

Ensuring opportunities for all

Of the seven cogs driving black economic empowerment, preferential procurement is perhaps the most critical for emerging service providers to get a piece of the action. It is still murky territory for the private sector though, which means it has been largely left up to government to get the ball rolling.

This responsibility has been felt most acutely at local government level because of its direct involvement in communities. The general feeling is that local government is strategically positioned to encourage transformation of the economic landscape.

For Francis Grantham, procurement manager for the Msunduzi Pietermaritzburg Municipality, this duty is an honour and a challenge.

"I am proud to say that Msunduzi was one of the leaders in developing a supply chain policy that focuses on advancing local entrepreneurs. Our policy has since been adopted by a number of other municipalities in KwaZulu-Natal."

The policy mandates the council to try as far as possible to contract local service providers to carry out work for the municipality. The value of work varies from year to year but Grantham estimates that in this financial

year alone, 80% of the R1.1 billion capital budget and R20 million worth of work from the operational budget will be contracted out to local suppliers.

Msunduzi was one of the leaders in developing a supply chain policy that focuses on advancing local entrepreneurs

Services like refuse collection, lawn mowing, street sweeping, tree felling, security, catering and the general maintenance of buildings, vehicles and roads have been successfully contracted to local service providers. In addition, the municipality also has around 100 annual supply contracts for office, food and other supplies valued at over R30 000 per year.

The real catch, though, is to find local service providers to carry out construction work on the key capital expenditure projects undertaken by the council.

"Ultimately, construction and maintenance of key infrastructure is what municipalities are really involved in. Unfortunately, this is also the area in which we struggle to find service providers."



New Freedom Square Taxi Rank
(R20 million)

The challenge is really twofold. On the one hand, the relatively low skills level required to supply cleaning, security and catering services has resulted in an oversupply of service providers in these sectors, which has also made them unsustainable in the process.

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On the other hand, the skills shortage in the construction sector coupled with the lack of an appropriate support system for emerging contractors means that the council often struggles to find emerging service providers with suitable skills.

Another problem is that because emerging contractors lack experience they often struggle to complete projects within the given timeframe. The municipality has had to extend the contract periods on a few high calibre projects, like the Moses Mabhidha Multipurpose Centre in Edendale and the Freedom Square development in the CBD.

"The point is that while the level of workmanship is acceptable, slow progress, especially in reinforced concrete work, means that costs are increased by about 10% on every contract that has to be extended. Council has also taken the decision not to impose penalties on contractors who do not deliver on time, because penalties will only erode their profits and ultimately kill them off."

Finding solutions to these challenges is no easy feat, but Grantham says the municipality has already made good progress. Funds have been put aside for training of

emerging service providers and the council has increased supervision of project sites at its own cost.

"Increased supervision by our staff means that skills and knowledge are passed on in a kind of mentoring process. Council also carries part of the cost of extending the contract period, but on the provision that the contractor finishes the work in time by sourcing additional skills if necessary."

He adds that the passing of the Construction Industry Development Board (CIDB) Act of 2000 will further aid the municipality in fulfilling its procurement mandate. The act requires all municipalities to only use companies registered with the CIDB for construction projects.

"The good thing about this is that companies are rated according to the number and value of contracts they have had and then ranked on nine levels, with level nine being the most experienced. This will go a long way to aid municipalities in sourcing contractors with skills levels that match the available jobs."

The council hopes to ensure that money stays in the communities where the work is carried out

He does feel though that the CIDB would benefit if it were to offer some sort of training programme in conjunction with its ranking system. At the moment there are only a handful of emerging contractors on levels seven and nine, and they charge a premium for their services.

"The ranking system is also a bit too constrictive. For instance, if someone who may have been employed at

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Grass Cutting Outsourced to Emerging Contractors



Moses Mabhidha Multi-purpose Centre (R10 million)

a level five company chooses to open his or her own business they automatically start from level one, because the company as a whole lacks experience. Companies need to be ranked on more than just previous contractual experience and individual's skills and knowledge should be taken into account."

On the whole though, Grantham is upbeat about the future for Msunduzi's emerging suppliers. On average, about 80% of all contractors appointed are historically disadvantaged individuals, which bodes well for the transfer of wealth into previously marginalised communities.

"We need the private sector to come on board, because ultimately it is in everyone's interests to improve the skills level of the community"

The procurement division is also working closely with ward committees to deliver targeted initiatives to develop outlying communities. In a recent project, ward councillors were given the opportunity to propose projects that they felt were most needed in their communities. The municipality then put the jobs out on tender and gave preference to contractors that operated from the wards where the work was to be carried out.

"The effect was that this project encouraged people to come together and create new businesses. It also ensured that the people residing in those wards benefited from the economic spin-offs of the work and that the money stayed in the communities where the work was carried out."

The council is also promoting joint ventures between established and emerging contractors to facilitate skills transferral. While the finalisation of the codes of good practice for black economic empowerment (BEE) will encourage greater participation from private sector, Grantham feels that government should ideally not have to police the process.

"While a large portion of black economic empowerment does fall into government's scope, we also need the private sector to come on board, because ultimately it is in everyone's interests to improve the skills level of the community. We can ensure that the companies that do business with the municipality are participating in the process, but it is also up to companies that we do not come into contact with to see the value of procuring from emerging companies and partnering with them on jobs."

He adds that the council is still adjudicating tenders based on the Preferential Procurement Policy Framework

Act (PPPFA) and that his team is working hard to implement the new codes.

"With the codes coming into play, we will have to consider how to move from the PPPFA towards the codes of good practice. Part of this is determining whether the various sectors have properly implemented the codes. We want to avoid a situation where some tenders are submitted in accordance with the PPPFA and others under the new codes, as this will create an anomaly in the system."

The municipality's procurement policy was recently taken under review by the council and amendments are expected to be made in the near future. The council is also considering a watershed land sale policy which brings the sale of land into compliance with supply chain management. Grantham expects a number of other municipalities to adopt the policy once it has been approved. •



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R16.4 million