

PROMOTING PREFERENTIAL PROCUREMENT AND LOCAL - & SOCIO ECONOMIC DEVELOPMENT IN A MUNICIPALITY

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LEGISLATIVE ENVIRONMENT

Public procurement:
OECD countries = 12% of GDP
SA = 29 % of GDP

Constitution

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graph TD; A[Constitution] --- B[Section 217 (1)]; A --- C[Section 217 (2) & Section 152]
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Section 217 (1)

**Section 217 (2) &
Section 152**

LINK BETWEEN SCM AND LED

- ❖ **Constitution – s 152 - mandates Council to develop and implement Policy, to coordinate and integrate functions of Municipality and to promote local and socio-economic development.**
- ❖ **Constitution – s217 – provides that when an Organ of State contracts for goods and services, it must do so within a system that is fair, equitable, transparent, competitive and cost effective. Nothing prevents it from implementing a procurement policy which provides for preferences, subject to national Framework Act.**
- ❖ **PPPFA – s2(1) - mandates an Organ of State to adopt a Preferential Procurement Policy read with PPPFA Regulations 217.**

HOW ???

Develop Policy and align it with LED Strategies and SCM system of the Municipality

POLITICAL ENVIRONMENT

“Ramaphosa - We will target 30% of government procurement for black and small businesses, co-operatives and smallholders”

CASE LAW INTERPRETATION

RAINBOW CIVILS

- i. Phase A – Compliance with conditions and special conditions, legislative and legal requirements and minimum specifications

IF RESPONSIVE (acceptable tender as per PPPFA section 1)

- i. Phase B – Functionality scoring

IF RESPONSIVE (meet threshold requirements as per PPPFA Regs, 2011)

- i. Phase C – Price and Preference scoring

HIGHEST POINTS = SUCCESSFUL BIDDER, UNLESS (as per PPPFA

section 2(1)(f)

- i. Phase D – Consideration of additional objective criteria

POLICY DEVELOPMENT

3 STEPS:

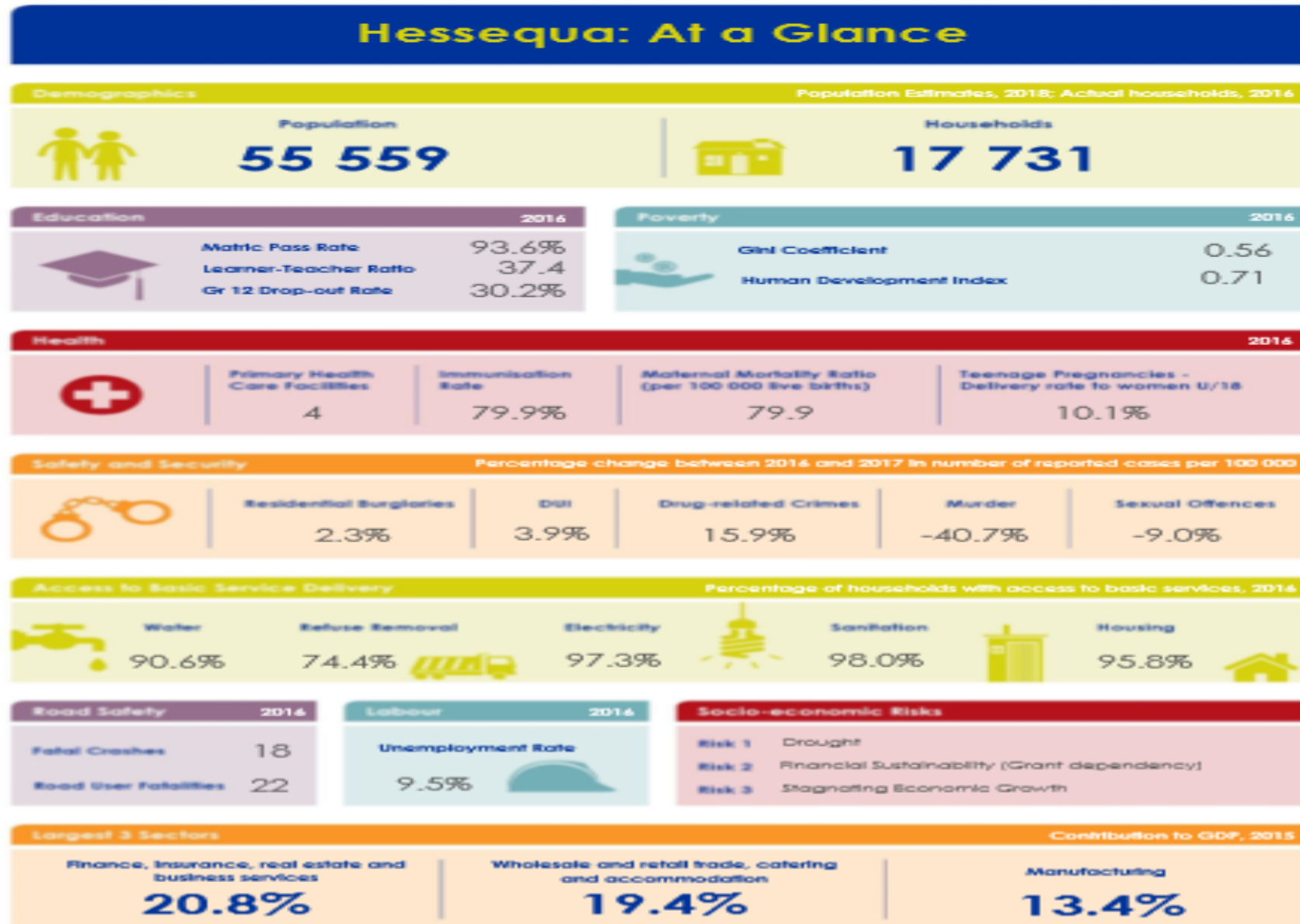
1. SCMU analyse past spent and supplier profile.
2. LED review local- and socio-economic factors
3. SCMU, LED and line-function determine tender strategies

STEP 1 - SCMU ANALYSE PAST SPEND, e.g

<u>Industry Sector</u>	<u>Business Unit</u>	<u>Number of Transactions</u>	<u>Expenditure</u> <u>R</u>
Electricity	Electrical	254	208 691 535,61
Construction	Construction and plant hire	190	164 815 534,94
	Maintenance	2174	93 603 479,06
Consultants	Consulting and Contractors	378	36 886 530,78
Transport	Vehicle maintenance and petrol	816	42 236 212,24
General/Other	Stationary, printing and IT	460	13 091 337,27
	Catering	420	1 573 878,07
Total		4 692*	560 898 507,97

Admin costs: 4 692 transaction * R 1 000 per transaction = R 4 692 000

STEP 2 - LED ANALYSE SED & LED e.g.



STEP 3 - LED, SCMU & MANAGEMENT DETERMINE TENDER STRATEGY

- **LESS BUT BIGGER TENDERS**
 - **FORCE CONSORTIUMS/JOINT VENTURES**
 - **EXTEND CONTRACT TERMS, WITH BIGGER FOCUS ON SUPPLIER/CONTRACTOR DEVELOPMENT**
 - **GEOGRAPHICAL APPROACH**
- **ROTATION REGISTERS OF PRE-APPROVED SUPPLIERS**
- **MAKE ARRANGEMENTS FOR MATERIALS, E.G FENCING AND PAVING**
- **COMBINE UNIVERSAL COMMODITIES**
- **NOMINATED SUB-CONTRACTING, ALIGNED WITH CONTRACTOR DEVELOPMENT PROGRAMME**

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EXAMPLE OF TENDER STRATEGY PRINCIPLES

CIVIL SERVICES LED PRINCIPLES*

• Below R 3m

1. B-BBEE level 1-2 or EME/QSE
2. Target SMME's
3. Not sub-contracting, but if used, promote B-BBEE level 1-2 or EME/QSE
4. Target local unskilled/ unemployed
5. LED
6. Basic Training
7. No CSI
8. No retention#
9. No performance guarantee

Between R3 – R 10 m

1. B-BBEE level 1-4 or EME/QSE
2. Sub-contracting, target SMME's & B-BBEE level 1-2
3. Target local unskilled/ unemployed
4. LED
5. Basic Training
6. CSI (not money)
7. Ltd retention
8. Ltd performance guarantee

Above R 10 m

1. Normal 80/20 or 90/10
2. **Small contractor development programme**
3. Sub-contracting, target SMME's & B-BBEE levels 1-2/ EME/ QSE with annual increase linked to capacity growth
4. Target local unskilled/ unemployed
5. LED
6. Basic & formal Training
7. CSI (not money)
8. Prescribed retention
9. Prescribed performance guarantee

* **NOTE:** These principles apply only to general construction and infrastructure projects and not specialised services or goods. For the latter specific strategies will be considered or exemption will be requested.

Where relevant a small portion (1-3%) of retention will be maintained to manage defects-risk. At all times this will apply with circumspect and not as a mechanism to hinder entry into the market.

**ENSURE MONITORING
MECHANISM CAPTURING
APPROPRIATE DATA**

MONITORING – TOOL ELEMENTS

Project data:

- Item number
- Project name
- Project budget
- Source of funding
- Department
- Project term
- CIDB
- CIDB Category
- Other legal requirements

Strategy:

- Tender strategy
- BBBEE status level
- EME/QSE
- Sub-contracting

Targets:

- Redressing skewed business ownership patters
- Improve market share of SMME's
- Improve LED
- Employment of semi-; unskilled and unemployed
- Empowerment of indigents
- Equitable work distribution
- Identified socio-economic weakness areas

Training:

- Basic
- Formal
- Informal
- CSI

Financial arrangements:

- Payment
- Retention
- Penalties
- Variations
- Performance guarantees

Contract conditions

Reporting

Monitoring

- Links

WAY FORWARD

HOW DO YOU DO IT - phased approach?

- For the **2019/20** financial year this Policy will apply to only selected tenders in excess of R 200 000 for which formal tenders are invited.
- For the **2020/21** financial year this Policy will apply to all tenders in excess of R 200 000.
- For the **2021/22** financial year this Policy will apply to all procurement activities in excess of R 30 000.