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The Municipal Development Partnership for Sub-Saharan Africa was launched in 1991 as a multi year partnership between municipal governments and associated institutions and bilateral and multilateral donors. The Partnership was designed to be an alternative model of development assistance, operating regionally and nationally, dedicated to building local institutional effectiveness in Sub Saharan Africa. The Partnership is organised in two units both of which share the same objectives and methodologies. The Eastern and Southern Africa unit covers 25 countries and is based in Harare Zimbabwe. The Western and Central Africa Unit covers 22 countries and is based in Cotonou Benin

About the Authors

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Municipal Development Partnership Eastern and Southern Africa

Ministerie van
Buitenlandse Zaken

Policy Briefs on Governance Issues

Public Procurement and Local Economic Development in South Africa

By C.M. Rogerson and P. Vorster

Background

The importance of using public procurement as a development tool is slowly being acknowledged. Procurement provides business and employment opportunities, and, depending upon how it is structured and conducted, can be used as an important instrument of government policy to facilitate social and economic development. In light of the considerable growth and extent of public procurement, there is an increased interest in the regulation and application of public procurement as a policy instrument. Many developing countries, including Brazil, Philippines and Namibia, use procurement as a vehicle to achieve objectives such as job creation, promotion of fair labour conditions, use of local labour or improvement of environmental quality. A number of other initiatives have been launched, mostly in the developed North, to link environmental objectives or 'green purchasing policies' as part of public procurement for sustainable development. Most recently, attention has turned also to consider the potential of procurement to contribute to attaining the goals of local economic development, including of poverty reduction. In the case of Brazil, for example, the activities of the public procurement programme in the State of Ceara represented a demand-driven form of assistance and functioned as a major stimulus to local small enterprise development.

Since the democratic transition there has occurred widespread changes in the systems of public procurement in South Africa. Extensive changes have been introduced into the inherited system of procurement in order that procurement should be developmental and contribute towards defined socio-economic objectives for reconstruction.

Although the new guidelines concerning procurement are to apply across nearly all aspects of government contracting they have been specifically targeted at the provision and maintenance of public infrastructure in South Africa, which was identified as a critical element in the government's Growth, Employment and Redistribution macro-economic strategy. The research focus in this investigation was therefore to examine the application in South Africa by local governments of this changed procurement policy as a tool for local economic development. The specific research problem was to assess the organization, extent and workings of public procurement as a means for attaining the goals of local economic development in South Africa. Of particular importance was to seek to identify those problems or blockages to the efficient and equitable operation of public procurement as a tool for localeconomic development.

These Policy Briefs are a product of the MDP multi country research project, which was funded by the Government of the Netherlands and coordinated by the Municipal Development Partnership for Eastern and Southern Africa. They are intended to inform, contribute and provoke dialogue on strategies for enhancing local government capacity for effective service delivery and poverty reduction in Sub-Saharan Africa. The views expressed here are those of the researchers and should not be attributed to the MDP secretariat.

The Research Problem

Under apartheid, the public procurement system largely functioned so as to protect the interests of the minority of large white-owned construction enterprises and correspondingly to restrict the access to opportunities of enterprises operated by Black South Africans.

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Research Objectives

These were threefold:

- To analyse South Africa's changing public procurement regime as a potential best practice for consideration in other African countries as a vehicle for local economic development;
- To analyse the organization and workings of the public procurement regime across a range of South African municipalities; and
- To analyse the detailed workings for poverty alleviation in the context of small enterprise development in the construction section using the case study of Midrand in Gauteng province.

Research Methodology

In assessing the workings of public procurement in relation to the goals of local economic development planning in South Africa, a number of different research methods were used. More specifically, the research reported here involved a combination of extensive review and analysis of primary documents and secondary materials, a focussed survey of major local governments in South Africa, and a detailed locality case study of the application of procurement for objectives of local economic development.

Overall, the South African empirical research involved several stages of work, which, at various stages of the research process, sought to engage with the key stakeholders, involved in the application of public procurement as a potential tool for local economic development. The four sets of key stakeholders are: (1) the national Department of Public Works, (2) local government officials charged with responsibility for local economic development, (3) local government officials charged with responsibilities for public procurement and, (4) small-scale construction contractors which are the targeted beneficiaries of the changed public procurement regime. Across these four different sets of stakeholders, interviews, discussions or questionnaires were administered to nearly sixty individuals or organizations. In addition, further participation from stakeholders was gained at a South African national consultative workshop, which was held in October 2002.

Research Findings

- The international experience suggests that the possibilities for infrastructure-led economic development are often overlooked, particularly at local level. The key for enhancing the impact of infrastructure development is through the application of employment-intensive construction and the appropriate choice of labour-based rather than equipment-based technologies for construction works;
- Since 1994 South Africa has been involved in a radical overhaul of the inherited structures and frameworks regarding public procurement. It has been recognized that a changed public procurement system can contribute towards addressing the apartheid legacies of inequalities in business ownership and in addressing poverty. The

issue of enhancing black economic empowerment is recognized as central to the functioning of the new procurement system. The South African targeted procurement regime must be acknowledged as offering possible best practice lessons that could be applied in other parts of the developing world, including sub-Saharan Africa;

- The country's newly adopted regime of targeted procurement offers a flexible framework, which allows preferencing to be applied to fulfilling a number of social objectives. The most important and dominant thread in targeted procurement is that of empowerment of dealing with structural racial inequalities in business development and livelihood opportunities. In particular therefore the targeted procurement system introduced in South Africa has focused strongly on applying preferencing to support targeted enterprises and labour from communities that were disadvantaged under apartheid;
- South Africa's preferential procurement framework could be adapted flexibly however to focus on a range of other development objectives which might include small enterprise development, sustainable development, or local economic development;
- It is apparent that under the new post-1994 frameworks that have promoted local economic development planning in South Africa as a whole, there is growing interest by local authorities in the potential of applying targeted procurement for achieving objectives for pro-poor local economic development. Indeed, the 'buy-in' from local authorities into the application of the new targeted procurement regime is one striking finding from this investigation. The extent of this buy-in must be set against the potential dangers of 'malicious compliance' which would threaten the core objectives of the new regime of procurement;
- Our national survey suggests that the application of public procurement in support of local development goals is likely to be most effective in the larger urban centers and metropolitan areas rather than in smaller towns. In the larger metropolitan centers, there is a greater existing pool of skilled labour and entrepreneurship that can be built upon through the opportunities offered by targeted procurement than in small towns. Moreover, the supply-side support for small enterprises is also more developed in larger urban centers than in South Africa's small towns. Indeed, there appear to be emerging certain problems in the delivery of infrastructure in small towns in applying the changed regime of procurement and in some instances empowerment may be the trade-off for weak or inadequate delivery of infrastructure;

Recommendations

- In the current early experimental application of procurement in relation to local economic development in South Africa it is apparent that

there are a range of 'local' interpretations of the guidelines for preferential procurement as established by national government. As the largest local government structure in South Africa, the Johannesburg local authority assumes an important role and many local authorities are seeking advice on local guidelines from the implementation experience of Johannesburg; and

- The experience of Midrand as the first South African local authority to explicitly marry public procurement to goals of local economic development is instructive, not least for its feeding into the revised procurement guidelines for Johannesburg as a whole. The Midrand experience shows that procurement regulations can be drawn up to support the objectives of local economic development. Moreover, it demonstrates also the potential for supporting local enterprises as well as creating job opportunities through the mechanism of resource or participation goals.

Recommendations

- There are several deficiencies evident at local level in the existing workings of South Africa's public procurement system. Amongst the most important are those relating to strengthening the position of black economic empowerment. From the outset there is the need to make municipal officials more aware of the intentions of the new procurement regime in order to avert malicious compliance. In addition, there is a wider need to make local engineers and construction professionals more aware of the potential advantages of using labour-friendly technologies of construction. The introduction of programmes to capacitate municipal officials regarding procurement and to heighten awareness also among local engineers or construction industry professionals of labour friendly technologies are recommended;
- In order to further reinforce the potential for empowerment it has been suggested that the procurement system be modified so as to permit 'set asides' which would allocate a specified and targeted proportion of procurement requirements to a defined group of enterprises or individuals to compete for the work so reserved. Another alternative would be to adopt the international practice of 'offering back'. Under this procedure local governments would achieve their policy objectives by giving targeted enterprises a second chance to make their tenders successful, that is the most competitive 'preferred' bidder can be given an opportunity to undertake part of the contract if that bidder is prepared to match the price and quality of the best tender received;
- Further improvements can occur in terms of contracting specifications that are issued by municipal authorities as regards packaging of contracts and designing specifications and setting contract terms that facilitate participation by targeted enterprises. Improvements can occur including more tender documentation to be made available in vernacular languages, continued simplification of tender procedures and possibly setting longer deadlines in order to permit small firms to

participate more easily. These recommendations needed to be embedded in local action plans;

- Considerable improvements are required for successful public procurement operations as regards supply-side considerations and supply-side interventions. Although these deficiencies have been recognized at national level and supply-side programmes have been enacted, it is clear that the network of delivery has so far failed to match the required levels for support. For public procurement to succeed as a local economic development strategy it is evident that at the local level the deficiencies of these supply-side interventions need to be rectified;
- Municipal authorities can seek to address these supply-side shortcomings in a number of ways. As regards information, contracting authorities can provide support to targeted groups to compete for business by providing information to these groups, through their associations, on possible tender opportunities, by actively seeking them out and encouraging them to register on local lists or data bases that could be used to source suppliers; and/or to provide further training on procurement rules and systems. Although in some localities the absence of any tender advice needs to be addressed; in other localities the fundamental issue is that of improving the quality of tender advice and support that is offered;
- Finally, as an outcome of this research, it is recommended that a project be implemented in South Africa focused on public procurement linked to explicit goals for pro-poor local economic development. In operationalizing such a project the local preferencing points system would have to be cognizant and modified to suit the targeted local economic development goals. Further, consideration would need to be given to incorporating the recommendations for capacitation of municipal officials, improvement of local specifications and contracting, the introduction of set asides and the offering back of contracts to targeted enterprises. In addition, within that local project, critical attention must be given to ensuring that the supply-side deficiencies that impact upon small contractor development be fully addressed. This requires local attention to issues of creating greater awareness of opportunities, improving access to credit, bulk purchasing, enhanced training and skills development and information about labour-based technologies (not least to formal established construction enterprises).
- Recommendations have been made above in these respects. Overall, the goal of the pilot project should be to ensure maximization of the local opportunities than can be realized from the adoption of the innovative regulatory frameworks and best practices that have evolved over the past eight years of targeted procurement in post-apartheid South Africa.