

Minister of Public Works
Mr J Radebe
11 July 1996

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Presentation at the Portfolio Business Club

It is indeed a great honour for me to be given yet another opportunity to address the Portfolio Business Club of Durban. I will therefore use this occasion to update you on the latest from the Department of Public Works in relation to economic empowerment of previously disadvantaged groups.

The Government's macro-economic strategy released not long ago stresses the need for economic growth at a much faster rate than at the present moment. For this to be achieved, our macro-economic strategy must take into account the following:

- the need for a dramatic increase in employment, which requires the creation of new economic activities;
- the recognition that this must take place within an open economy and an open, democratic, consultative, safe and secure society;
- the commitment to a fairly rapid increase in the standard of living for all South Africans, with the poor majority obtaining a greatly increased share of national consumption, public investment expenditure and service delivery;
- maintenance of macro-economic balances in ways that foster development and growth; and transformation of the public sector into an effective and efficient instrument to support growth and development.

The new economic activities must take into account the limited or non-existent access to infrastructure, services, education and socio-economic opportunities by the vast majority of our people and the enormous inequalities in wealth and incomes based on race, gender and urban or rural location.

For our macro-economic strategy and the Reconstruction and Development Programme to succeed, we must start by addressing the deep seated structural crisis facing the economy.

The level of unemployment, poverty and the past disregard for the basic needs for the majority of our people and an under-performing economy accentuate the need for a coherent, sound national strategy for economic growth and development.

The Government rightly sees the promotion of the small and medium sector as one of the strategies which will make a major contribution to the country's economic growth and development. This sector is an important factor in generating jobs and activating competition. But for this to come about, it is important to have a cautious and pro-active state intervention through policies to create an enabling environment for small enterprises.

Without going into details, I wish to remind you that it was on this basis that Public Works and the Department of Finance have come up with the Ten Point Plan on State Procurement of Goods and Services. The objectives of this process is to develop a procurement system that promotes the principles of the RDP, with emphasis on facilitating easy access for small, medium and micro-enterprises into the mainstream activities funded by the public sector. In short, the process falls within the wider context of economic empowerment of previously marginalised sectors of our society.

The Procurement Task Team, which was established to galvanise this process is currently developing an Affirmative Procurement Policy. It recently released a series of specifications in support of an Affirmative Procurement Policy as well as guideline documents on how to implement the Ten Point Plan, which is an interim measure to guide relevant authorities in implementing suitable procurement strategies within the ambit of the present system.

I now wish to take this opportunity to outline some of the ideas that have been developed by the Procurement Task Team as part of the Affirmative Procurement Policy.

Breakout Procurement

Small, medium and micro-enterprises usually regard market constraints and the inability to sell their products

and services as one of the most serious obstacles in starting business and to grow beyond the subsistence level. It is obvious that inviting tenders for unduly large projects makes it more difficult for smaller business to participate.

It is therefore proposed that contracts be broken up, wherever possible, without incurring undue negative impacts on quality time and cost parameters. The purpose of this is to provide greater opportunities and to make it easier for smaller business to participate and increase their share in public sector procurement. Appropriate standard specification, delivery dates and related contractual obligations will be employed to ensure that small businesses can reasonably be expected to compete effectively.

References and targeting

The Procurement Task Team has also decided to develop an interim strategy for a preference mechanism which promotes easy access to enterprises owned by previously disadvantaged persons. In arriving at this strategy, international case studies were considered and careful consideration was given to ensure that the preference mechanism proposed is underpinned by a clearly defined sunset clause.

Whilst there has been considerable debate, both locally and internationally, as to the price preference mechanism, we believe that we should evaluate the performance of this mechanism over period of 18 months before one could pronounce on its effectiveness in the South African context.

Specifically, the price preference system will target a specific group, namely those disadvantaged by unfair discrimination in the past in this country. This policy is based on a price preference and will apply to all contracts which are less than R2 million. This limit is to control the possibility of undue expenditure resulting from this preference policy during the untested period of implementing these measures. In addition, this limit targets the emerging construction sector rather than better established businesses.

Targeting on large scale projects

In order to ensure that there is a wide ranging participation of previously disadvantaged people at all levels in large construction projects, be it in the form of joint ventures, subcontracting relationship or employer-employee relationships, consideration must also be given to specific minimum participation goals on construction projects. On large scale construction projects, this is more than likely to be operationalised on the basis of the tender pre-qualifications.

Simplification of tender documentation

The present system of tender submission requires various forms of supporting information which is unnecessarily complicated in the present format for emerging businesses to complete satisfactorily.

Logistical problems in preparing and submitting tenders are often encountered by small contractors. It is also acknowledged that the administrative burden for smaller businesses in dealing with tender form requirements for government bodies is disproportionately greater and more expensive than for larger companies, and this is particularly the case in the construction industry.

We are proposing that the tender submission of documentation be rationalised and be simplified as far as possible, to make it easier for the small contractor to deal with the paperwork involved in tendering. It is not, however, our intention to simplify documentation to a point that the essence of the contract and the contractual obligations are lost in the exercise.

Grading of contractors

Government strategy to achieve an enabling environment for the construction industry hinges on the development of capacity, the removal of obstacles and the creation of new relationships, which expand the potential to more development objectives.

We believe that it is important to establish a data base of all construction entities in South Africa, and Public Works is in the process of finishing a compilation of a database of emerging contractors, both nationally and regionally.

We feel that construction entities should be graded and the grading process should be done jointly by

government and the construction industry. This grading will ensure that there is appropriate marrying of the capacity of the construction company to contracts envisaged, which will lead to risk minimisation and will assist in targeting support to those contractors who develop a successful track record.

Training

As part of our reconceptualisation of what constitutes appropriate infrastructural delivery, we have decided to include technical and supervisory training as an integral part of the project, to be priced as an item in the schedule of quantities.

We have adopted this approach in order to ensure that training during a construction project is not merely perceived as a peripheral issue but an integral part of the development of capacity and efficiency within the construction industry.

At present, Public Works has allocated 5 per cent of the overall construction cost to this training initiative. This will obviously be subject to a review, dependent on monitoring the effectiveness of such an approach.

Tender adjudication criteria

In the past, in South Africa, the award of tenders has been to the lowest bidder. Government has endorsed a position where did awards will be made not to the lowest bidder, but to the lowest responsible and repulsive bidder, with price being only one of the considerations of the award.

Other criteria, such as quality of product and other socio-economic criteria, will also feature in the overall adjudication process.

In conclusion, I wish to state that the Affirmative Procurement Policy, which is being proposed, is expected to unbundle contracts and so secure participation of SMMEs on construction projects in an affordable manner. This can only be achieved through a partnership between the private and public sector.

The Procurement Forum has developed the necessary mechanisms, and the Government has endorsed them and is supportive of the process. The strength and willingness of this partnership to achieve the goals of the RDP will dictate the pace at which the RDP objectives are reached insofar as SMMEs are concerned.

I thank you.

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