the preferential procurement policy is a necessity.

Moreover, the principle of transparency needs to be more adequately articulated. No detailed procedure for the balanced evaluation of competing contractors is set out, leaving the contractors in the dark as to how to prepare for evaluation.

8 THE PREFERENTIAL PROCUREMENT POLICY IN CONJUNCTION WITH THE LOW-COST HOUSING PROGRAMME

The preferential procurement policy is applied in the awarding of tenders for the low-cost housing programme. When the current government came into power, it faced having to reform the procurement policy that it had inherited. Many of these reforms were intended to offer opportunities to those previously disadvantaged to actively participate in the procurement system since, as Wittig (1999: 12) points out,

a preliminary review of the existing procurement policies and systems indicated a skewed nature of tender awards to the larger, more established companies that obtained most of the public sector contracts.

The fundamental reforms undergone by the procurement policy since 1994 are detailed in the ten-point plan released by the Ministry of Finance and Public Works in November 1995 (Bolton 2000: 625). The purpose of this plan was primarily the removal of certain circumscriptions within the procurement policy, in order to give special preference to those considered previously disadvantaged as well as to small- and medium-sized enterprises. In 1997, the *Green Paper on Procurement Policy Reform* was drafted in order to consolidate existing reform processes within the procurement policy. Thereafter, in 2000, the Preferential Procurement Policy Framework Act was taken into law and became the guiding framework for all procurement contracts in South Africa.

The fundamental goal of these reforms was to redress the injustices of the past by empowering those who had previously been excluded from participating in the procurement system. The procurement policy is viewed as a possible source of job creation and increased utilisation of local labour. According to Rogerson (2004: 181), the procurement system has the potential to assist in achieving goals related to local economic development, including poverty reduction.

However, the effectiveness, in practice, of procurement policy to realise socio-economic objectives is doubtful. This contention is based on two facts.

First, tenders are often awarded to companies that, in fact, consist of nothing more than a company registration certificate. They have no physical existence (such as premises, employees or other items commonly associated with the running of a business) at all. These 'quick-hit' tenderers recruit other companies – that do possess the requisite expertise – as subcontractors to do the actual construction. This practice places eligible contractors at a distinct disadvantage, and undermines the use of the preferential procurement policy as an instrument of socio-economic objectives, including poverty reduction.

Rogerson (2004: 190) argues that the practices of contractors who attempt to secure a tender without the necessary expertise create a high-risk environment for clients and contractors alike. This is because many of them go out of business at some point during the contract, leaving the client with an incomplete project and no contractor to complete it, while their legitimate, skilled competitors struggle to survive. In other words, quick-hit tenderers usurp the opportunities of eligible contractors and slow the rate of provision of low-cost housing. As a result, the procurement policy's potential as a tool to improve socio-economic conditions is undermined.

The second fact that casts doubt on the procurement policy's ability to bring about socio-economic upliftment relates to the jeopardising of the immediate objectives of the procurement policy by secondary considerations regarding its implementation. Watermeyer (2003: 14) identifies the risks involved in this as loss of economy and efficiency in procurement; exclusion of certain eligible contenders from competing for a tender; reduction in competition; unfair and inequitable treatment of contractors; lack of integrity and fairness; lack of transparency in procurement procedures; and failure to achieve socio-economic objectives through procurement.

The formulation of the preferential procurement policy proves self-contradictory and oversimplified when it reaches the stage of implementation. This creates problems when it comes to the use of this policy in combination with other policies, such as the low-cost housing policy. The low-cost housing policy encompasses a particular approach to affordable housing, its core intention being to provide low- to moderate-income households with an affordable housing alternative (Moss 2003: 22).

During the apartheid era, the distribution of wealth and housing was characterised by high levels of class segregation and inequality. As a result, some centres of human settlement developed faster and to a greater extent than others. In a democratising South Africa, the rapid delivery of housing is regarded as the way forward (Huchzermeyer 2003: 212). Unfortunately, this will be difficult to implement if the country has a deficient and ineffective procurement system for fast-tracking the delivery of low-cost housing. However noble measures designated to uplift the lives of those previously excluded from the mainstream of the economy may be, they are futile if they are not supported by the optimal functioning and necessary competencies of each of the Provincial Departments of Local Government and Housing, as well as skills readiness on the part of participating contractors. The following section concentrates on the feasibility of the use of the procurement policy to generate local employment and reduce poverty by means of the proper awarding and completion of construction contracts relating to the low-cost housing programme.

9 THE USE OF THE PROCUREMENT POLICY TO ACHIEVE SOCIO-ECONOMIC OBJECTIVES

As pointed out by Sisulu (2004: 1), the introduction of the preferred procurement system as an instrument to be used by government to fulfil its socio-economic responsibilities brought with it many unprecedented challenges to the provision of low-cost housing, attributable to insufficient consideration of the difficulties that the preferential procurement policy poses to emerging contractors.

The South African government has laid little groundwork to enable emerging contractors to be effective and to operate in an environment conducive to success. Challenges confronting these emerging contractors include having to operate within the informal sector of the economy and having few formal business systems at their disposal. In theory, the South African government attempts to assist emerging contractors by providing them, through carefully thought-out legislation within a democratic system of governance, with an environment in which they are able to function optimally. In reality, however, initial efforts to assist emerging contractors and, in so doing, to foster contractor development, were insufficient. The contractors emerging following the introduction of a democratic dispensation were inadequately prepared to meet the traditional project requirements of cost, time and quality.

Rogerson (2004: 189) discusses several pillars of the new procurement policy in South Africa. One of these entails the structuring of public sector procurement in such a way as to promote economic reconciliation and competitiveness. Furthermore, this structuring should be such that small, medium and micro enterprise participation is maximised without compromising time, cost and quality. The above

line of reasoning represents the most desirable application of the procurement policy. Unfortunately, the involvement of emerging contractors in the procurement system is characterised by inertness in meeting the conventional project requirements of time, cost and quality. The client's expectations are frequently disappointed in that housing units are regularly not delivered on time and are often of below-average quality. Government is consequently forced into superfluous expenditure, in order to compensate for these shortcomings and to continue work on housing units that should already have been completed. This burden is usually carried over into the following year, resulting in the insurmountable task of having to complete work on the previous year's housing units while commencing the construction of new units for the new year.

How, then, could the preferential procurement policy be implemented without compromising the project management features of time, cost and quality? The inability of emerging contractors to satisfy the requirements of project management has negatively affected the delivery of low-cost housing, further worsening the housing backlog. Despite recent measures to improve the capacity of emerging contractors, the preferential procurement policy remains flawed and continues to contribute to difficulties experienced in the implementation of the low-cost housing programme. Current opinion is that the government is detached from this process, acting merely as a client whose interest lies solely in obtaining a finished product and having no concern for how this is achieved. This creates problems, because the process of constructing houses requires robust monitoring and site inspection for the immediate rectification of all errors.

The role of government in the low-cost housing programme is to facilitate rather than to implement it. It is ironic, then, that it fails to play an effective facilitative role in the administration and management of contracts relating to the implementation of the preferential procurement policy. According to Watermeyer, Gounden, Leitchmiah and Shezi (1998: 15), the socio-economic objectives that the government intends to achieve through the use of the preferential procurement policy are the development of small, medium and micro enterprises – particularly those owned and operated by previously disadvantaged individuals; the acceleration of the rate at which work is made available to the poor, as well as the generation of income within marginalised sectors of the economy; and the adherence to affirmative action to counteract the deliberate marginalisation of black people, women and rural communities along economic, political and social lines.

Although these socio-economic objectives are achieved in the process of procuring, socio-economic change as an incentive for procurement can also have a negative impact on the implementation of the low-cost housing programme. Low-cost houses are often either incomplete, or complete but of poor quality, hence the

critical housing backlog. It is the government's responsibility to ensure that the achievement of the goals of one policy do not lead to the failure of another policy. As this is currently the case with the preferential procurement policy and the low-cost housing programme, the two need to be reconciled.

The shortcomings of the preferential procurement policy in both the formulation and the implementation stages having been acknowledged, it is now necessary to pose the question of how it is to be improved upon, in order to ensure its efficiency and effectiveness as well as its successful implementation despite the ambiguities inherent in its formulation. In order to answer this question, the factors that contribute to these failures in the implementation of the procurement policy must be explored.

10 FACTORS AFFECTING THE IMPLEMENTATION OF THE PREFERENTIAL PROCUREMENT POLICY

This section deals with factors leading to difficulties in implementing the preferential procurement policy in conjunction with the low-cost housing programme.

10.1 The absence of effective implementation strategies

In South Africa, the Provincial Departments of Local Government and Housing are mandated, within the parameters of the national housing policy, to promote and facilitate the provision of adequate housing, as well as to take all reasonable and necessary steps to support and strengthen the capacity of municipalities to effectively exercise their powers and duties in respect of housing development (South Africa 1997). It is the role and responsibility of the various provincial governments to facilitate housing development within their respective provinces. The South African government does not physically build houses itself; it has them built in terms of public procurement contracts. Unfortunately, virtually all of South Africa's provincial governments fare poorly at facilitating the implementation of the preferential procurement policy within the provision of low-cost housing programme. Erguden (2001: 4) suggests that the improved efficacy of provincial governments' facilitative role is the key to harnessing the full potential of low-cost housing production.

10.2 The absence of security vetting when selecting contractors

The security procedure followed by the provincial governments of South Africa for the procurement of contractors is very simple. All the contractors must register their companies on the approved departmental database (Rampedi 2008: 4). The selection

committee then looks up each company's submitted proposal on their database and adjudicates based on the proposal and the procurement compliance of the company in question. To prevent the awarding of contracts to artificial or physically non-existent companies, the status of companies submitting their proposals must be strictly evaluated. The awarding of contracts to unscrupulous contractors undermines value for money in the procurement system, because huge construction projects are then left in the hands of companies that are incapable of executing them properly. Projects awarded to such companies are consequently often either left incomplete or are completed, but are of poor quality and far exceed the stipulated time frame.

10.3 Corruption within the procurement process

Government makes extensive use of contracts to obtain goods and services from external suppliers. The high value of these transactions means that some government officials are inevitably tempted to resort to corrupt practices, either for personal monetary gain or for political reasons (Bolton 2006: 2). The prevalence of corruption in the procurement processes undermines both the value received by the government for the money it pays to contractors and the functioning of the procurement policy as a tool to achieve certain socio-economic objectives.

Corruption has clearly become a significant spoke in the wheels of the tendering process and, consequently, also in the provision of low-cost housing to those who are less fortunate and in the realisation of socio-economic objectives by means of this policy. It has been observed that corruption is particularly prevalent at the point at which the evaluation team selects a contractor for a particular project. Often either the contractor bribes the government official, or the government official charges a fee for considering the contractor's proposal. This practice is also quite common among project managers and contractors. It is important to note that this corruption involves both government officials and private individuals.

Corruption can only occur in an institution which fosters an environment conducive to it. The extent of corruption in public sector procurement contracts could be curbed by rigorous monitoring. In this regard, Mahlangu (2005: 54) discusses the findings contained in the task team report commissioned by a member of the executive council (MEC) in 2005 to investigate corruption in the Department of Local Government and Housing. The report revealed that payments had been made to developers for houses which had either not been built at all or had been completed, but were of a very poor quality. The logistical capacity of the Department of Local Government and Housing in Limpopo Province to implement the procurement policy within the low-cost housing programme is plainly questionable; corruption is clearly undermining the Constitution's specific proviso that procurement should serve the aims of efficiency and equity (McCrudden 2004: 261).

10.4 Monitoring and evaluation mechanisms

The failures associated with the implementation of the preferential procurement policy in conjunction with the low-cost housing programme are rooted in inefficient monitoring and evaluation mechanisms. Monitoring of the implementation of projects is a continuous process which is crucial right from the start of a project, all the way through to its conclusion (Bamberger 2004: 122). Continuous monitoring and regular evaluation of the process, outcomes and implementation impact are essential methods for detecting deviations from the project's focus, or as indicators of the need for the redirection of strategies and activities. The blame for reported incidents of houses being built in ditches and trenches can be placed unequivocally on ineffective monitoring and evaluation mechanisms.

Further cause for concern is the fact that the government pays for the finished product: how, then, does the policy allow payments for incomplete or unbuilt housing units? It is important to recall that, in this situation, government is not the builder but the facilitator. The private contractors are the builders, and the government administers the process and pays for the finished product. In order for the preferential procurement policy to be efficient, effective and successful with regard to the delivery of low-cost housing, it needs to be accurately monitored and evaluated.

10.5 Inadequate involvement by government

Since government plays the role of facilitator rather than actually implementing the preferential procurement policy and low-cost housing programme, it can become completely detached from these processes, thus enabling the contractors to become almost entirely self-monitoring. This opens the entire process up to corruption, and can be very unsettling for emerging contractors – a fact to which Ncwadi and Dangalazana (2005: 6–7) attest in noting that challenges faced by emerging contractors include the absence of incentives from government and the unwillingness of commercial banks to make funding available to emerging contractors. Commercial banks are reluctant to fund emerging contractors owing to the general perception that emerging contractors remain high-risk in terms of their ability to access the capital to repay their loans. Government, by becoming more involved in the process and supporting the emerging contractors that it employs, has the power to dispel this belief to a significant degree.

Ultimately, the South African government's inadequate involvement in the implementation of the preferential procurement policy results in the slow and ineffective delivery of low-cost housing. Government's negligible involvement in

the monitoring and evaluation of the implementation of the preferential procurement policy allows for far too great a margin for error and corrupt practices. Therefore, government should be involved in the process from the beginning of all construction projects right through to their conclusion, and should regularly call for and scrutinise progress reports and data relating to the implementation process.

10.6 Unmonitored project managers

As already stated, the role of the project managers at the Department of Local Government and Housing includes housing inspection, since project managers play a vital part in ensuring that the project runs smoothly and is completed on time as well as within budget constraints. They work alongside the contractors participating in the low-cost housing programme and are expected to be constantly present on the construction site. The most important task of project managers is to assess the work of the contractors and certify their work, reporting back on its completion according to the standards set by the department. Finally, the project managers submit a certificate of the work completed to the department for the processing of payment.

It is at this point that the succession of monitoring and evaluation comes to a halt. At no point does the department attempt to verify the information supplied by the project managers, even though project managers are often unable to be present on site (which must inevitably impair their ability to accurately monitor and evaluate the process). The process is thus clearly vulnerable to error and corruption, as is evidenced by documented instances of contractors being paid for incomplete or poor quality work.

10.7 Shortage of staff

The number of project managers available for the low-cost housing programme is clearly inadequate considering the enormous responsibilities and functions entrusted to them. There are fewer project managers in the department than there are construction projects currently underway, and this greatly impairs the department's capacity to monitor the work of contractors. There is consequently an enormous demand for project managers, particularly in rural municipalities. As a result, the Provincial Departments of Local Government and Housing give preference to these poorly serviced municipalities in its allocation of project managers. The question of skills development again arises: there is a critical shortage of the predominantly scientific and technical qualifications required in the field of project management, which constitutes a serious impediment to the realisation of government objectives.

10.8 Lack of resources

The issue of resources is a significant concern in the Provincial Departments of Local Government and Housing in South Africa. The project managers lack the necessary resources and equipment, including offices, protective clothing, measuring tapes and the general tools needed for the task. The absence of physical offices for project managers who are deployed in rural municipalities severely affects their performance.

10.9 Limited capacity

The capacity of project managers to regularly inspect and monitor the progress of the contractors is limited by the fact that there are fewer project managers than there are contractors appointed for multiyear projects. Contractors often manipulate this lack of supervision to their advantage, by using poor-quality materials in order to maximise their own profits. Project managers are needed both in the office and in the field, as a result of which there is a significant risk of the standard of the low-cost houses being compromised. The capabilities of project managers are immediately impaired when they are without the necessary support and resources and are bombarded with too many different tasks.

The contractors appointed for multiyear projects often have limited to no capacity at all to deliver on the large scale required by such extensive projects. This is cause for concern since, as a result, contractors often abandon low-cost housing projects before they have been completed, taking with them the money that the government has paid them for the complete project.

Unfortunately, contractors who lack the necessary capacity tend not to be open about their limitations, and attempt instead to conceal them. The fact that these sorts of contractors are managing to obtain contracts is proof that the Provincial Departments of Local Government and Housing in South Africa must develop different and better ways of screening potential contractors. This will safeguard provincial departments against the misuse of taxpayers' money by contractors with inadequate capabilities.

10.10 Political interference

Government institutions are seldom free from political interference, and the susceptibility of government administration to political interference can have a profound effect on the governance of the country. The evaluation teams in the Provincial Departments of Local Government and Housing in South Africa are no

exception, as they are largely influenced by political authority. Political interference in procurement procedures is inappropriate and undermines the very objectives of the procurement policy.

11 POTENTIAL SOLUTIONS

The difficulties encountered in the implementation of the procurement policy within the low-cost housing programme could be resolved by instating more effective implementation strategies. For this to happen, however, the capacity of the Provincial Departments of Local Government and Housing in South Africa must be raised to a sufficient standard. Agere and Mandaza (1999: 41) describe institutional capacity as being a factor critical to the entire process of policy development and management. It is the contention of this article that robust institutional capacity is a necessary precursor to the effective implementation of the preferential procurement policy in the provision of low-cost housing in South Africa.

In order to enhance the potential of all those involved in the low-cost housing programme, the Provincial Departments of Local Government and Housing in South Africa must play an effective facilitative role. The government's ability to communicate project requirements to the procurement team has a direct influence on the quality of the design brief and the attainment of government objectives (Bowen, Pearl and Edwards 1999: 92–94). What is expected of contractors, as well as the manner in which progress is to be monitored and evaluated, should be made clear right at the beginning of construction projects. Goodchild and Chamberlain (1999: 861) refer to procurement as a process through which a purchaser obtains a product or a service; this lies at the heart of the development process in social housing, and is therefore crucial to its effective, efficient and successful implementation. It is of paramount importance that the implementation of the preferential procurement policy be effective and not undermine its developmental nature.

Security vetting in the contractor selection process is extremely important, because procurement is at the core of the development process of the low-cost housing programme. Selection committees and departmental allocation committees must ensure that they choose suitable contractors by conducting a thorough check. Corruption in the procurement system can be prevented by means of effective institutional capacity, in combination with the necessary monitoring and evaluation mechanisms.

Corruption occurs in the procurement system because the system nurtures it; there are no rigorous systems in place to ensure transparency and prevent oversight. If monitoring and evaluation are ensured at the planning stage of construction projects and employed throughout projects, construction projects will be kept on track

and any deviations can be rectified in time. The effective, efficient and successful implementation of the preferential procurement policy requires the involvement of all the various stakeholders.

These changes have the potential to yield positive results, such as the minimisation of corruption. Each policy is judged by its implementation impact in so far as the implementation results of the policy reflect the intentions of policy makers. Accurate measures of performance are thus essential to the implementation of policy in order to ensure that the policy achieves its intended objectives. These include the characteristics associated with an effective and comprehensive service: scope – it must be comprehensive; quality – there must be clarity of purpose, inherent logic, accuracy, a range of options, adequate consultation and practicality of implementation; time – the reporting deadlines for projects must be met; and cost – it must not exceed the agreed budgets (Agere and Mandaza 1999: 42). In order to effectively implement the preferential procurement policy as it relates to the low-cost housing programme, the Provincial Departments of Local Government and Housing in South Africa should adopt and adhere to the aforementioned performance measures.

12 CONCLUSION

The democratically elected government that came into power in 1994 was placed under immediate and immense pressure to correct the injustices of the past. It inherited a housing backlog and an ineffective and corrupt procurement policy which left it with no choice but to initiate reforms. In the process of reforming the procurement policy and using it as a tool to fulfil its socio-economic responsibilities, the government was confronted with unprecedented problems which were extremely detrimental to efforts to reduce or eliminate the housing backlog.

In the process of trying to solve a problem, new problems are often encountered, and this was precisely what happened when the government began attempting to implement the preferential procurement policy as it related to the low-cost housing programme. What is needed to solve the resultant complications is strengthened institutional capacity on the part of those entrusted with implementing the preferential procurement policy. This involves reinforcing and improving on the facilitative role played by the Provincial Departments of Local Government and Housing in South Africa. Project managers, as the crucial link between the Provincial Departments of Local Government and Housing and the contractors, require assistance in making greater contributions to the process.

Effective facilitation on the part of the Provincial Departments of Local Government and Housing in South Africa is possible when the monitoring and

evaluation mechanisms are consolidated. Furthermore, monitoring should be conducted continuously and should be incorporated in the planning for construction projects. Measures of performance are important in overseeing the work of contractors and initiating corrective measures where deviations or errors occur. The implementation of the preferential procurement policy as it relates to the low-cost housing programme can be rendered effective, efficient and successful, through the utilisation of accurate performance measures and the sustained monitoring and evaluation of construction work.

The Provincial Departments of Local Government and Housing should divulge their criteria to prospective contractors in a comprehensive format. In the procurement system, for contracts below the value of R500 000 a formula of 80/20 applies, and for contracts above the value of R1 million, a formula of 90/10 is followed. Therefore, the officials of the Provincial Departments of Local Government and Housing should be able to justify the deviation from normal procedure when the formula of 90/10 is applied to contracts below the value of R500 000. The general goal of the clarification of the use of these formulae is to make the process transparent and competitive. Departmental officials should also be able to furnish contractors whose tenders are unsuccessful with reasons. Moreover, the awarding of a contract to a low-scoring contractor must be sufficiently justifiable so as not to jeopardise the competitive principle that underlies the procurement process.

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