

Minister of Public Works
Mr J Radebe
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At the Trade Exhibition, Enterprise Africa 1996

Chairperson,
Honourable Minister of Finance - Trevor Manual,
Distinguished Guests,
Ladies and Gentlemen,

It is almost two months since we came together to launch Enterprise Africa in May this year. This should be an indication to all the stakeholders that Government is indeed determined to ensure that small, medium and micro enterprises play a significant role in our economy.

I wish to take this opportunity to congratulate the Centre for Small Business Promotion in the Department of Trade and Industry for its role in bringing together, through this trade exhibition, so many people with an interest in the development of SMMEs. The objective of this trade exhibition captures one of the major problems inhibiting development of a vibrant small business sector in our economy: lack of access to markets. This is one of the key problems facing small businesses identified at the President's Conference on small businesses held in Durban last year.

The participants at this trade exhibition reflect the interest and involvement of a broad spectrum of our society in this process. I am particularly encouraged by the active participation of Government Departments and parastatals in Enterprise Africa 1996. This shows a broad and deep commitment to and support for the policy direction taken by Government to promote the development of Small, Medium and Micro-enterprises, particularly from previously disadvantaged groups and communities.

It is also a confirmation of our view that the development of the SMME sector does not depend on the efforts of one particular Government Departments. We need co-ordinated efforts within Government as a whole, and policies and programmes that are supportive of and complementary to each other. Government, particularly through its buying of goods and services, could play a pivotal role in the development of this sector.

However the greatest hindrance to development of a strong and effective SMME sector remains the very structure of our economy with economic power concentrated in the hands of a tiny minority through very large conglomerates who dominate the production, distribution and financial sectors through a vast network of subsidiary companies and anti-competitive tendencies.

I stated at the Launch of Enterprise Africa on the 21st May 1996 that we must start by first acknowledging the ills that are facing the economy of this country. Failure to address these ills will only lead to a dead end street, and an economy characterised by distorted forms of growth and failure to support the process of reconstruction and development of our society.

The small business sector is an important force in generating jobs, and activating competition. But this will not come about through market forces alone. It is therefore important to have a conscious and proactive State intervention, through policies, to create an enabling environment for small enterprises. Given such an enabling environment, it is expected that hundreds of thousands of SMMEs will themselves accept responsibility for the operation, growth and progress of their enterprises.

In order to level the playing fields within this sector, the Department of Public Works in conjunction with the Department of Finance, has been engaged in an initiative aimed at reviewing the composition, guiding principles, operations and procedures of the State Tender Board, to ensure that its working are located within the context of nation building.

I must stress at this point, the Public Works' role in this initiative relates specifically to procurement reform in the construction Industry and that the ultimate responsibility for this overall initiative rests with my colleagues the Minister of Finance, Trevor Manual.

In my presentation today; I will focus primarily on construction related public sector procurement reform; whilst making the point that these strategies could be applied to any sector within the economy.

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.. The process, therefore, falls with 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 has recently released a series of specifications in support of an Affirmative Procurement Policy as well as guidelines documents on how to implement the 10-Point Plan, which is a interim measure to guide relevant authorities in implementing suitable procurement strategies within the ambit of the present system.

The 10-Point Plan proposes that the procurement of goods and services for any project or other requirement of the Government be obtained in the smallest possible quantities without incurring undue negative impacts on the quality, time and cost parameters of such services and goods. The purpose of this is to provide opportunities and make it easier for small businesses to participate and increase their share in public sector procurement.

The Plan makes provision for the targeting of those persons previously disadvantaged by unfair discrimination within the emerging medium, small and micro enterprise sector by means of preference mechanisms. It is suggested that this strategy could facilitate joint ventures and partnerships with the benefit of skills transfer and human resource development.

It is further suggested that this approach could be the beginning of a system that starts to deracialise business ownership in control through a focused policy of black economic empowerment.

The preference system which is proposed, operates by means of a point scoring tender adjudication procedure. Points are awarded on the basis of price and RDP factors, and the successful tendered is one who is awarded the most points, subject to technical factors, previous contractual performance, financial status, tender qualifications etc., being acceptable.

This system:

- requires tenderers to use their skill, knowledge and creativity in arriving at a favourable mix between financial requirements and the attainment of specific socio economic objectives during the delivery cycle.
- prevents those who fall within a targeted group from presenting grossly uncompetitive tender prices, as the reward for compliance with RDP objectives will be outweighed by the loss of points incurred through the uncompetitive tender prices.

In essence, the preference system enables the contractor's financial offer and RDP offer to be evaluated. Put in another way, it allows the State to evaluate "value for money" when considering building and engineering contracts. I am happy to report to you that the State Tender Board after months of rigorous and constructive debates, has endorsed the 10 Point Plan as the Framework and basis for transformation.

A specification in support of an Affirmable Procurement Policy. "APP1: The supply of Goods and Services," has been prepared. This specification facilitates the engagement of SMMEs which are owned and controlled by previously disadvantaged persons (Affirmable Business Enterprises of ABEs) in procurement activities alongside established contractors/service providers.

The specification permits the setting of goals for ABE participation in contracts which can be met by contractors who cater for ABE involvement in one or more of the following ways in the performance of their contracts:

subcontracting portions of the contracts to ABEs obtaining supplies and materials from suppliers who are ABEs engaging professional, technical or managerial service providers who are ABEs obtaining bonds and insurance policies from ABEs entering into joint venture partnerships with one or more ABEs.

The APP1 specification, in a practical or pragmatic manner, requires the contractors to "unpack" their contract into smaller contracts, to procure the services of targeted SMMEs to perform such contracts and to administer such contracts. Accordingly, the APP1 specifications may be regarded as being an instrument for break-out procurement as it facilitates an increase in SMME participation by targeted businesses in public sector

procurement activities.

The APP1 specification enables affirmative targets to be defined, set, verified and audited. It also provides private sector companies with the opportunity of doing business with SMMEs on public sector construction projects in an affirmative manner.

The Affirmative Procurement Policy which is being developed is expected to unbundle contracts and so secure participation of SMMEs on construction projects in an affirmable manner. This can only be achieved through a partnership between the private and public sector. The Procurement Forum has developed the necessary mechanisms; 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.

Whilst my input thus far has been on creating an enabling environment for SMMEs to participate in the construction sector, I also want to stress that procurement reform should shift government to being a best practice client in the spheres of total quality management, labour equity and concomitant work place reform and I anticipate that this will be adequately covered in the Green Paper on Procurement Reform that is to be launched by the Ministry of Finance shortly.

Another point that needs to be made explicitly, is that procurement transformation should not be seen as a panacea for all the problems that confront SMMEs in this country, but rather as one of the very key strategies that could unleash the economic potential located within this sector. Other supporting mechanisms, including within the private sector, needs to be put in place as a matter of urgency to enable us to optimise on this initiative.

Whilst most of our energy has focused on a public sector procurement transformation, it is quite apparent that many of these strategies could be easily adopted by the private sector to foster linkages between big and small businesses in a structured and sustainable form. This is the challenge that I place before the private sector today.

Once again, thank you very much for the opportunity to address you on the role of the Department of Public Works in this transformation process. We will continue to play a constructive role, particularly in ensuring that the strategies developed thus far are implemented effectively in the Construction Sector.

I hope that this exhibition will set us on an irreversible cause of unleashing opportunities for all our people and opening markets for small businesses.

Thank you.

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