



**LIMPOPO PROVINCIAL GOVERNMENT  
DEPARTMENT OF ECONOMIC DEVELOPMENT,  
ENVIRONMENT and TOURISM**

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**REPORT ON THE IMPACT OF GOVERNMENT  
PROCUREMENT ON ENTERPRISES**

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## TABLE OF CONTENTS

<b>GLOSSARY OF TERMS</b> .....	<b>4</b>
<b>1. EXECUTIVE SUMMARY</b> .....	<b>7</b>
<b>2. INTRODUCTION</b> .....	<b>10</b>
<b>3. BACKGROUND</b> .....	<b>12</b>
<b>4. METHODOLOGY</b> .....	<b>14</b>
4.1 SAMPLING.....	15
4.2 RESEARCH TOOLS.....	16
4.3 QUALITY CONTROL.....	18
4.4 FIELD WORK.....	19
4.5 RESEARCH LIMITATIONS .....	19
<b>5. RESEARCH FINDINGS</b> .....	<b>21</b>
5.1 Treasury Department.....	21
5.2 Department of Sport, Arts and Culture .....	24
5.3 Department Of Public Works.....	29
5.4 Department of Health and Social Development.....	35
5.5 Department of Safety, Security and Liaison.....	40
5.6 Department of Economic Development, Environment and Tourism.....	44
5.7 Department of Roads and Public Transport.....	49
5.8 Department of Education.....	53
5.9 Department Of Agriculture.....	58
5.10 Department Of Local Government and Housing.....	62
5.11 CONSOLIDATED GOVERNMENT DEPARTMENTS IN-DEPTH INTERVIEW REVIEW.	67
5.12 CONSOLIDATED DEPARTMENTAL REPORT REVIEW.....	76
<b>6 CONCLUSIONS</b> .....	<b>133</b>

6.1	Are SMMEs And HDI Benefiting From Government Procurement? .....	130
6.2	Impact Of Government Procurement On HDIs And SMMEs .....	132
6.3	Effectiveness of Government HDI and SMME Targeted Procurement .....	134
6.4	Efficiency of HDI And SMME Targeted Procurement .....	135
6.5	Sector Specific Opportunities on SMME Procurement .....	137
6.6	Link Between SMME Procurement And Job Creation .....	137
<b>7</b>	<b>RECOMMENDATIONS .....</b>	<b>139</b>
7.1	Are SMMEs And HDIs Benefiting From Government Procurement? .....	139
7.2	Impact of Government Procurement On HDIs And SMMEs .....	139
7.3	Effectiveness Of Government HDI and SMME Targeted Procurement. ....	140
7.4	Efficiency Of HDI And SMME Targeted Procurement .....	141
7.5	Sector Specific Opportunities on SMME Procurement .....	142
	<b>APPENDIX 1: SMME DEFINITION TABLE.....</b>	<b>143</b>
	<b>APPENDIX 2 PROJECT CHARTER.....</b>	<b>145</b>
	<b>APPENDIX 3: Work Plan .....</b>	<b>151</b>
	<b>APPENDIX 4: GOVERNMENT DEPARTMENT IN-DEPTH INTERVIEW GUIDELINE .....</b>	<b>153</b>
	<b>APPENDIX 5: SELECTED SMME IN-DEPTH INTERVIEW GUIDELINE .....</b>	<b>155</b>
	<b>APPENDIX 6: SERVICE PROVIDER STRUCTURED INTERVIEW GUIDELINE .....</b>	<b>158</b>

## GLOSSARY OF TERMS

- A. **Historically Disadvantaged Individual (HDI):** A South African citizen who due to apartheid policy had no franchise in national elections prior to the Constitution of the RSA, 1983 (Act 110 of 1993) or the Constitution of the RSA, 1993 (Act 200 of 1993) (the interim Constitution), or who is female, and/or who has a disability provided that a person who obtained South African citizenship on or after the coming to effect of the interim Constitution, is deemed not to be an HDI.<sup>1</sup>
- B. **Small Medium and Micro Enterprise (SMME):** Means a small enterprise as defined in the National Small Enterprise Act 1996 (Act No. 102 of 1996)<sup>2</sup>. Refer to Appendix 1 for detailed SMME classification schedule.
- C. **PPPFA:** Preferential Procurement Policy Framework Act.
- D. **Quotation:** A written offer by the supplier in the prescribed forms without going out to tender.

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<sup>1</sup> Page 9, Department of Public works Bid Document 2007

<sup>2</sup> Page 9, Department of Public Works Bid Document 2007

E. **Contracts:** Means either quotations of less than R10 000, which can be sourced from one price quotation stemming from one contractor.

or

Quotations of more than R10 000 but less than or equivalent to R200 000 which can be sourced through the invitation of three written price quotations from three contractors. When the quote is above or equal to R30 000, 80/20 preferential points system will be used to determine the point for awarding the bid.

or

Competitive bids when goods or services required cost more than R200 000 but less than or equivalent to R500 000. These bids are advertised and adjudicated on 80/20 preferential points system

or

Competitive Bids for goods and services that have a cost above R500 000. These bids are advertised and adjudicated on 90/10 preferential points.

F. **80/20:** Point scoring system used for contracts with a value above R30 000 but less than or equivalent to R500 000, whereby 80 points is awarded for the price formula and/or functionality and 20 points is awarded for HDI and RDP goals.

G. **90/10**: Point scoring system used for contracts with a value above R500 000, where 90 points is awarded for the price formula and/or functionality and 10 points is awarded for HDI and RDP goals.

# 1. EXECUTIVE SUMMARY

The study on the Impact, effectiveness and efficiency of SMME and HDI targeted Procurement was initiated by the Department of Economic Development, Environment and Tourism (LEDET) with the objective to establish whether HDIs and SMMEs were benefiting from Government procurement. The study also sought to uncover the challenges being faced by HDIs and SMMEs in procuring from the Government Government and sector specific opportunities that might exist for these target groups.

The study called for an exploratory approach, and involved analysing Departmental reports including interviewing Departmental officials, Service Provider officials and HDI owned SMMEs that had in the past been awarded tenders by Government Departments.

The research established that HDI owned companies were benefiting tremendously from Government procurement, with an average volume of 65% of contracts and 81% of contract values being awarded to HDI. However, the research also established that there were sector specific services where non HDI were also benefitting from Government Procurement. The research also established that Departments were not entirely complying with the PPPFA with regards to the awarding of points for SMME promotion. As a result no information was being submitted to Treasury that could statistically reveal the extent to which SMMEs were benefiting from Government Procurement. It was however, realised that all Government Departments had electronic databases which were used to promote SMMEs in obtaining tenders worth below R200 000.

The research revealed that whilst HDI businesses in general were benefiting from high value tenders, the case was different for HDI owned SMMEs. As a result of SMME status (not HDI status), HDI owned SMMEs experienced various challenges when tendering for Government contracts. The most predominant challenge faced by HDI owned SMMEs was the access to working capital to initiate contracts. This more than often resulted in contracts being ceded to bigger companies with adequate resources as SMMEs in many cases could not obtain working capital or the stipulated 10% collateral for tenders worth more than R 500 000.

The findings point to a redistribution of economic gain from SMMEs to bigger businesses. As a result the effectiveness of Procurement Policy targeted at SMMEs is questionable, unless avenues are opened for them to access working capital once they are awarded tenders. With access to working capital, SMMEs will be able to execute the work and create a value chain for other SMMEs which can realise the effectiveness of Procurement Policy targeted at SMMEs improve.

The access to procurement support services is limited for both HDI and SMMEs, mainly due to a complete lack of coordination between Service Providers and Government Departments. Whilst Service Providers are in a position to provide much needed tendering expertise and support, the lack of coordination between them and Government Departments prevents tender applicants from accessing valuable tender support services. Coordination between Government Departments and Service Providers will result in improved efficiency of Government Procurement targeted at SMMEs and HDI.

Government Departments have been cited for their inefficiency in making timely payments for goods and services rendered and also in stipulating clear terms of reference. These areas are detrimental for SMME survival. Late payments have a negative impact on cashflows, whilst unclear terms of reference can lead to resource wastage. Both scenarios are unfavourable for SMME development. The Department of Health and Social Development has been cited for its efficiency in these areas and could perhaps share its experience with other Departments.

## 2. INTRODUCTION

The Limpopo Government Provincial Growth and Development Strategy (PGDS), has the following strategic objectives:

- Improve the quality of life of the Provincial population using Spatial Rationale
- Promote economic growth through competitive cluster formation and SMME development
- Raise the institutional efficiency and effectiveness of Government
- Address unique priorities as they arise, such as BEE, Poverty reduction and HIV/AIDS, TB and Malaria
- Regional social and economic integration towards achieving the objectives of NEPAD

From the strategic objectives, it is evident that the South African Government places an emphasis on the importance of SMMEs in achieving economic growth and prosperity. In addition the South African Government further seeks to narrow the income divide between the most developed and least developed provinces and economic areas. The Government further has a mandate to narrow the socio-economic opportunity divide that was created under apartheid.

The Limpopo Government in its mandate to narrow these socio-economic disparities therefore emphasizes SMME formation, growth and the creation of

opportunities for HDI as a priority.

In its drive to strengthen SMME growth and create opportunities for HDIs, the Limpopo Government has identified Government Procurement as a vehicle to encourage this growth. It has therefore commissioned research into the Impact, Efficiency and Effectiveness of Government Procurement on SMMEs through the Department of Economic Development Environment and Tourism.

### 3. BACKGROUND

Whilst SMME formation and growth are seen as critical at national and local Government level, it is however not categorically known as to what extent SMMEs and HDIs are benefiting from Government Procurement. It is also not known as to how effective the procurement policy is in addressing socio-economic policy issues and how efficient the Departments are in implementing this policy.

Against this background, the Limpopo Government through the Department of Economic Development, Environment and Tourism commissioned research to assess the Impact, Efficiency and Effectiveness of Government Procurement on SMMEs and HDIs.

A meeting was held between LEDET and Turnaround Partners on the 12<sup>th</sup> March 2007. The purpose of the meeting was to discuss and conclude terms of reference. Subsequent to this meeting the project charter was approved.

Refer to Appendix 2 for a copy of the Project Charter.

The following are the project research objectives that were agreed upon:

- To ascertain if SMMEs and HDI are benefiting from Government procurement.
- To establish the impact, effectiveness and efficiency of procurement policy on HDI and SMMEs.

- To establish sector specific opportunities on HDI and SMME procurement.
- To establish if there is a link between HDI and SMME procurement and job creation.

## 4. METHODOLOGY

The Research Objectives called for a three-pronged research approach:

### **Exploratory Research:**

- Gathering information to uncover the problems, challenges and opportunities faced by HDIs and SMMEs when procuring from the Government.
- Collecting information to uncover the efficiency, impact and effectiveness of Government procurement

### **Quantitative/Data Research:**

- Analyzing and reviewing procurement data with a view of establishing the extent to which HDI groups are benefiting from HDI targeted Procurement.

### **Causal Research:**

- Establishing cause-and -effect relationships that might exist between SMME and HDI Procurement and Socio- Economic development within the Province.

The research approach optimized data collection using the most relevant sources to reflect a holistic picture on the impact, effectiveness and efficiency of Government procurement on SMMEs and HDI. As a result, research subjects consisting of Government Departments, service providers and selected SMMEs that have been awarded contracts through various Government Departments were selected. Refer to Appendix 3 for the detailed Work plan.

## 4.1 SAMPLING

Sampling was conducted in order to get a meaningful and statistically significant sample of a population that can be referred to as being representative of the population under study.

### 4.1.1 GOVERNMENT DEPARTMENTS SAMPLING

Ten Government Departments that are involved in procurement were selected as the research subjects. Officials were interviewed in order to gain an insight into the efficiency of Government Procurement. The Treasury Department further served as a source of procurement statistics. Table 1 below is a list of the Departments that were interviewed.

**Table 1: List of Government Departments Interviewed**

<b>Departments</b>
Department of Education
Department of Health and Social Development
Department of Agriculture
Department of Roads and Transport
Department of Sport, Art and Culture
Department of Economic Development, Environment and Tourism
Department of Safety, Liaison and Security
Department of Public Works
Department of Local Government and Housing
Provincial Treasury

#### 4.1.2 SERVICE PROVIDERS

To enhance the validity of the research, four service providers that were involved in rendering procurement targeted services to SMMEs were identified and used as research subjects. Table 2 contains a list of the service providers that were surveyed.

**Table 2: List of Service Providers Interviewed**

<b>Service Provider</b>	<b>Services</b>
LIMDEV	Financial and business support
Umsobomvu	Youth business planning
SEDA	Business development
LIBSA	Business support

#### 4.1.3 Selected Post-Procurement HDI SMMEs

A sample of 18 HDI owned SMMEs were identified and constituted the businesses research sample. Two businesses were identified from each of the nine Departments. Six businesses were drawn from contract classes below R200 000, six from contract classes between R200 000 and R500 000 and the remaining six from contract classes above R500 000.

## 4.2 RESEARCH TOOLS

Research tools are the different types of data collection methods that can be used to gather data. For the purpose of this research, structured and semi-

structured questionnaires were used to gather information. The following presents an overview of the research tools that were used.

#### 4.2.1 GOVERNMENT DEPARTMENTS

In-depth interviews held with Supply Chain Managers in the selected Departments were used for primary data collection. In-depth interviews are face-to-face discussions that are done with experts or primary stakeholders in a particular topic. With in-depth interviews the discussion takes place at the respondent's preferred setting so as to ensure that they are comfortable and relaxed as to give meaningful and accurate insight about the topic.

All in-depth interviews were conducted at the relevant Departments in the appointed respondents' office. The in-depth interviews sought to uncover how effective and efficient Government Procurement Policy was with regards to SMME and HDI procurement. The In Depth Interviews further sought to establish the challenges, problems and opportunities faced by SMMEs and HDI in procuring.

An analysis of procurement reports was also conducted as part of the research. Departmental Procurement reports for 2005 and 2006 (which were the only available periods) were sourced from Treasury and analyzed in terms of the quantity as well as the value of contracts that have been awarded to HDIs. Refer to Appendix 4 for Department In-Depth Interview guideline.

#### 4.2.2 SELECTED POST-PROCUREMENT HDI OWNED SMMEs

Telephonic interviews were conducted with selected owners of companies who had been recipients of Government tenders over the past 2 years (2005-2006) across the three different contract classes. Telephonic interviews served as the most cost effective method of data collection due to the dispersion and mobility of the businesses and business entrepreneurs under study. Interviews with company owners were used to establish issues relating to the impact and efficiency of Government Procurement and challenges experienced by businesses when procuring. Refer to Appendix 5 for SMME Interview guideline.

#### 4.2.3 SERVICE PROVIDERS

In-depth interviews were held with Development Officers from selected service providers and were used for primary data collection. The in-depth interviews sought to uncover the adequacy and extent of service provision by service providers and insights into procurement related challenges and opportunities for SMMEs and HDIs. Refer to Appendix 6 for Service Provider In-Depth Interview guideline.

### 4.3 QUALITY CONTROL

The following precautions were taken to ensure data accuracy and reliability:

- Data triangulation; All interviews held were attended by two researchers. Responses were recorded independently and then crosschecked and verified before being analyzed.
- Involvement of client at key stages in the research, including attendance by the client at some of the interviews conducted.

#### 4.4 FIELD WORK

Fieldwork was undertaken using the prescribed methodology mentioned above. The following were key milestones.

- Interviews with Government Departments
- Procurement reports were obtained from the Treasury Department and the information was subsequently analyzed.
- Interviews with Service Providers
- Telephonic interviews with selected SMMEs and HDIs

#### 4.5 RESEARCH LIMITATIONS

Certain limitations were encountered in conducting the research. The following issues are highlighted that:

- Departments did not often honor appointments resulting in most appointments being rescheduled. This had the effect of prolonging the information-gathering phase.
- Attempts to obtain reports from Departments were unsuccessful as only two Departments provided this information in time. These reports also had incomplete data. All reports were then subsequently obtained from Treasury.
- Procurement Reports obtained from Treasury were only for the periods 2005 (April-December) and 2006 (April-December) therefore analysis was limited to this period.
- The reports did not contain any information on SMME procurement. An interview with Management at the Treasury Department revealed that

Departments were not awarding points or reporting on SMME targets. As a result, the analysis of the reports is limited to HDIs. However, Departmental interviews conducted gave insight into the state of SMME procurement and the findings are discussed and analyzed within this report.

## 5. RESEARCH FINDINGS

The following are the findings of the research based on the discussions, in depth and telephonic interviews, and report analysis. From the findings, conclusions and recommendations are provided addressing the individual research objectives.

### GOVERNMENT DEPARTMENTS

#### 5.1 TREASURY DEPARTMENT

Table 3 below is a breakdown of contracts that were awarded by the Treasury Department between the period 2005 (April to December) and 2006 (April to December). The data shows that in 2005, HDIs did not receive any contracts. Only one contract was awarded to non-HDIs. In 2006, however, 63% of contracts were awarded to HDI, representing 42.2% of contract values.

**Table 3: Breakdown of Contracts Awarded by the Treasury Department**

	<b>Total No Of Contracts Awarded</b>	<b>No of Contracts Awarded to HDI</b>	<b>No of Contracts Awarded to non HDI</b>	<b>Total Value of Contracts (Rands)</b>	<b>Value of Contracts to HDI (Rands)</b>	<b>Value of Contracts Awarded to non HDI (Rands)</b>
2005	1	0	1	5,454,900.00	0	5,454,900.00
2006	8	5	3	1,927,790.96	813,323	1,114,467.96

Figures 1 and 2 below illustrate the number of contracts awarded and the values respectively. From the figures, it is evident that there was a marked increase in the total number of contracts awarded over the 2005-2006 period.

The figures also show that whilst there was an increase in the number of contracts awarded, there was a considerable decline in the value of contracts issued. HDIs, however, benefited by receiving contracts in 2006 as compared to 2005 during which they had not benefited due to the fact that only one contract was issued to non-HDI.

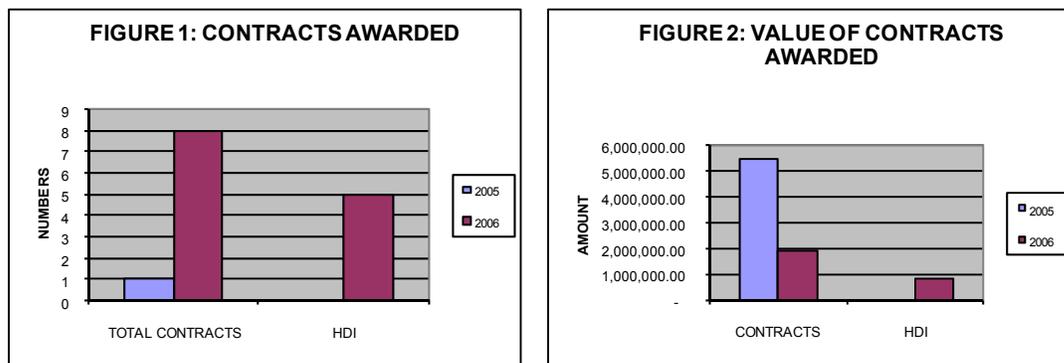


Table 4 below shows that the Treasury Department only awarded contracts for consulting services in 2005. In 2006, the Department however, awarded contracts for various other services but did not award contracts for consulting services. Non HDIs benefitted from services like Accommodation. The Department also allocated a considerable amount of its budget to Newspapers and Periodicals and these were procured from non HDIs.

Conferences received the highest budget apportionment across all services in 2006 though the highest budget in 2005 had been to Consulting at R5,454,900.00

**Table 4: Breakdown of Services Contract Values in Rands**

Services	2005		2006	
	HDI	NON HDI	HDI	NON HDI
Consulting	-	5,454,900.00	-	-
Catering	-	-	39,275.00	-
Printing	-	-	149,735.00	-
Conference	-	-	500,400.00	-
Stationery	-	-	130,188.00	-
Newspapers and Periodicals				846,413.21
Accommodation				39,275.00
Other			1,108,192.61	228,779.40

The Treasury Department provided Procurement reports and explained the challenges faced by the different Departments in adhering to Policy issues as prescribed by the PPPFA.

The interview with the Supply Chain Manager revealed the following:

- Departments were not reporting on SMME procurement due to the fact that employees within the various Departments do not understand procedures regarding the completion of the SMME Preference claim form and therefore are not in a position to assist entrepreneurs. As a result of this, points for SMME development are not being awarded in line with the prescribed

procedures. This observation was also made during the in-depth interviews held with other Government Departments.

- It is also apparent that Departments are not completing the SMME preference claim form used to award points for the promotion of small businesses.
- As a result of the failure by Departments to report on SMMEs, Treasury is thereby not in a position to report on SMME procurement in its consolidated reports.

## 5.2 DEPARTMENT OF SPORT, ARTS AND CULTURE

Table 5 below shows the breakdown of contracts that were awarded by the Department of Sport, Arts and Culture during the period 2005 (April-December) and 2006 (April to December). The data shows that in 2005, there were no contracts given out, or according to Treasury, the Department reports were not submitted. In 2006, however, 45.9% of the total number of contracts was awarded to HDIs. This figure represented 41.2% of the total contracts value.

**Table 5: Breakdown of Contracts Awarded by the Department Of Arts Sports and Culture**

	<b>Total No Of Contracts Awarded</b>	<b>No of Contracts Awarded to HDI</b>	<b>No of Contracts Awarded to non HDI</b>	<b>Total Value of Contracts(Rands)</b>	<b>Value of Contracts to HDI(Rands)</b>	<b>Value of Contracts Awarded to non HDI(Rands)</b>
2005	0	0	0	0	0	0
2006	37	17	20	2,365,731.04	975,223.13	1,390,507.91

Figures 3 and 4 below illustrate the number and value of contracts awarded respectively. From the figures one can see that HDIs were awarded less than half of the total number and value of contracts issued by the Department of Sport, Arts and Culture in 2006. Unfortunately due to the non availability of data 2005, it is not possible to comment on the trend.

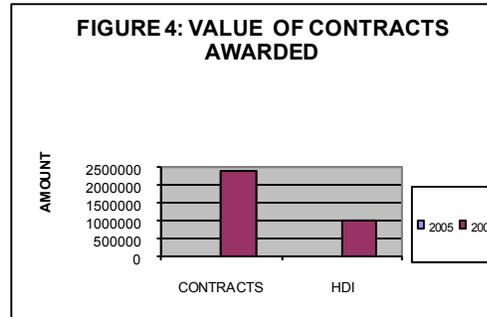
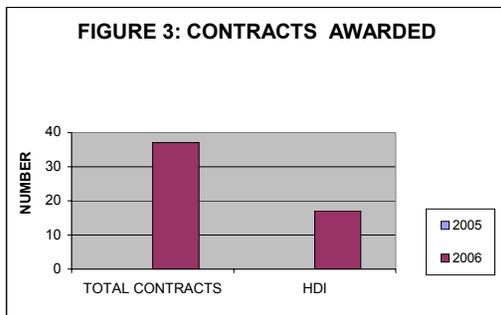


Table 6 below shows that the Department of Sports, Arts and Culture did not award any contracts for any goods and services in 2005. The Department however, awarded contracts for accommodation, conferences, travel and equipment in 2006 with conferences taking up a bigger part of its budget more than any other service. The Department also awarded contracts for accommodation to non HDI companies to the value of R249, 064.00 whilst R237, 362.00 went to HDI. The Department also spent R223, 619.00 on Catering to HDIs and R104, 825.00 on T-shirt Printing respectively as indicated by Table 6.

**Table 6: Breakdown of Services Contract Values in Rands in the Department of Sports Arts and Culture**

Services	2005		2006	
	HDI	NON HDI	HDI	NON HDI
Accommodation	-	-	237,362.00	249,064.00
Conferences	-	-	0	0
Transport	-	-	30000.00	0
Equipment	-	-	-	-
Other	-	-	137,791.00	917,824.00
Catering	-	-	157,850.00	223,619.00
T-Shirt Printing	-	-	-	104,825.00
Sound Stage	-	-	-	105,000.00
Other	-	-	-	328,152.00

The Department uses a database of suppliers when seeking quotations equal to or less than R200 000. The database is open to all suppliers. It consists mainly of SMMEs and HDIs because of the relatively small contract values which tend to be generally unattractive to large businesses. The database does not however, specifically capture the fact that a company is an SMME.

The Department stated that it promotes SMME procurement from this database using a rotational system that attempts to empower all SMMEs on the database by contacting different suppliers each time a quotation is required. The database

is also designed in such a way that contracts are allocated to businesses within the municipality where the work needs to be carried out.

Contracts above R200 000 are subject to tender procedures under the Preferential Procurement Policy, with amounts between R30 000 and R500 000 being subjected to 80/20 procurement policy and amounts above R500 000 being subjected to the 90/10 policy. The Department stated that the PPPFA is very rigid and does not allow for SMME empowerment due to the fact that higher weighting (80 or 90) is given to pricing and functionality. It was further stated that large companies due to economies of scale are able to offer better services at lower prices. SMMEs struggle to achieve economies of scale and as a result lose out on pricing and functionality points.

The Department does not monitor companies that it engages. Most of the contracts that are awarded are of relatively small amounts (below R200 000) and very short-term in nature, making it difficult to monitor the companies.

According to the Department of Sport, Arts and Culture, SMMEs and HDIs face the following challenges when tendering or executing tenders:

- Lack of adequate staff and equipment to get the work done.
- Failure to meet delivery deadlines.
- Lack of finance to get the contract initiated and completed.
- Under pricing leading to financial losses or non-performance.

- Over pricing leading to the companies not being awarded the supply contracts.

The Department does not conduct any assessment of SMME or HDI companies that have been awarded tenders but however, it is of the opinion that this is necessary, as they have realized that most businesses on their databases disappear after a relatively short period of time making it difficult to follow up when seeking quotations.

The Department does not provide any additional assistance in terms of advice on how to tender, training, workshops or grants to SMMEs or HDIs. Reference was made to the Treasury Department which has established Tender Advice Centers in the different districts. The Department is of the view that by offering tender advice, it will be duplicating services already offered by Treasury. The Department only provides tender briefing sessions in line with its Supply Chain Management Policy (SCM) once a tender is issued.

According to the Department, SMMEs and HDIs have registered average performance in terms of executing tenders, price, quality and timeliness.

The Department stated that it is difficult to assess the developmental impact of Procurement on SMMEs and HDIs, as it does not engage in any post-tender assessments.

Sector specific opportunities that exist for SMMEs and HDIs in the Department of Sport, Arts and Culture include the annual Mapungubwe Jazz Festival, which calls for various services that are earmarked to be provided by SMMEs. A host of services are always required, and the Department uses this event to promote SMMEs.

### 5.3 DEPARTMENT OF PUBLIC WORKS

Table 7 below is a breakdown of the contracts that were awarded by the Department of Public Works between the period 2005 (April to December) and 2006 (April to December). The data shows that in 2005, HDIs were awarded 81.2% of the total number of contracts with a marginal increase to 88.3% in 2006. This was despite the slight decline in the total number of contracts that were awarded by the Department from 666 in 2005 to 661 in 2006. In terms of the value of contracts, HDIs registered a marked increase from 69% in 2005 to 89.6% in 2006.

**Table 7: Breakdown of Contracts Awarded by the Department of Public Works**

	<b>Total No Of Contracts Awarded</b>	<b>No of Contracts Awarded to HDI</b>	<b>No of Contracts Awarded to non HDI</b>	<b>Total Value of Contracts (Rands)</b>	<b>Value of Contracts to HDI (Rands)</b>	<b>Value of Contracts Awarded to non HDI(Rands)</b>
2005	666	541	125	646,902,715.73	446,588,915.40	200,313,800.30
2006	661	584	77	710,911,982.53	637,134,178.30	73,777,804.20

Figures 5 and 6 below illustrate the contracts awarded and the values respectively. From the figures it is evident that whilst there was a slight decrease in the total number of contracts issued in 2006 by the Department, there was

however, an increase in the number of contracts issued to HDIs. Furthermore there was an increase in the value of contracts issued to HDIs in 2006.

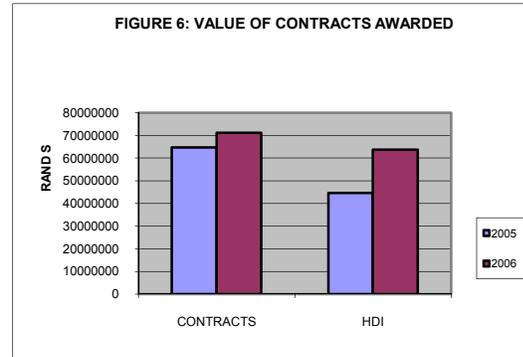
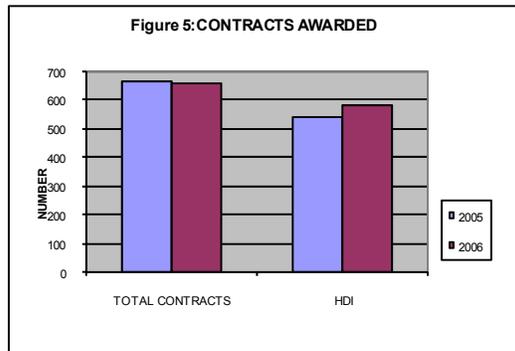


Table 8 below shows that the Department of Public Works had its highest expenditure going to construction tenders in 2005, with a total of R 389 714 468.98 being spent. In comparison, the second highest expenditure went to Supplies and Equipment, predominantly for use in construction. There was a marked increase in the expenditure on construction services in 2006, with R561,940,877.06 being spent by the Department on construction projects.

Equipment expenditure was in second place, but had declined from R19,936,468.50 in 2005 to R 14 890 451.46 in 2006. The Department also spent R8,357,095.50 on non HDI on specialised construction projects. Paving contracts were awarded to non HDI with contracts to the value of R2, 700,000.00 as shown in Table 8. In addition most of the contracts in the Department for property also went to non HDI with the Department spending R6, 064,595.06 on lease agreements.

The Department also experienced a marked decline in expenditure on consulting services from R 22 518 635.21 in 2005 to R 800 885.50 in 2006. Spending on

Security services also experienced the same downward trend. However, the Construction budget was increased from R389, 714,468.98 in 2005 to R561, 940,877.06 in 2006.

**Table 8: Breakdown of Services Contract Values in Rands**

Services	2005		2006	
	HDI	NON HDI	HDI	NON HDI
Consulting	22,518,635.21	-	800,885.50	-
Catering	-	-	1,171,013.00	-
Accommodation	-	-	5,355,597.87	-
Construction	389,714,468.98		561,940,877.06	42,506,268.00
Construction (Specialized)	-	-	-	8,357,095.50
Leasing	15,758,216.00	-	-	6,064,595.06
Security	21,465,979.65	-	8,920,024.40	-
Printing	-	-	1,836,380	578,139.20
Electrical /Supply	7,400,141.98	1,578,625.00	13,202,424.39	6,750,348.33
Paving	33,818.44	-	-	2,800,000
Equipment	19,936,468.5	-	14,890,451.46	44,198.00
Other	6,534,302.56	-	6,757,661	15,069,124.24

The Department promotes SMMEs and HDIs in a two-fold manner. Firstly they do so by making use of a supplier database which lists the potential suppliers. However, from the database it is not possible to determine whether a supplier is an SMME or HDI unless the company submits a profile. The Department also promotes SMMEs and HDIs by specifying the requirement for an HDI or SMME component in the evaluation criteria when a tender is advertised.

The Department has two databases, which consist of ordinary suppliers and a CIDB (Construction Industry Development Board) database. Every contractor whether SMME, HDI or not that seeks to obtain construction related tenders from the Department of Public Works has to be registered in the CIDB database.

Contracts below R30 000 are awarded to SMMEs on the databases. In so doing the Department is also able to promote youth groups. Selection of suppliers on the databases is rotational but the Department can use its discretion to appoint the same company if a quotation item is urgent.

Construction related projects are monitored by municipal inspectors to ensure that quality levels conform to stipulated construction industry standards.

According to the Department, challenges that are faced in dealing with SMMEs are as follows:

- Under-pricing leading to un-serviced contracts, hence tenders have to be re-issued leading to resource wastage.

- Multiple registrations of different companies by the same owners to enhance the prospects of winning a tender.
- Lack of focus resulting in poor supervision on existing work sites.
- Failure to complete projects on time.
- Failure to complete tender documents thus leading to disqualifications.
- Lack of financial capital to get tender jobs started timeously resulting in the SMMEs or HDIs ceding part of the contracts to financial houses or to micro financiers at exorbitant interest rates.
- Failure to attend training workshops.
- Lack of business skills.
- Lack of business sustainability.
- Lack of resources and capacity to do work.
- Fronting for bigger businesses and non-HDIs.
- For 90/10 tenders, the Government wants a 10% financial guarantee up front, which therefore excludes a good number of SMMEs, as most of them do not have capital or access to working capital.
- Promises by Business Support agencies, which are not being fulfilled. LimDev has apparently been informing SMMEs to present contracts to them so they can guarantee them working capital. However, this does not seem to be the case, as LimDev appears not to have been honoring this undertaking.

The Department has not been conducting any post assessment of the SMMEs or HDIs that are engaged by the Department.

The Department of Public Works provides further assistance to SMMEs and HDIs on its database through an Expanded Public Works Project that assists entrepreneurs in the construction industry by educating them and assigning projects to be executed. The Department also provides workshops for contractors and service providers in the areas of bidding policy, tendering, delivery expectations and supply chain management policy. These workshops are conducted every quarter.

According to the Department, SMMEs and HDIs in general have been performing above average in terms of quality, timeliness and pricing.

The Department mostly issues out tenders in excess of R500 000. This indirectly has an exclusion effect on SMMEs who generally struggle to raise working capital, as the 10% surety deposit has to be raised in advance before the tender can be issued to the winning company.

With such tenders, there is little opportunity to develop SMMEs in the construction sector. Further to this, the Department of Education which awards most construction tenders is no longer allowing for a split between classrooms and toilets, whereas in the past, toilets tenders would be graded as being grade 1GB are awarded to SMMEs. The current situation combines toilets and

classrooms, meaning that large tenders are going to be awarded to large companies which might not necessarily be HDI.

The construction industry is to partner with well-established companies for growth, especially when bidding for 2010 construction projects. Construction tenders advocate for partnering or joint ventures, and this is usually stipulated when tenders are advertised.

#### 5.4 DEPARTMENT OF HEALTH AND SOCIAL DEVELOPMENT

Table 9 below shows the breakdown of the contracts that were awarded by the Department of Health and Social Development between the periods 2005 (April-December) and 2006 (April to December). The data shows that 90.6% of contracts awarded in 2005 went to HDI, with a drop to 76.8% in 2006 despite the huge increase in the number of contracts awarded by the Department from 86 in 2005 to 229 in 2006. There was also a decline in percentage terms in the value of contracts that were awarded to HDIs from 94.3% in 2005 to 89.1% in 2006.

**Table 9: Breakdown of Contracts Awarded by the Department of Health and Social Development**

	<b>Total No Of Contracts Awarded</b>	<b>No of Contracts Awarded to HDI</b>	<b>No of Contracts Awarded to non HDI</b>	<b>Total Value of Contracts (Rands)</b>	<b>Value of Contracts to HDI (Rands)</b>	<b>Value of Contracts Awarded to non HDI(Rands)</b>
2005	86	78	8	521,267,516.60	491,696,965.30	29,570,551.30
2006	229	176	53	353,345,200.90	315,102,127.90	38,243,073

Figures 7 and 8 illustrate the number of contracts and the associated value in Rands. From the figures it is evident that there was an increase in the number of contracts awarded to HDIs in 2006 compared to 2005. On the other hand there was a decline in the value of the contracts awarded to HDIs in 2006 compared to 2005. In 2005 HDIs were awarded contracts amounting to R492 million while in 2006 the figure dropped to R315million.

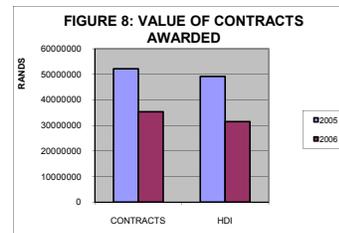
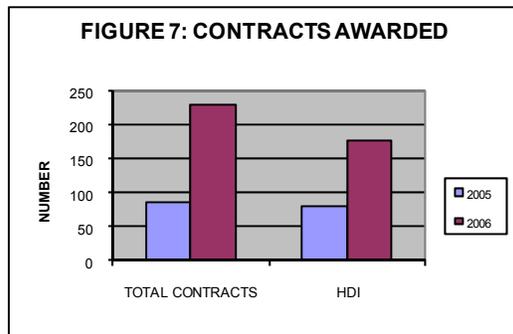


Table 10 below shows that the Department of Health and Social Development spent most of its 2005 budget on security services and catering services, at R337 916 231.45 and R 114 809 745.24 respectively. There was however a marked decline in amounts spent on both services in 2006, with only R 712 039 being spent on security services and R 3 059 209 being spent on catering services.

The Department increased its spending on Supplies and Equipment from R21 657 932.64 in 2005 to R 311 923 094.77 in 2006. A total of R 40 000 000,00 was spent by the Department on Food Parcels in 2005 but the Department did not spend anything on the Food parcels in 2006. The Department also spent R478, 767.99 on Repairs and R547, 050 on Travel respectively. These contracts were given to non HDI companies as shown in Table 10.

**Table 10: Breakdown of Services Contract Values in Rands**

Services	2005		2006	
	HDI	NON HDI	HDI	NON HDI
Training	1,3668,000.00	-	-	216,325.00
Accommodation	-	-	346,150.00	139,100.00
Waste Disposal	3,642,257.00	-	-	-
Consulting	1,873,341.00	-	-	-
Printing	-	-	399,680.00	-
Catering	114,809.754.24	26,525,887.20	3,059,209.20	-
Food Parcels	40,000,000.00	-	-	-
Security	337,916,231.45	-	71,039.00	-
Equipment	21,657,932.64	1,171,323.14	311,923,094.77	35,561,565.46
Repairs(Equipment)	-	-	-	478,767.99.00
Travel	-	-	-	547,050.00
Other	-	-	3,259,674.00	1,043,043.00

The Department has a database, which identifies whether the service provider is an SMME or not. The Department has its own preference claim form for HDI status, but is still obliged to use the provision of the Preferential Framework Act. The form differs with forms from other Departments.

It is very difficult for SMMEs to participate in medical tenders, as the equipment used by this Department is very sophisticated and some of this equipment has to be ordered from overseas.

Contracts above R200 000 are subject to tender under the Preferential Procurement Policy, with amounts between R30 000 and R500 000 being subjected to 80/20 procurement policy and amounts above R500 000 being subjected to the 90/10 policy.

The Department monitors the security companies that it awards tenders to. The monitoring is to ensure that the empowered SMMEs comply with minimum wage legislation. This the only Department that has managed to empower over 200 SMMEs with Security tenders. It has managed to empower such a high number by not giving more than three sites in a municipality to any one company. The high number of businesses engaged compounded with the medium to long-term nature of the contracts calls for some form of monitoring.

Challenges that SMMEs and HDI face when quoting, tendering or carrying out tenders that have been identified by the Department include the following:

- Claim forms not user friendly.
- Lack of performance due to under-pricing, and if the SMMEs do deliver, they end up not making any profits.
- Lack of finance to initiate work.
- Failure to deliver on time and poor quality of service.

- SMMEs fail to grow due to the fact that entrepreneurs are not reinvesting in their businesses. There is a lot of self-enrichment out of tenders instead of generation of wealth and job creation.
- Empowerment vs. performance issues (should they rather empower SMMEs and HDI by awarding them contracts and sacrificing quality or performance in an environment where quality is highly imperative).

The Department has in the past not conducted any assessment of companies that have been awarded tenders. Management has however, designed a form to gather information about these companies. The form is still to be approved.

In the past, several workshops on tender training were conducted in districts though the impact of these workshops was minimal. The Department has since embarked on having these workshops carried out in the municipalities. The Department has also established a unit for capacity building, which trains SMMEs in the tendering process. Unfortunately the Department itself does not have adequate capacity to handle this unit.

The Department rated as average the performance of SMMEs in executing tenders, quality of service, timeliness and pricing.

Sector specific opportunities that exist for SMMEs and HDIs are in partnering with large and well established companies for transfer of technical knowledge and skills. The Department is advocating for a policy to ensure that large

companies that are awarded tenders work with SMMEs. This policy is awaiting approval.

#### 5.5 DEPARTMENT OF SAFETY, SECURITY AND LIAISON

Table 11 below shows the breakdown of the contracts that were awarded by the Department of Safety, Security and Liaison between the period 2005 (April to December) and 2006 (April to December). The data shows that HDIs were awarded 65.2% of the contracts in 2005, with an increase to 70.4% in 2006. There was, however, a slight decline in the percentage of the total value of contracts awarded to HDIs from 57.3% in 2005 to 56.4% in 2006.

**Table 11: Breakdown of Contracts Awarded by the Department of Safety, Security and Liaison**

	<b>Total No Of Contracts Awarded</b>	<b>No of Contracts Awarded to HDI</b>	<b>No of Contracts Awarded to non HDI</b>	<b>Total Value of Contracts (Rands)</b>	<b>Value of Contracts to HDI in (Rands)</b>	<b>Value of Contracts Awarded to non HDI (Rands)</b>
2005	23	15	8	1,975,516.85	1,131,320.73	844,196.12
2006	27	19	8	2,262,802.46	1,275,586.14	987,216.32

Figures 9 and 10 illustrate the number of contracts and the associated value in Rands. From the figures it is evident that there was an increase in the total number of contracts awarded to HDIs in 2006. This led to a slight increase in the value of contracts that was awarded to HDIs.

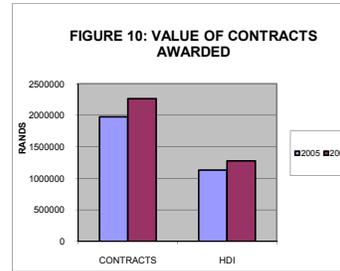
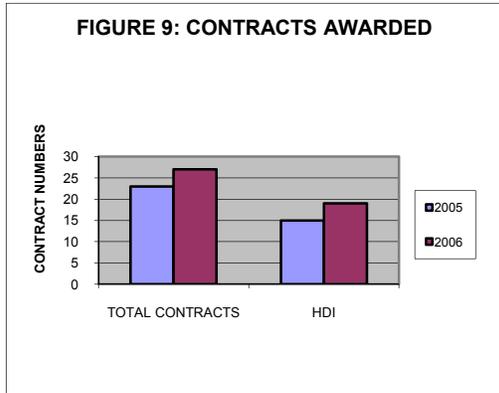


Table 12 below shows a general increase in spending by the Department of Safety and Security on conferences, equipment and media from 2005 to 2006. The Department however, decreased its expenditure on printing and consulting during the same period.

The Department spent most of its budget on printing and media in 2005 at R 381 855.33 and R 253 852.63 respectively. In 2006 the Department spent a large part of its budget on equipment and conferences with R 711 421.37 and R 377 979 being spent respectively. Table 12 also shows that the Department also contracted accommodation services to non HDI companies, with the Department spending a total amount of R162, 876.00 on accommodation. It also spent R42, 230.00 on non HDI companies to upgrade a lift.

**Table 12: Breakdown of Services Contract Values in Rands**

Services	2005		2006	
	HDI	NON HDI	HDI	NON HDI
Accommodation	-	940,358.59.00	37,326.00	162,876.00
Conference	-	940,358.59.00	377.979.00	-
Catering	141,300.00	-	-	-
Printing	381,855.33	-	246,460.00	-
Consulting	167,169.90	-	59,890.00	-
Equipment	145,980.03	95,820.03	711,421.37	-
Media	253,852.63	271,218.54	296,635.00	265,285.32
Upgrade of lifts	-	-	-	42,230.00
Other	559,641.61	-	-	720,964.64

The Department has a supplier database that is made use of when seeking for quotations under R200 000. The database is exclusively open to SMMEs. A rotational system is used to empower as many SMMEs as possible when selecting businesses for quotations.

The Department stated that the Preferential Procurement Policy is very rigid and does not allow for SMME empowerment due to the fact that the higher weighting (80 or 90) is given to pricing and functionality, and since bigger companies have economies of scale, they are then able to offer better services at lower prices.

Monitoring is only conducted on security tenders given the fact that they are of a long-term nature. The monitoring is done on the quality of service to ensure that contracts are being executed efficiently.

Challenges cited by the Department in dealing with SMMEs and HDIs include the following:

- Under-pricing which sometimes results in non-performance.
- Sub-standard performance.
- Lack of finances to execute contracts.
- Fronting and subcontracting of jobs to other companies.
- Lack of focus resulting in poor service delivery.

The Department does not have enough capacity to deal with post procurement assessment of SMMEs and HDI such that it pays minimal attention to their development and depends solely on the Preferential Procurement Framework for guidance when awarding contracts.

The Department does not follow up on SMMEs or HDIs businesses that it engages. It does not have the capacity to undertake such an initiative even though it is of the opinion that this type of assessment would be crucial in devising strategies to effectively empower the SMMEs. There is a perception by

the Department that the majority of SMMEs and HDIs entrepreneurs are using tenders to enrich themselves and not creating any employment opportunities.

The Department rated as average the general performance of SMMEs that have been awarded contracts.

Opportunities that exist for SMMEs and HDIs in the Department of Security and Liaison are for partnering with experienced security companies in order to gain access to tenders, skills and knowledge transfer and growth.

#### 5.6 DEPARTMENT OF ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM

Table 13 shows a breakdown of the contracts that were awarded by the Department of Economic Development, Environment and Tourism between the period 2005 (April-December) and 2006 (April to December). The data shows that HDIs were awarded 78.6 % and 68.4% of total contracts in 2005 and 2006 respectively. In terms of the value of contracts, HDIs experienced an increase from 71.6 % in 2005 to 78% in 2006.

**Table 13: Breakdown of Contracts Awarded by the Department of Economic Development, Environment and Tourism**

	Total No Of Contracts Awarded	No of Contracts Awarded to HDI	No of Contracts Awarded to non HDI	Total Value of Contracts (Rands)	Value of Contracts to HDI (Rands)	Value of Contracts Awarded to non HDI (Rands)
2005	14	11	3	3,049,922.48	2,184,602.74.	865,319.74
2006	38	26	12	5,639,158.80	4,399,226.83	1,239,931.97

Figures 11 and 12 illustrate the data in Table 13. From the figures it is evident that as the number of contracts increased there was a corresponding increase in the value of contracts that were awarded to HDIs. Overall the Department issued more contracts in 2006 compared to 2005.

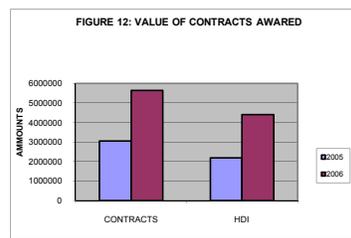
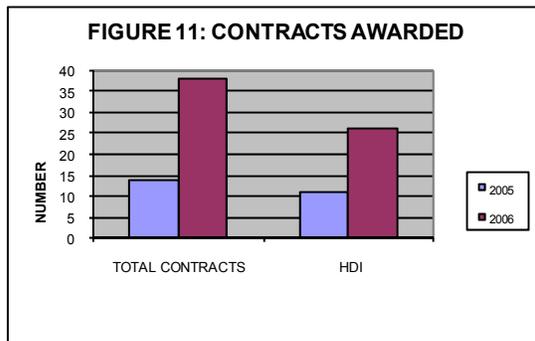


Table 14 below shows an increase in expenditure by the Department of Economic Development Environment and Tourism on consulting, catering and equipment between 2005 and 2006. It also shows that there was a decline in expenditure on conference services over the same period.

The Department spent most of its budget on consulting services in 2005, at R 1 547 212.56, and maintained this trend in 2006, with R 5 392 620 of its budget

going to consulting services to HDIs. Table 14 also shows that the Department spent R420, 374.00 to non HDI consultancy services and the Department also spent R457, 464.25 on accommodation to non HDI.

**Table 14: Breakdown of Services Contract Values in Rands**

Services	2005		2006	
	HDI	NON HDI	HDI	NON HDI
Consulting	1,547,21.56	-	5,392,620.00	420,374.00
Accommodation	-	457,464.25	527,511.69	457,464.25
Printing	38,646.00	-	-	-
Infrastructure	563,800.00	563,800.00	-	-
Catering	46,750.00	-	88,613.00	-
Equipment	255,066.76	-	789,682.81	-
Conference	374,550.00	-	126,720.21	35,304.21
Other	223,897.16	260,490.00	984,262.00	288,809.51

The Department has no SMME or HDI targeted interventions and is currently using a manual database. The Department is however, in the process of upgrading to an electronic database for supplies below R200 000. A manual database makes it difficult to select SMMEs and or HDIs. The Department stated that the preferential procurement plan is prescriptive, and it is therefore difficult to promote SMMEs and HDIs although the Department has been strictly following the PPPFA. Points for SMMEs are only awarded for supporting SMME

development, such that a large company that procures from the Government can score points even when it is not an SMME.

The supply chain management section in the Department was started in 2006 and is therefore still on a learning curve.

The Department is of the view that the Preferential Policy scoring framework is very rigid, and does not benefit SMMEs especially for amounts above R500 000 as 90% of points are awarded for price and functionality.

Currently the Department does not monitor businesses that are awarded tenders. The Department however, realizes that monitoring would be important in promoting SMME and HDI development.

Challenges that the Department has experienced when dealing with SMMEs and HDIs include the following:

- Certain suppliers do not turn up after being awarded contracts, e.g. quotations for transversal contracts. This sometimes is because they do not have transport.
- SMMEs have difficulties when it comes to completing tender forms.
- Some companies do not attach their tax clearance certificates.
- Failure to deliver on time.
- Claim form awards points for service providers that are involved in developing SMMEs, not for SMMEs.

- Lack of adequate financial capital to commence contracts.
- Inadequate business skills and lack of motivation to obtain guidance from tender advice centers.

The Department has not embarked on any monitoring of SMMEs or HDIs businesses that it has engaged. However, a supplier feedback form has been developed and will be implemented sometime during the current financial year.

An SMME development unit has been established by the Department to conduct workshops for SMMEs and provide tender as well as general business advice.

The Department rated the general performance of SMME service providers as above average.

The Department mostly deals with transversal contracts, and stated that the development impact of these is very difficult to ascertain, especially due to the fact that they are of relatively small amounts.

There is no coordination between the Department's supply chain Department and other Supply Chain Departments.

## 5.7 DEPARTMENT OF ROADS AND PUBLIC TRANSPORT

Table 15 below shows the breakdown of the contracts that were awarded by the Department of Roads and Public Transport between the period 2005 (April to December) and 2006 (April to December). The data shows that HDIs were awarded 68.1% of the total number of contracts in 2005, and 92.5% in 2006. This reflected a significant increase. However, in terms of the value of these contracts, there was a marked decline from R28.2 million in 2005 to R9.6 million in 2006.

**Table 15: Breakdown of Contracts Awarded by the Department Of Roads and Public Transport in Rands**

	<b>Total No Of Contracts Awarded</b>	<b>No of Contracts Awarded to HDI</b>	<b>No of Contracts Awarded to non HDI</b>	<b>Total Value of Contracts (Rands)</b>	<b>Value of Contracts to HDI (Rands)</b>	<b>Value of Contracts Awarded to non HDI(Rands)</b>
2005	47	32	15	31,542,740.46	28,214,972.04	3,327,768.42
2006	67	62	5	11,379,177.85	9,609,153.95	1,770,023.90

Figures 13 and 14 below illustrate the contracts awarded by the Department and the values respectively. From the figures it is evident that there was an increase in both the total number of contracts that were awarded as well as those that went to HDIs. As stated earlier there was a marked decline in the total value of the contracts as well as the portion awarded to SMMEs between 2005 and 2006

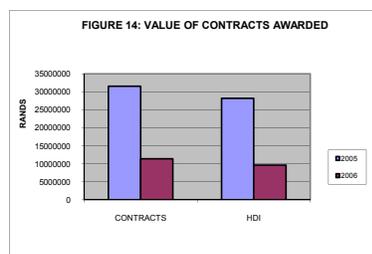
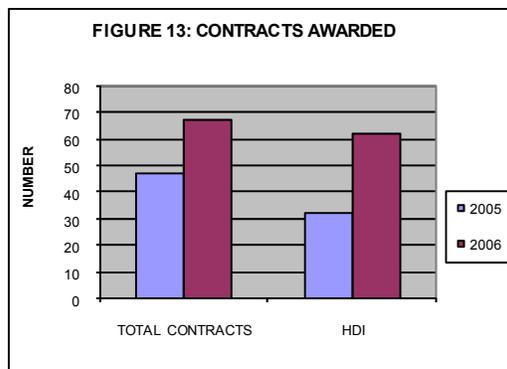


Table 16 shows a general decline in expenditure by the Department of Roads and Transport across all services, with the exception of expenditure on supplies and equipment which rose from R 165, 392.68 in 2005 to R 2,078 841.23 in 2006.

The Department spent most of its 2005 budget on security services (R19, 301 057.14) followed by transport services (R 7, 128, 159). It however, spent most of its 2006 budget on Transport at R 4, 556, 164.08, with expenditure on Security services having declined to R58, 270.20. The Department also spent R513, 515.00 on Hiring Equipment and R1, 198,406.40 on drilling and blasting on Non HDI contracts as shown in Table 16.

**Table 16: Contract Value Breakdown**

Services	2005		2006	
	HDI	NON HDI	HDI	NON HDI
Transport	7,128,159.90	1,014,628.00	4,556,164.08	-
Catering	67,500.00	-	-	-
Conference	69,852.00	-	-	-
Printing	324,052.30	86,938.88	179,598.00	-

Stationery	261,393.73.00	-	34,358.50	-
Training	1,335.225.00	-	-	-
Consulting	2,230.936.34	1,518,983.23	-	-
Equipment	165,392.68	-	2,078,841.23	-
Security	19,301,057.14	-	58,270.20	-
Hiring Equipment	-	-	-	513,515.00
Drilling/Blasting Rocks	-	-	-	1,198,406.40
Regravelling of Roads	-	-	-	50,686.63
Other	756,921.00	-	2,736,376.00	541,617.50

The Department makes use of a supplier registration form which has sections for annual turnover, number of years in business, percentage black owned, percentage women owned, percentage disabled owned and percentage youth owned, including a request for additional documentation that includes the company profile, company registration and tax clearance. Analysis of these fields allows for determination of HDI and SMME status before the company is added to the database.

Monitoring is only carried out on security tenders as they are of a longer-term period (up to 3 years). Districts conduct monitoring on behalf of the head office.

All other HDI and SMME contracts are not monitored due to the short-term nature of the contracts awarded of usually less than a one-month period.

Challenges that SMMEs and HDIs face when tendering or carrying out tenders that have been identified by the Department include:

- Lack of capacity, especially due to financial constraints.
- Fronting by large businesses.
- Lack of knowledge in completing the tender forms.
- Under pricing or over-pricing.
- Some contracted SMMEs are not paying their sub-contractors.
- Lack of focus or specialization results in poor performance.

The Department does not offer any training assistance to any of the businesses that it engages. It only does briefing sessions on how to complete tenders, every time a tender goes out. The Department takes into consideration the fact that Treasury Department has tender advice centers that hold workshops on tendering in every municipality and therefore feels that its provision of such workshops is an unnecessary duplication of services.

According to the Department, the level of performance for SMMEs in terms of workmanship quality, timeliness and price differs from case to case.

There has been an increase in the number of tenders being awarded to SMMEs; current statistics indicating that over 80% of tenders are going to SMMEs. Longer-term tenders also create an opportunity for skills development, growth and expansion as the Department carries out monitoring, which ensures that there is a form of control in place.

Sector specific opportunities for SMMEs and HDIs in the Department include the possibility of partnering with well established companies and tendering as consortiums.

#### 5.8 DEPARTMENT OF EDUCATION

Table 17 shows the breakdown of the contracts that were awarded by the Department of Education between the period 2005 (April-December) and 2006 (April to December). The data shows that HDIs were awarded 28.9% of the contracts in 2005 with only a slight increase to 32% in 2006. There was however, a marked increase in the contracts that were issued by the Department which increased from 294 in 2005 to 536 in 2006.

Whilst the number of contracts awarded to HDIs was low compared to the overall total, the statistics show that in percentage terms HDIs accounted for 96.2% of the value of these contracts in 2005. This figure dropped significantly to 60.4% in 2006.

**Table 17: Breakdown of Contracts Awarded by the Department Of Education**

	Total No Of Contracts Awarded	No of Contracts Awarded to HDI	No of Contracts Awarded to non HDI	Total Value of Contracts (Rands)	Value of Contracts to HDI (Rands)	Value of Contracts Awarded to non HDI(Rands)
2005	294	85	209	692,817,842.90	666,686,714.30	26,131,128.60
2006	536	172	364	155,272,512.10	93,846,462.72	61,426,049.38

Figures 15 and 16 below illustrate the contracts awarded and the values respectively. From the figures it is evident that while there was an increase in the number of contracts awarded, the value of these contracts went down significantly between 2005 and 2006. HDIs however, still accounted for a significant percentage of the contracts that were awarded in 2005 and 2006.

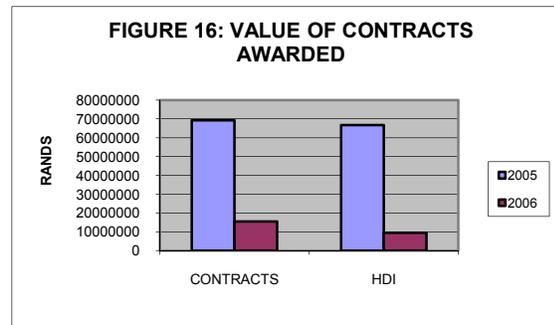
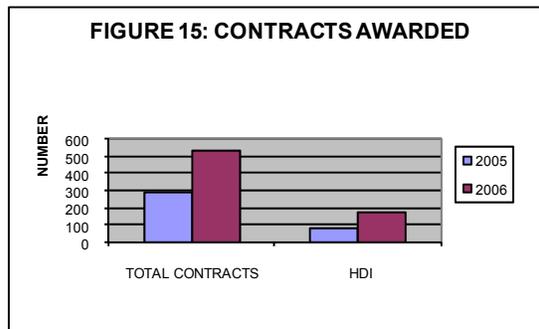


Table 18 below shows that there was a decline in expenditure by the Department of Education on consulting, catering, stationery, training and security services over the 2005-2006 periods. There was however, an increase in expenditure on accommodation, printing and security services over the same period. Non HDI companies obtained the majority of accommodation tenders in 2005 whilst the trend was reversed in 2006.

In 2005, most of the Department's budget was spent on accommodation and security services, with R 33, 973, 739.46 and R 15, 858, 505 being spent respectively. The trend continued in 2006 with R 53, 308, 444 being spent on accommodation, but with security services only receiving R38, 810 of the budget. However the Department also spent R29, 150,937.69 on accommodation to non HDI and R3, 877,546.63 on Printing as shown by Table 18.

**Table 18 Breakdown of Contract Values in Rands**

Services	2005		2006	
	HDI	NON HDI	HDI	NON HDI
Accommodation	33,973,739.46	55,356,462.79	53,308,44.08	29,150,987.69
Nutrition	343,963.35.00	-	-	-
Consulting	1,540,700.00	196,200.00	755,339.00	-
Catering	293,312.73	88,671.00	146,622.65	88,671.00
Printing	132,435.00	379,168.62	2,738,942.00	2,408.696.13
Stationery	290,440.00	110,812.00	75,000.00	-
Construction	54,415.00	-	57,206,407.00	-
Training	1,653.309.00	1,774,509.00	76,170.00	1,386.520
Security	15,858.505.00	-	38,810.00	-
Equipment	1,844,956.25	247,806.67	1,846,279.00	537,729.00
Media	-	-	1,133,985.44	1,133,985.44
Travel	-	303,561.00	-	155,478.00
Other	1,840,545.00	2,218,393.72	5,797.704.00	2,218,393.72

The Department has a supplier database for quotations that are below R200 000. This database is however, opens to all suppliers that want to register and therefore does not directly seek to empower SMMEs or HDIs. Selection of companies for quotations is done on a rotational system that seeks for broad based empowerment of all companies on the database.

The Department does not monitor the companies which are awarded tenders. It was suggested during interviews by management that the Department of Economic Development, Environment and Tourism should undertake such monitoring as part of its mandate.

According to the Department, SMMEs faced a number of challenges among which included the following:

- Inability to complete tenders in the stipulated time.
- Non compliance and low quality workmanship levels which led to the Department combining the tenders on classrooms and toilets into one. This was due to the fact that the toilets, which would have been awarded to SMMEs, would take longer to complete. By then the large companies would have already finished building the classrooms. The result would be schools that had classrooms but no toilets.
- Failure to deliver due to lack of human and capital resources.
- Subcontracting to third parties due to lack of resources such as working capital.
- Fronting by businesses when bidding for tenders.

The Department does not offer any other assistance in terms of workshops or training to SMMEs or HDIs. The Department only provides briefing sessions about tenders once they have been made public.

The quality of service currently provided by SMMEs and HDIs was rated as poor to average.

It was noted by the Department that the current situation is not developing SMMEs as there is often what appears to be an interest in short term personal gains by those who are awarded tenders who end up ceding the tender to other companies for a fee and end up driving luxury vehicles.

Opportunities that exist for SMMEs in the Department of Education include partnering with established companies for construction tenders in order to gain experience and access to higher-grade tenders.

## 5.9 DEPARTMENT OF AGRICULTURE

Table 19 below shows the breakdown of the contracts that were awarded by the Department of Agriculture between the period 2005 (April to December) and 2006 (April to December). The data shows that HDIs were awarded 46.7% of the contracts in 2005 and 57.1% in 2006. The value of these contracts in percentage terms was 58.9% in 2005 and 38.6% in 2006.

**Table 19: Breakdown of Contracts Awarded By the Department Of Agriculture**

	<b>Total No Of Contracts Awarded</b>	<b>No of Contracts Awarded to HDI</b>	<b>No of Contracts Awarded to non HDI</b>	<b>Total Value of Contracts (Rands)</b>	<b>Value of Contracts to HDI (Rands)</b>	<b>Value of Contracts Awarded to non HDI(Rands)</b>
2005	122	57	65	66,856,732.88	39,391,911.33	27,464,821.55
2006	163	93	70	198,887,633.50	76,713,694.89	122,173,938.60

Figures 17 and 18 illustrate the contracts awarded and the corresponding values. The figures show that there was an increase in the total number of contracts awarded, as well as the corresponding values between 2005 and 2006. Whilst HDIs realized a growth in the number of contracts awarded, there was however a decline in the percentages of contract values awarded.

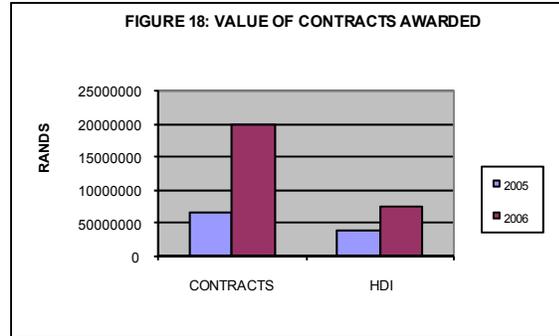
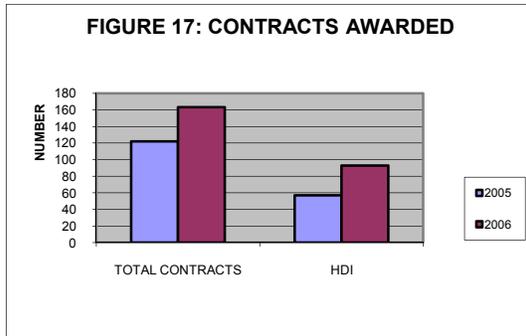


Table 20 below shows a decline in expenditure by the Department of Agriculture on printing, training and accommodation services. It however, shows an increase in expenditure on equipment, infrastructure and consulting services.

The Department spent most of its 2005 budget on equipment (R36 902 125.87) consulting (R12 682 783.90) and infrastructure (R9 496 213.53). This trend continued in 2006 with R92 305 412.28, R18 097 537.43 and R26 192 199.44 being spent on equipment, consulting and infrastructure respectively.

The Department also spent a large amount of its budget on procuring from non HDI companies. As shown in Table 20 the Department spent R37, 883,475.78 on Equipment and R16,159. 573.04 on Consultancy services.

**Table 20: Breakdown of Services Contract Values in Rands**

Services	2005		2006	
	HDI	NON HDI	HDI	NON HDI
Equipment and Supplies	36,902,125.87	14,748,906.71	92,305,412.28	37,883,475.78
Printing	102,172.20	-	89,684.03	89,684.03
Conference	-	-	36,650.00	95,650.00
Accommodation	2,383,429.86	790,908.50	2,212,540.10	771,330.64
Training/including computers	2,288,823.00	1,038,097	607,996.75	353,814.00
Consulting	12,682,783.90	1,495,378.00	18,097,537.43	16,159,573.04.
Infrastructure	9,496,213.53	7,901,143.25	26,192,199.44	43,350,284.83
Computer Consumables	-	-		190,868.00
Travel	-	38,928.20	-	-
Other	2,258,687	800,696.83	125,000.00	670,627.26

The Department has a supplier database which is open to all SMME suppliers who wish to register on it. The Department states that current statistics reflect that it has only spent 30% of the budget on SMMEs in the current budget. Out of this total only 14% has gone to black women.

The Department does not conduct any post tender monitoring of the businesses that it engages for procurement. There is no capacity within the Department to do

so. The Department however, is of the view that monitoring of businesses is a crucial initiative in measuring the impact of procurement on SMMEs.

A number of challenges that are confronting SMMEs were pointed out by the Department and these included the following:

- Lack of financial resources.
- Lack of skills in terms of completing tender documents.
- Products are substandard in some cases.
- Under pricing leading to jobs not being carried out.
- Over pricing.
- Substandard performance or non-performance.
- Failure to meet delivery deadlines.
- Fronting and registering of many businesses by the same shareholders.
- Delays in responding to quotations.
- SMMEs approaching tenders as instruments to making quick money.
- Only black owned businesses are registering on the supplier's database, even though the invitation is open to all SMMEs.
- SMMEs with no track record are registering on the supplier's database.

The Department does not conduct any post tender assessment of businesses that have been awarded tenders, but is of the view that this is necessary as they have noticed that most businesses on their databases disappear after a relatively short period of time.

The Department rated the performance of SMME service providers as average and stated that there is no proof that these SMMEs have grown.

The Department was of the opinion that SMMEs and HDIs should partner with large, experienced companies so that they can gain expertise and be able to access big tenders. In addition the Department pointed out the need for companies in the province to collaborate with companies from outside the province, as they appear to be winning most of the tenders.

#### 5.10 DEPARTMENT OF LOCAL GOVERNMENT AND HOUSING

Table 21 shows the breakdown of the contracts that were awarded by the Department of Local Government and Housing between the periods 2005 (April-December) and 2006 (April to December). The data shows that there was a slight increase in the percentage of contracts that were awarded to HDIs to 65.8% in 2006, from 63% in 2005. This was despite a drop in the total number of contracts awarded in the same period. Despite the increase in the number of contracts awarded to HDIs, the percentage value awarded to HDIs declined slightly from 67.7% to 66.4% in 2006.

**Table 21 Breakdown of Contracts Awarded by the Department of Local Government and Housing**

	Total No Of Contracts Awarded	No of Contracts Awarded to HDI	No of Contracts Awarded to non HDI	Total Value of Contracts (Rands)	Value of Contracts to HDI (Rands)	Value of Contracts Awarded to non HDI(Rands)
2005	108	68	40	74,554,397.47	50,488,964.51	24,065,702.96
2006	79	52	27	77,231,847.68	51,255,222.16	25,976,625.52

Figures 19 and 20 illustrate the contracts awarded and values shown in Table 21. From the figures it is evident that the decrease in both the total number of contracts and number of contracts awarded to HDIs. The increases are indicative of a switch from many low value contracts to fewer high value contracts.

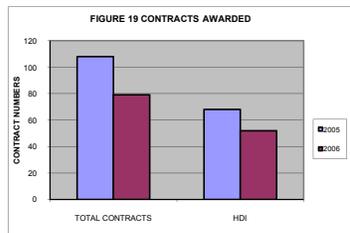


Table 22 below shows a decline in expenditure by the Department of Local Government and Housing, on accommodation, traveling, equipment and consulting services. It also shows an increase in expenditure on conference, stationery and security services.

The Department spent most of its 2005 budget on consulting services from HDIs to the value of R 65, 699, 246.91. While in 2006, the Department procured R23,983,858.34 consulting services from non HDIs with a small amount R25,345.83 of the same service from HDIs. In 2006, expenditure on accommodation from HDIs was allocated a high value compared to other areas at R919,313.00. The Department also spent a considerable amount of its budget on procuring from non HDI companies. Table 22 shows that the Department spent R7, 964,502.84 on Valuation Contracts with non HDIs.

**Table 22: Breakdown of Services Contract Values in Rands**

Services	2005		2006	
	HDI	NON HDI	HDI	NON HDI
Accommodation	1,531,241.92	327,959.55	919,353.00	491,457.00
Conference	67,400	378,600.00	395,615.00	504,325.00
Catering	286,179.80	-	-	-
Travel	25,866.20	56,658.00	299,125.00	85,324.00
Security	355,557.00	-	821,228.56	217,820.66
Stationery	139,943.60	191,164.00	293,390.00	-
Equipment/Supplies	3,597,242.89	425,602.56	20,524.00	-
Consulting	65,699,246.91	21,226,199.00	23,345.83	23,983,858.34
Valuation				7,964,502.84
Other	3,256,672.15	1,708,802.20	8,33,278.00	55,000.00

The Department has a supplier database, which does not differentiate between SMMEs, HDI and corporate businesses. All suppliers are free to register in the supplier database. The database targets suppliers for quotations below R200 000. The quotations are sourced on a rotational basis ensuring a broad based selection approach.

The Department does not engage in monitoring SMMEs and HDI that it contracts. This is because of the short term nature of its contracts, which are predominantly catering quotations.

Challenges that SMMEs and HDI face when quoting, tendering or carrying out tenders that have been identified include: Quality levels of delivery are never up to standard.

- SMMEs tend to under-quote, and then fail to deliver because they are unable to meet the prices they will have quoted.
- SMMEs and HDI usually do not have financial backing to initiate contracts.
- Small tenders such as the catering ones predominantly provided by the Department create employment at only one point in time and lack continuity for SMMEs and HDI businesses.

When dealing with SMMEs and HDIs the Department faces a problem in that staff has difficulty in understanding the registration form for claiming SMME and HDI points.

No post assessment of SMMEs and HDI that are engaged for procurement is undertaken. This is because of the short-term nature of the contracts that are not expected to have much impact on the businesses.

The Department does not provide any further assistance in terms of training, workshops or grants to SMMEs or HDI businesses that it engages. This is yet again due to that individual contracts awarded are usually too small to warrant much attention

The level of execution for SMME and HDI supplies has been poor, whilst the level of execution for professional services has been excellent.

The developmental impact of SMME and HDI procurement cannot be measured. The Department does not do any post procurement assessments, and does not have targeted initiatives towards SMMEs.

The Department mostly awards catering tenders or contracts and is not sure what opportunities could exist for SMMEs from these contracts, as they are not sustainable.

## 5.11 CONSOLIDATED GOVERNMENT DEPARTMENTS IN-DEPTH INTERVIEW REVIEW

### SMME AND HDI PROMOTION

All Departments, with the exception of the Department of Economic Development Environment and Tourism have an electronic database which they use when requesting for quotations. The Departments of Health and Social Development, Safety and Security and Roads and Transport use this database to promote SMME procurement as registration and entry into this database is exclusive to SMMEs. The Department of Public Works has a database for all suppliers and uses this database to select SMMEs or HDI should the quotation criteria stipulate an SMME or HDI component.

The Departments of Sport and Culture, Economic Development, Environment and Tourism, Education, Agriculture and Local Government and Housing have databases that are open to any suppliers willing to register on it and therefore do not directly promote SMME or HDI Procurement. Coincidentally however, most of the businesses that register on these databases tend to be SMMEs.

### MONITORING OF CONTRACTED SMMEs AND HDI

None of the Departments have a policy that advocates for the monitoring of SMMEs or HDI businesses that have been awarded contracts though some have embarked on exercises that seek to monitor SMME and HDI procurement. The Department of Health and Social Development has a huge monitoring project

that focuses on the Security Tenders that it has awarded to SMMEs. The monitoring also ensures that these companies maintain minimal wage legislation. The Departments of Roads and Transport and Safety, Security and liaison also conduct monitoring of Security Tenders due to their long-term nature. However, the monitoring is not limited to SMME and HDI businesses. The Department of Public works also conducts monitoring on all its construction contracts and this is also not limited to SMME and HDI businesses.

Whilst all Departments stated that monitoring, especially of SMMEs and HDI businesses that have been awarded long-term contracts would be highly beneficial, considering the challenges that these businesses face, they pointed out that they do not have the capacity to conduct monitoring. The Departments proposed that the Department of Economic Development should take up the initiative as part of its mandate, as it would assist in the development of these businesses.

#### PROCUREMENT CHALLENGES FACED BY SMMEs OWNED BY HDIS

Table 23 shows the challenges that were highlighted by the Departments, as being faced by HDI owned SMMEs.

**Table 23: Summary of Procurement challenges faced by HDI owned SMMEs**

DEPARTMENTS										
Challenges	Agriculture	Economic Dev Environment and Tourism	Education	Health and Social Dev	Roads and Public Transport	Public Works	Sports, Arts and Culture	Local Govt and Housing	Safety, Security and Liaison	TOTAL
Lack of capacity to deliver	✓		✓		✓	✓	✓			5
Timely execution	✓	✓	✓	✓			✓			5
Lack of finance	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Under-pricing	✓			✓	✓	✓	✓	✓	✓	7
Over-pricing	✓				✓		✓			3
Poor Quality Workmanship	✓		✓	✓	✓	✓		✓	✓	7
Lack of Specialization	✓				✓	✓			✓	3
Inability to complete Tender documents	✓	✓		✓	✓	✓				5
Fronting during Tendering	✓		✓		✓	✓			✓	5
Incompetence	✓					✓				2
Lack of adequate business Skills	✓	✓				✓		✓		4

Unsustainable Businesses					✓	✓					2
Non-compliance	✓		✓								2
Misrepresentation and collusion				✓							1

Table 23 above illustrates the various challenges that Departments have identified as being faced by procuring HDI owned SMMEs. The biggest challenge that has been identified by all Departments is the lack of working capital finance to get tenders initiated. Consequently, the lack of finance leads to challenges such as lack of capacity, inability to deliver on time (timeliness), and more seriously poor quality of workmanship when tenders are carried out.

The Departments have also reported that the lack of finance leads to fronting and misrepresentation as many small businesses become fronts for obtaining quotations and then cede these to bigger and more able businesses at a cost without them actually playing a part in the delivery of goods and services.

Under pricing has also been indicated as a major challenge by nine of the Departments. Under pricing is prevalent among SMMES and HDIS since it is a general belief that tenders are awarded to businesses with the lowest prices. Under pricing also leads to non-compliance, poor quality workmanship and in some cases inability to deliver, resulting in tenders having to be resubmitted or being re-advertised. The Departments state that resubmission and re-advertisement of tenders consequently leads to a waste of resources

Five of the Departments interviewed have stated the inability to complete tender documents as a challenge that leads to many SMMEs and HDI businesses being disqualified. The Departments of Local Government and Housing and Economic Development, Environment and Tourism have communicated that the Supply Chain Management Departments are also partly to blame, as staff that assist in the filling out of these documents tend to have insufficient knowledge on how to fill these documents themselves. The Department of Treasury has alluded to the complexity of the form itself. It is this complexity that deters possible applicants not to use it resulting in SMME points not being claimed and consequently the non-reporting of SMME procurement by all the Departments.

#### SMME AND HDI POST-ASSESSMENT

None of the Departments interviewed conduct any post procurement assessment of businesses that they have awarded tenders, though they are in agreement that this is a necessary initiative; otherwise the impact of Procurement on HDIs and SMMEs can only be assumed. On the other hand it is difficult to trace most of the companies on the database.

There are various reasons cited for the failure by Departments to conduct post assessment studies on SMMEs and HDIs. Though it is clear that there is lack of capacity among the Departments there is a general consensus that the Department of Treasury and Economic Development, Environment and Tourism should spearhead this initiative since that area falls within their Departmental mandates.

The Departments of Health and Social Development and Economic Development, Environment and Tourism have designed forms to gather information on businesses that they have awarded tenders. They are awaiting approval of these forms.

#### PROVISION OF TRAINING AND WORKSHOPS

Only the Departments of Public Works, Health and Social Development and Economic Development Environment and Tourism provide further assistance in terms of training and workshops to the SMME businesses that they engage for tenders. The Department of Public Works does this through its expanded Public Works project that looks at entrepreneurs, assists them by educating them and then gives them projects to run. The Department also conducts quarterly workshops on bidding policy, tendering, delivery expectations and supply management policy.

The Department of Health and Social Development has established a center for capacity building and inspection to capacitate SMMEs in the tendering process. This unit has led to a major developmental impact, in that more and more businesses now have the necessary know-how in applying for tenders (as witnessed through the decrease in number of SMMEs and HDI being disqualified for insufficiently filling out Tender forms).

Only the Department of Economic Development Environment and Tourism, has an SMME development unit that provides workshops for SMMEs and gives tender and general business advice.

Reasons for not providing training and workshops by other Departments include lack of capacity, limited duration of tender interventions that does not warrant training and the observation that Treasury provides tender workshops. The provision of other intervention would merely be a replication of what Treasury is doing.

#### LEVEL OF CONTRACT EXECUTION

Given a choice scale of Poor, Medium and Excellent, all Departments with the exception of Roads and Transport, Education and Local Government and Housing cited the general level of contract execution by SMMEs and HDI from a price, quality and timeliness perspective as being medium. The Department of Roads and Transport stated that the level of contract execution tends to differ from case to case and depends on the type of contract being awarded. The Department of Education stated that the level of execution can be classified as being of poor to medium quality, whilst the Department of Local Government and Housing stated that the level of execution of supplies has been poor and that of professional services excellent.

The general impression is that SMMEs and HDIs general fall short of expectations when it comes to pricing, quality and timeliness in the delivery of goods and services.

## IMPACT OF SMME AND HDI PROCUREMENT

There is general agreement amongst the Departments that it is difficult to measure the developmental impact of SMME and HDI and HDI Procurement because of the factors listed below.

- No points are claimed for SMMES Status by bidding businesses.
- No Post Procurement Assessment or Monitoring of these businesses was being conducted.
- Most contracts being awarded to SMMES and HDI were of relatively small amounts.

The Department of Public Works is of the view that SMMEs were especially being excluded from procuring from construction projects it awards on behalf of the Education Department due to the combining of classrooms and toilets in school construction (initiated by the Department of Education). Furthermore, the stipulation of a 10% deposit on 90/10 contracts excluded SMMEs as they generally did not have financial resources. Given that access to contracts was difficult, the Department of Public Works felt that there was very little developmental impact in its Department for SMME procurement.

The Department of Health and Social Development was positive about the developmental impact of SMME and HDI procurement, stating that the awarding of Security contracts to more than 200 SMMEs and monitoring of these businesses and contracts led to job creation and adherence to minimal wage

legislation. The Department therefore encouraged all other Departments to follow its example.

The Department of Education was of the view that the SMME and HDI procurement process was being abused for personal gain by entrepreneurs. With the high levels of fronting, and the increased number of entrepreneurs being seen driving luxury cars once awarded tenders and before work is completed the evidence pointed to personal gain. The Department stated that SMME and HDI procurement is being used to enrich entrepreneurs and is not leading to job creation or business sustainability. It is therefore a once off financial opportunity that is being exploited by HDIs.

#### SECTOR SPECIFIC SMME AND HDI OPPORTUNITIES

The general view was that sector specific opportunities for SMMEs and HDI procurement existed from the formation of joint-ventures and consortiums with more experienced companies in order to gain access to 90/10 contracts and gain valuable business and tendering experience. SMMEs and HDIs were missing out on the bigger contract opportunities mainly as a result of functionality challenges (quality and experience), thus partnering with bigger and more experienced companies would give them access to experience and more contracts.

The Department of Public Works pointed out opportunities in construction projects for the 2010 world cup tournament, whilst the Department of Sport, Arts

and Culture indicated business opportunities for SMMEs and HDIs from the Mapungubwe Jazz Festival.

## 5.12 CONSOLIDATED DEPARTMENTAL REPORT REVIEW

Tables 24 to 29 and Figures 21 to 25 show the consolidated procurement report across the Departments under analysis.

### TOTAL CONTRACTS AWARDED

Table 24 and Figure 21 below illustrate total contracts that were awarded across the 10 Departments for the periods 2005 (April-December) and 2006 (April-December). From the illustrations it is evident that the Department of Public Works awarded the highest number of contracts in both 2005 and 2006.

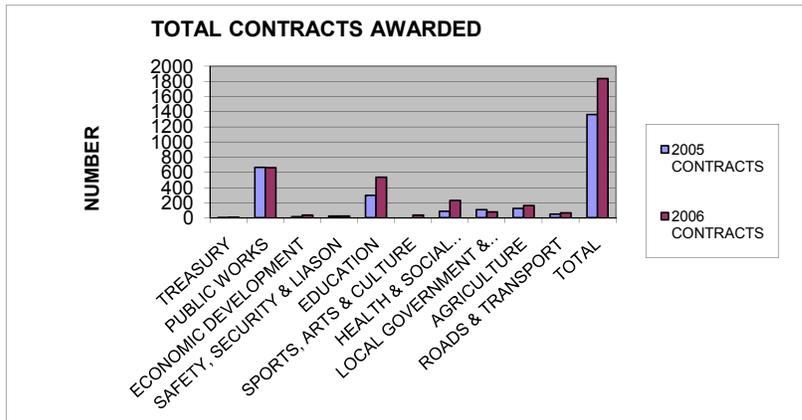
The high number of contracts awarded by the Department of Public Works is as a result of the high number of construction and renovation tenders that the Department awards. The Department of Public Works also awards contracts in all five Limpopo Districts. The Department of Education is ranked second in awarding of tenders with a high Rand value. The high number of contracts awarded in the Department of Education is as a result of the high number of accommodation and meals contracts that were awarded by the Department in both years. The Department of Sport and Culture recorded no contracts over the 2005 period. This is either because no contracts were awarded or the Department did not submit any reports to Treasury. The minimal contracts that were awarded by the Department were predominantly accommodation and travel

related. Total contracts awarded across Departments for the 2005 period under review were 1361, and 1845 for the 2006 period. Only the Department of Public Works and Department of Local Government and Housing recorded a decline in the number of contracts awarded. The decline in contracts for the Department of Public works was however, marginal. The increases in total contracts awarded reflect an increase in economic and developmental activity within the Province.

**Table 24: Total Number of Contracts Awarded**

Departments	2005	2006
	Contracts	Contracts
Public Works	666	661
Treasury	1	8
Economic Development	14	38
Safety, Security and Liaison	23	27
Education	294	536
Sports, Arts and Culture	0	37
Health and Social Development	86	229
Local Government and Housing	108	79
Agriculture	122	163
Roads and Transport	47	67
TOTAL	1361	1845

**Figure 21: Total Number of Contracts Awarded**



#### NUMBER OF CONTRACTS AWARDED TO HDI

Table 25 below illustrates the number of contracts that were awarded to HDIs. A total of 887 contracts were awarded to HDIs in 2005, whilst a total of 1206 contracts were awarded to HDIs in 2006. This shows an increase in the number of contracts awarded to HDI. All Departments with the exception of the Department of Local Government and Housing posted an absolute increase in the number of contracts going to HDI

**Table 25: Number of Contracts Awarded To HDI**

	2005	2006
	Number HDI	Number HDI
Public Works	541	584
Treasury	0	5
Economic Development	11	26
Safety, Security and Liaison	15	19
Education	85	172
Sports, Arts and Culture	0	17
Health and Social Development	78	176
Local Government and Housing	68	52
Agriculture	57	93
Roads and Transport	32	62
Total	887	1206

#### PERCENTAGE OF CONTRACTS AWARDED TO HDI

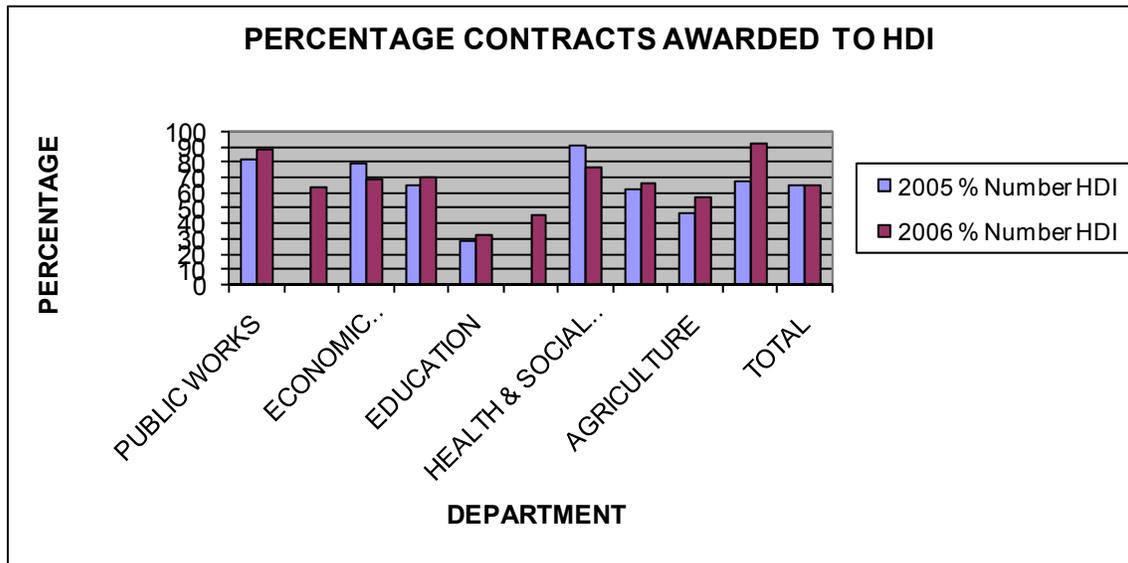
Table 26 and figure 22 below illustrate the percentage number of contracts that were awarded to HDI across the 10 Departments shown during the periods 2005 (April-December) and 2006 (April-December). It should be noted that 6 out of the 10 Departments recorded significantly high percentages (over 60%) of contracts being awarded to HDI in both 2005 and 2006, with the Department of Public Works showing a consistently high percentage of contracts being awarded to HDI. The information reflects that HDI groups are generally receiving a high number of the contracts. Again 8 out of the 10 Departments recorded an increase

in the percentage number of contracts that were awarded to HDI between 2005 and 2006, with the Department of Roads and Transport showing the highest increase from 68% of contracts going to HDI in 2005 and rising to 92.5% in 2006. This was despite a decline in the total number of contracts awarded by the Department but was mainly due to an increase in the number of low value contracts that were awarded to HDI. The average trend amongst all the Departments was a marginal increase of 0.4% in the percentage number of contracts that were awarded to HDI over the 2005-2006 periods under review

**Table 26: Percentage of Contracts Awarded to HDI**

	2005	2006
	% Number HDI	% Number HDI
Public Works	81	88.4
Treasury	-	63
Economic Development	78.6	68.4
Safety, Security and Liaison	65	70.4
Education	28.9	32
Sports, Arts and Culture	-	45.9
Health and Social Development	90.7	76.9
Local Government and Housing	63	65.8
Agriculture	46.7	57
Roads and Transport	68	92.5
Total	65	65.4

Figure 22: Percentage of Contracts Awarded to HDI



TOTAL VALUES OF CONTRACTS AWARDED

Table 27 and Figure 23 below illustrate the total values of contracts that were awarded by the 10 Departments during the periods under review, 2005 (April-December) and 2006 (April-December). From the data it is evident that the Departments of Public Works, Education and Health and Social Development awarded the highest values of contracts, also reflecting that they have relatively bigger budgets than all the other Departments. From the data, 6 out of the 10 Departments reflected an increase in the value of contracts awarded, generally showing an increase in public expenditure amongst these Departments. The Department of Education showed a massive drop in expenditure amounting to R 537,545,330.83.

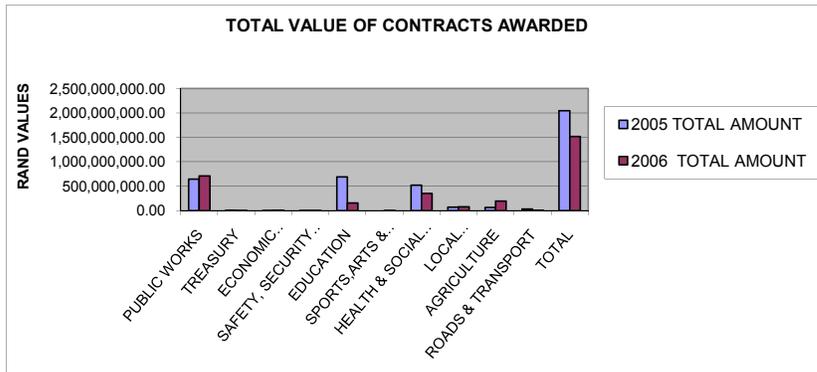
Table 27 also shows that there was a decline in the total value of contracts awarded. This is largely as a result of the massive decline in the value of

contracts awarded by the Department of Education during the period under review

**Table 27: Total Values of Contracts**

Department	2005	2006
	Total Amount Rands	Total Amount Rands
Public Works	646,902,715.73	710,911,982.53
Treasury	5,454,900.00	1,927,790.96
Economic Development	3,049,922.48	5,639,158.80
Safety, Security and Liaison	1,975,516.85	2,262,802.46
Education	692,817,842.92	155,272,512.09
Sports, Arts and Culture	-	2,365,731.04
Health and Social Development	521,267,516.61	353,345,200.93
Local Government and Housing	74,554,397.47	77,231,847.68
Agriculture	66,856,732.88	198,887,633.53
Roads and Transport	31,542,740.46	11,379,177.85
Total	2,044,422,285.40	1,519,223,837.87

**Figure 23: Total Value of Contracts Awarded by Departments**



#### TOTAL VALUES OF CONTRACTS AWARDED TO HDI

Table 28 below shows the total values that were awarded to HDI across the 10 Departments for the periods 2005 (April-December) and 2006 (April-December). From the data it is evident that 7 out of the 10 Departments posted an increase in the value of contracts that were awarded to HDI. The Departments of Public Works, Sports, Arts and Culture, Economic Development, Environment and Tourism and Agriculture recorded the highest gains. The Department of Education had the highest decrease in the value of contracts awarded to HDI, and this was mainly as a result of no records being available for the month of April 2006, either because the Department did not procure or failed to provide reports to Treasury. The total values of contracts awarded across all Departments also declined as a direct result of the decline experienced by the Department of Education.

**Table 28: Total Values of Contracts Awarded To HDI**

	2005	2006
	Amount Rands	Amount Rands
Public Works	446,588,915.45	637,134,178.30
Treasury	-	813,323.35
Economic Development	2,184,602.74	4,399,226.83
Safety, Security and Liaison	1,131,320.73	1,275,586.14
Education	666,686,714.32	93,846,462.72
Sports, Arts and Culture	-	975,223.13
Health and Social Development	491,696,965.27	315,102,127.89
Local Government and Housing	50,488,964.51	51,255,222.16
Agriculture	39,391,911.33	76,713,694.89
Roads and Transport	28,214,972.04	9,609,153.95
TOTAL	1,726,384,366.39	1,191,124,199.36

### Percentage Values awarded to HDI

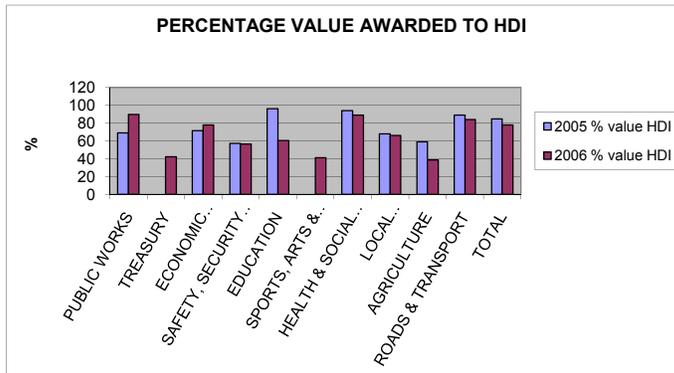
Table 29 and Figure 24 below illustrate the percentage values that were awarded to HDI across the 10 Departments for the periods 2005 (April-December) and 2006 (April-December). The percentages show the true net gains or decreases out of the total values awarded of HDI procurement amongst the Departments. The data shows that only 4 out of the 10 Departments had an increase in the value of contracts awarded.

The Department of Public Works showed the highest gain in percentage terms of HDI procurement. This was mainly as a result of higher value contracts being awarded to HDI in 2006 than in 2005. The declines across other Departments were mainly as a result of a switch from higher value contracts to lower value contracts. The total average percentage of values awarded to HDI across all Departments declined from 89% in 2005 to 84% in 2006, reflecting the general declines in the percentage terms to HDI in 6 out of 10 Departments.

**Table 29: Percentage Value of Contracts Awarded To HDI**

Departments	2005	2006
	% Amount HDI	% Amount HDI
Public Works	69	89.6
Treasury	0	42.2
Economic Development	71.6	78
Safety, Security and Liaison	57	56.4
Education	96	60.4
Sports, Arts and Culture	0	41
Health and Social Development	94	89
Local Government and Housing	67.7	66
Agriculture	58.9	38.6
Roads and Transport	89	84
Average Total	84.7	78

**Figure 24: Percentage Value of Contracts Awarded to HDI**



#### PROCUREMENT CONTRACTS BREAKDOWN

Table 30 (2005) and Table 31 (2006) show the breakdown of Government Procurement per Department and per the different type of Contract classes that are broken down under the Preferential Procurement framework. Quotations represent all contracts worth R200 000 and below, contracts represents tenders worth over R200 000. The tables look at the following:

- The total number of tenders and quotations.
- The total amount spent per Department.
- Number of quotations awarded.
- Total value of quotations awarded.

- Value of quotations awarded to HDIs and non HDIs.
- Total value of contracts awarded.
- Value of contracts awarded to HDIs and non HDIs.

#### YEARLY REVIEW OF CONTRACTS AWARDED

Table 30 below shows that 57.3% of contracts in 2005 were quotations. Out of a total of R 2, 044, 422, 285.40, which was spent collectively by all Departments in 2005 (April-December), R57, 848, 164.51 went to quotations and 51.4% of this amount went to HDI. This data shows that HDI benefited more than non-HDI from quotations.

Only 12.1% of contracts were tenders above R200 000 and below or equal to R500 000. Out of R2 044 422 285.40 spent collectively by the Departments R49, 136, 549.49 went to tenders between this range. Of this amount, 52.6% was awarded to HDI, showing that HDI benefited more than non-HDI from tenders between R200 000 and R500 000.

Out of the total 30.7% of contracts were tenders above R500 000. Of the total amount spent by all Departments, R1, 937, 437, 572 was spent on tenders above R 500 000. 81.4% of this amount went to HDI showing that HDI benefited immensely from tenders worth more than R500 000.

**Table 30 Analysis of Quotation and Tenders awarded to HDI and Non HDI in 2005**

Department	Total No. of Contracts	Total Amount (Rands)	No. of Quotes	Total Value of Quotations (Rands)	Value of Quotations Awarded to HDI	Value of Quotation Awarded to non HDI	Total value of Contracts	Value of Contracts Awarded to HDI (Rands)	Value of Contracts Awarded to Non HDI (Rands)
Public Works	666	646,902,716	350	23,292,018	17,294,681	5,997,337	623,610,698	617,011,762	6,598,936
Treasury	1	5,454,900	-	-	-	-	5,454,900	-	5,454,900
Economic Dev	14	3,049,922	10	662,400	621,370	41,030	2,387,523	1,563,233	824,290
Safety	23	1,975,517	23	1,975,517	1,131,321	844,196	-	-	-
Education	294	692,817,843	205	19,363,968	4,581,150	14,782,818	673,453,875	655,074,546	18,379,329
Sports	-	-	-	-	-	-	-	-	-
Health	86	521,267,517	7	610,025	227,348	382,677	520,657,491	491,469,617	29,187,874
Local Govt.	108	74,554,397	68	3,843,844	2,189,611	1,654,233	70,710,554	48,299,354	22,411,200
Agric	122	66,856,733	95	6,399,601	2,804,927	3,594,673	60,457,132	35,692,124	24,765,008
Roads	47	31,542,740	21	1,700,791	906,634	794,157	29,841,949	27,308,338	2,533,611
<b>Total</b>	<b>1,361</b>	<b>2,044,422,285</b>	<b>779</b>	<b>57,848,165</b>	<b>29,757,043</b>	<b>28,091,122</b>	<b>1,986,574,121</b>	<b>1,876,418,973</b>	<b>110,155,148</b>

Table 31 below shows that 59% of contracts awarded in 2006 (April-December) were quotations. Out of a total of R1, 517, 296, 046.91 worth of contracts awarded by all Departments R 105, 058, 993 were quotations. Out of this amount, 55.8 % of quotations were awarded to HDI

The table also shows that 17.4% of contracts awarded were worth between R200 000 and R500 000. Of this amount, 63.9% was awarded to HDI showing that HDI benefited more from tenders worth R 200 000 to R500 000.

It is also clear from the table that 23.6% of contracts awarded went to tenders worth above R500 000. An amount of R1, 294, 630, 950.47 out of a total of R1, 517, 296, 046.91 was spent by all Departments on tenders worth more than R500 000. Out of this amount 81.6% was awarded to HDI. This shows that HDI benefited more than non-HDI on tenders worth more than R500 000

**Table 31 Analysis of Quotation and Tenders awarded to HDI and Non HDI in 2006**

Department	Total No. of contracts	Total Amount (Rands)	No of Quotations Awarded	Total Value of Quotations (Rands)	Value of Quotations Awarded to HDI	Value of Quotation Awarded to Non HDI	Total Value of Contracts	Value of Contracts Awarded to HDI (Rands)	Value of Contracts Awarded to Non HDI (Rands)
Public Works	661	710,911,982	257	23,191,462	19,984,197	3,207,265	687,720,520	617,149,979	70,570,541
Economic Dev	38	5,639,158	33	2,653,490	1,413,558	1,239,932	2,985,668	2,985,668	-
Safety	27	2,262,802	26	1,745,977	1,275,586	470,391	516,825	-	516,825
Education	536	155,272,512	393	42,946,226	13,153,149	29,793,077	112,326,286	80,693,312	31,632,974
Sports	37	2,365,731	37	2,365,731	975,223	1,390,508	-	-	-
Health	229	353,345,200	111	12,157,803	7,435,267	4,722,536	341,187,397	307,666,860	33,520,537
Local Govt.	79	77,231,847	67	5,353,728	3,180,202	2,173,526	71,878,119	48,075,019	23,803,100
Agric	163	198,887,633	105	9,757,397	6,859,697	2,897,700	189,130,236	69,853,997	119,276,239
Roads	67	11,379,177	54	4,887,174	4,315,557	571,617	6,492,003	5,293,596	1,198,407
<b>Total</b>	<b>1,837</b>	<b>1,517,296,042</b>	<b>1,083</b>	<b>105,058,988</b>	<b>58,592,436</b>	<b>46,466,552</b>	<b>1,412,237,054</b>	<b>1,131,718,431</b>	<b>280,518,623</b>

## REVIEW OF PROCUREMENT TREND

The combined analysis presented in Table 30 and Table 31 shows that whilst less money was spent by all Departments in 2006 than in 2005, HDI benefited more from quotations and tenders worth between R200 000 and R500 000 in 2006 than in 2005. There was also a slight decrease in the number of tenders that went out to HDIs in the R500 000 and above category from 81.4% in 2005 to 81.6 in 2006.

Generally HDIs benefited more from all categories of contracts, having received over 50% of all contracts classes. This means that Government Procurement has generally favored HDIs across the board.

## TOP 20 PROCURING COMPANIES BY TENDER VALUES

Table 32 and table 33 show the top 20 procuring companies by tender values for 2005 and 2006 respectively. Table 32 below, shows that 80% of companies who were in the top 20 procuring companies are HDI owned companies. From the data it is evident that Zip Security was awarded the highest number of tenders in 2005.

The data also shows that the Department of Health and Social Development had the highest number of companies appearing in the top 20 procuring companies by tender values, with 60% of companies in the top 20 having been awarded tenders by the Department of Health and Social Development.

**Table 32: 2005 Top 20 Procuring companies**

2005						
Company	HDI	Service	Department	Amount	Number Times Procured	Of Position
First Professional care	HDI	Security	Health	88,182,756.60	1	1
Pat and Miemie Business Enterprise	HDI	Construction	Public Works	51,898,847.00	1	2
THABANG PROPERTY DEVELOPMENT	HDI	Construction	Public Works	36,955,852.60	4	3
Mabone Building Construction	HDI	Construction	Public Works	19,382,947.05	1	4
Matakanye Construction	HDI	Construction	Public Works	19,010,153.00	4	5
Ceddy's Business Enterprise	HDI	Catering	Health	15,514,248.00	1	6
Masingita Properties No. 2	HDI	Construction	Public Works	13,998,590.70	1	7
Zip security services	HDI	Security	Roads And Transport	12,950,744.10	6	8
Messrs Khavhambe B. Enterprise	HDI	Catering	Health	12,328,858.80	1	9
Ralman Consulting Group	HDI	Consulting	Agriculture	12,309,304.00	2	10
Messrs Vhugie Trading	HDI	Security	Health	11,624,677.20	1	11
Tropical Sky Trading 29	HDI	Catering	Health	10,847,988.00	1	12
Messrs Mafikizolo cc	HDI	Security	Health	10,324,450.80	1	13
Phamoc Properties		Generator Supply	Agriculture	10,025,484.22	1	14
Unique Catering Services		Catering	Health	9,820,720.80	1	15
Messrs Dipitsi Ditau Trading	HDI	Catering	Health	9,813,380.04	1	16
Messrs Top Draws Health Care	HDI	High resolution 105 Magnetic System	Health	9,126,250.00	1	17
Serveco (Pty) Ltd		Catering	Health	9,007,718.40	1	18
Messrs Kei Catering Services		Catering	Health	7,697,448.00	1	19
Messrs Mokgalaka Catering	HDI	Catering	Health	6,728,280.00	1	20

Table 33 below shows that 60% of companies who were in the top 20 procuring companies for 2006 are HDI owned companies. From the data it is evident that Floppy Sprinkler was awarded the highest number of tenders in 2005.

The data also shows that the Department Public Works had the highest number of companies appearing in the top 20 procuring companies by tender values, with 50% of companies in the top 20 having been awarded tenders by the Department of Public Works.

**Table 33: 2006 Top 20 Procuring companies**

Company	HDI	Service	Department	Amount	Times Procured	Pos
Kgabo Developers	HDI	Construction	Public Works	261,436,524.00	1	1
Tomko Joint Venture	HDI	Construction	Public Works	42,500,000.00	5	2
Versatex Trading	HDI	Construction	Public Works	30,979,500.00	1	3
Motshetale Building	HDI	Construction	Public Works	28,099,547.71	1	4
Phillips systems	Medical	Medical Equipment	Health	27,030,105.55	2	5
Dwaf Construction		Construction Pipeline	Agriculture	21,643,000.00	2	6
Sisonke Fabricators	HDI	Delivery Agric Equipment	Agriculture	21,025,859.00	2	7
Unietech		Infrastructural Dev.	Agriculture	16,989,328.40	4	8
Allegro systems	Security	Security Services	Agriculture	15,048,000.00	2	9
Endecon ubuntu		Irrigation Systems	Agriculture	14,670,660.00	1	10
Siemens Limited		Supply Medical Equipment	Health	11,520,000.00	4	11
Nhbrc		Valuation Of Structures	Public Works	10,431,285.00	4	12

Messrs Solutions		Medical Equipment	Health	8,830,725.00	1	13
AfrilecPaul Mahlaka jv	HDI	Electrical Upgrades	Public Works	8,678,448.00	1	14
Thabang Property Developers	HDI	Property Development	Public Works	8,570,605.50	1	15
Elias HomesSediopeng	HDI	Construction	Public Works	7,658,225.20	2	16
Mums business	HDI	Construction	Public Works	7,600,000.00	2	17
Floppy sprinkler		Cost Of Surveys	Agriculture	5,664,991.50	8	18
Mululamisi Consulting	HDI	Transfer Housing Stock	Local Government	5,355,901.00	2	19
O.M.Mashilo	HDI	Construction	Public Works	5,330,248.98	1	20

## BOTTOM 20 PROCURING COMPANIES BY TENDER VALUES

Table 34 and table 35 show the bottom 20 procuring companies by tender values for 2005 and 2006 respectively. Table 34 below shows that 55% of companies who were in the bottom 20 procuring companies in 2005 are HDI owned companies.

The data also shows that the Department of Public Works had the highest number of companies appearing in the bottom 20 procuring companies by tender values, with 85% of companies in the bottom 20 having been awarded tenders by the Department of Public Works.

**Table 34: 2005 Bottom 20 Procuring companies**

2005					
Company	HDI Status	Project Description	Department	Amount	Position
Messrs Limpopo Valuers		Valuation	Public Works	R 3,950.00	1
Ehlers Electrics		Construction	Public Works	R 5,000.00	2
Mohamedy's		Materials	Public Works	R 6,452.29	3
Poshela	HDI	Protective Equipment	Public Works	R 7,380.00	4
Shabe Mabusha Business Enterprise	HDI	First Aid Equipment	Public Works	R 7,493.06	5
Polokwane Electrical		Supply Of Fans	Public Works	R 8,693.64	6
Kea Projects	HDI	Electrical Material	Public Works	R 10,372.20	7
Magic Builders	HDI	Building Materials	Public Works	R 10,600.00	8
Kgaoratlwe Business	HDI	Catering	Public Works	R 10,825.00	9
Viruly Consulting		Consulting	Public Works	R 11,358.00	10
Tirhani Fast Foods	HDI	Catering	Local Gvt and Housing	R 12,277.80	11
Active Furniture Removals		Furniture Removal	Public Works	R 12,980.00	12
Koppiesfontein 686ls		Application	Public Works	R 13,000.00	13
Rami Mahlatse Business Ent	HDI	Supply Of Toners	Local Gvt and Housing	R 13,200.00	14
All Power andLawn		Repairs	Public Works	R 13,361.22	15
Latehlatse Bus. Enterprise	HDI	Stationery	Public Works	R 14,256.00	16
Resbilki Investment	HDI	Protective Equipment	Local Gvt and Housing	R 16,818.00	17
Pgm Transport		Removal	Public Works	R 17,670.00	18
Hlekani Bus Enterprise	HDI	Tools	Public Works	R 17,671.56	19
Fairplay Store	HDI	Building Materials	Public Works	R 18,462.00	20

Table 35 below shows that 75% of companies which were in the bottom 20 procuring companies in 2006 are HDI owned companies.

The data also shows that the Department of Education had the highest number of companies appearing in the bottom 20 procuring companies by tender values, with 40% of companies in the bottom 20 having been awarded tenders by the Department of Education.

**Table 35: 2006 Bottom 20 Procuring companies**

Company	HDI	Service	Department	Amount	Position	No of Times Procured
White Leopard Security	HDI	Construction	Health	19,836.00	1	1
Kgankie Construction And Security	HDI	Security	Health	21,855.00	2	4
Betterways Civils	HDI	Supply School Furniture	Education	27,171.90	3	4
Luhakra General	HDI	Supply Farm Machinery	Agriculture	27,650.00	4	2
Mbhofo Valuation Services	HDI	Valuation Services	Public Works	27,940.00	5	2
Mahlatsi Security Services	HDI	Health	Security	29,348.00	6	1
Ark Printers	HDI	Printing	Economic Development	30,000.00	7	7
Sanlam Plaza		Promotional Material	Education	30,096.00	8	1
Dc Wellness Consultants		Training	Education	30,156.53	9	1
Moila Business	HDI	Filling Soil	Public Works	30,170.00	10	1
The Park		Accommodation/Meals	Education	30,245.00	11	13
Belium Trade	HDI	Promotional Material	Education	30,245.98	12	1
Thindo Building Material	HDI	Supply Construction Material	Public Works	30,300.00	13	1
K.S Commodity	HDI	Supply Commodities	Public Works	30,432.00	14	1

NCIC	HDI	Accommodation/Meals	Education	30,435.00	15	4
Cosmo Lodge	HDI	Catering	Education	30,759.48	16	1
Anix Trading	HDI	Supply Computer Consumables	Local Government	30,972.00	17	1
Review Printers		Printing	Education	31,070.00	18	1
Warmbad Grassnyer Dientse		Supply Garden Equipment	Public Works	31,269.00	19	1
Jointshelf	HDI	Supply Ceramic Tiles	Public Works	31,384.00	20	1

## SERVICE PROVIDER INTERVIEWS

### UMSOBOMVU

Umsobomvu is a financial as well as non-financial youth development agency that predominantly seeks to assist the youth (ages 18-35) in creating business opportunities and business development. Its target base is entrepreneurs with business ideas (pre-startups), startups and existing businesses.

Though Umsobomvu's target group is the youth, approximately 60-70% of its clients are rural SMMEs, with the rest being entrepreneurs and SMMEs in urban Limpopo. Its services are not exclusive to HDI. Umsobomvu offers the following services:

- Business development
- Tendering and Business Linkages
- Business creation
- Training (various business skills)

- Business Mentoring (various business disciplines)
- Incubation
- Loans
- Grants
- Youth advisory

Umsobomvu provides tendering support through its network of service providers located throughout Limpopo. The organization encourages youth to bid for tenders and provides them with vouchers for tendering support services. The vouchers cost R200. They use these vouchers to obtain tendering assistance (from Umsobomvu affiliated service providers) on how to fill out tender applications, write proposals, seek working capital finance and effectively carry out the tender contract. The voucher is highly subsidized by Umsobomvu, which pays up to R5400 to the service provider.

Umsobomvu also provides financial support, where it guarantees working capital to any youth who registers with the organization and obtains a tender. The organization's procurement programmes are also directed to the private sector where it simultaneously engages municipalities and companies (e.g. Anglo and De Beers) to see how they can facilitate procurement opportunities for youths. To this end Umsobomvu has approached FNB to initiate the FNB/Umsobomvu youth Progress fund launched to access opportunities around Procurement.

Procurement challenges that Umsobomvu has identified amongst SMMEs and HDI include:

- SMMEs generally lack capital to provide goods and services that they have been awarded through tenders. Umsobomvu provides finance to people within its target profile that have been awarded tenders, however people are relatively unaware of this.
- SMME owners have a general lack of business skills, and once they get access to Procurement training through the voucher programme, they lack the initiative to see the training through.

Umsobomvu runs awareness campaigns for its services including procurement services through community radio. The organization has satellite centers in every district. It also encourages community leaders to invite their business development officers in their communities to empower the youth during public gatherings. The promotion and awareness campaigns have had a positive impact, with many people becoming more aware of the services that Umsobomvu provides. In the past Umsobomvu has been regarded as predominantly funding entity, but more businesses are now seeking vouchers for Tendering services due to these awareness campaigns.

Coordination exists between the Department of Public Works and Umsobomvu for procurement opportunities. The coordination brings together the Department of Public Works, Construction Seta, Labour Department and Umsobomvu for construction projects aimed at the National Youth Service.

There is no coordination between Umsobomvu and other service providers in tendering services. Umsobomvu sees itself as a youth development service provider, and typically deals with this niche market whilst other service providers target all other age groups.

## LIBSA

LIBSA is a non-financial business support agency that provides the following services:

- Business Information
- Business Incubation
- Business Training and development
- Co-operative Development
- Business mentoring and counseling
- Tender Support

Its services are not limited to SMMEs or HDI but are rather targeted at all economic sectors to develop and promote enterprises into the mainstream economy.

LIBSA provides tender support through

- Collecting and disseminating tender information
- Assisting with completion of tender information

It offers a general business course aimed at empowering people seeking tender knowledge with the following modules:

Procurement challenges that LIBSA has identified amongst SMMEs and HDI include:

- Lack of finance to initiate Tender work.
- SMME owners either do not set aside time, or have very limited time to get business knowledge and training, and spend most of their time looking for business opportunities. As a result they remain un-empowered with business skills, especially in tendering.

LIBSA runs awareness campaigns through booklets, quarterly newsletter, and monthly information periodical as a means of reaching clients across Limpopo Province and beyond. LIBSA also participates on talk shows with the Combo (Radio Thobela, Radio Mungana Lonene and Phalaphala FM). These local based radio stations contribute immensely in the delivery of business related information and activities that LIBSA undertakes to assist entrepreneurs. LIBSA also has a presence in all districts within Limpopo, with branch offices in several rural municipalities. This ensures that its services and Procurement targeted services alike reach the multitude of SMMEs and HDIs.

Table 36 below is a breakdown of people and groups who attended its tendering workshops during the 2004/5-2005/6 period. It shows a marked increase in all participant groups attending the practical tendering skills course over this period.

**Table 36: Participants for Tendering Workshop**

Course Name	2004/ 5				Total	2005/ 6				Total
	Males	Females	Youth	Disabled		Males	Females	Youth	Disabled	
Practical Tendering Skills	42	43	42	3	130	53	83	68	8	212

There is no coordination between LIBSA and Government Departments in Procurement processes. LIBSA however feels that coordination would greatly increase the impact, efficiency and effectiveness of Government procurement within the province.

However, LIBSA coordinates activities with LimDev. LimDev refers businesses that it furnishes with loans to LIBSA. Figures reflecting the number and composition of these businesses are available. Most entrepreneurs who come to LIBSA for tendering skills do so before obtaining a tender as illustrated in table 36.

#### LIMDEV

LIMDEV provides financial assistance to businesses and rural housing schemes. It provides working capital and bridging finance as well as rental space to SMMEs.

Over 90% of businesses that approach LimDev for tendering assistance do so for financial reasons.

The organization's mandate is to finance businesses in Limpopo Province. It aims to assist businesses that need financial services and are able to pay back any loans rendered using internal regulations and policies. While it is in a position to provide assistance to HDI and SMMEs that have won tenders, it follows normal procedures in evaluating these businesses before approving the loan. LimDev therefore does not have any SMME or HDI Procurement targeted financing initiatives.

LimDev has in the past approached Government Departments in a bid to have them accept a concession whereby they could finance SMMEs and HDI that will have won tenders and then receive payments directly from the Government and disburse the funds. LimDev's advanced financing policies and procedures would then ensure that funds are disbursed accordingly and that SMMEs and HDI would directly benefit. Most SMMEs and HDI that win tenders end up ceding them to other companies because they do not have working capital to commence tender jobs. Direct payment by Government Departments to LimDev would ensure that proper disbursements and monitoring of fund usage is done. The Government Departments have however up-to-date denied LimDev this concession.

LimDev has identified the following challenges that SMMEs and HDI face in the occasions that they have engaged with them:

- The target groups have a general lack of financial management skills.
- SMMEs find it very difficult for them to honor loan repayments.

LimDev does not run any awareness campaigns about any of its services, as it feels it is well known.

There is no coordination between LimDev and Government Departments when dealing with procurement targeted financing. LimDev had initiated this coordination but Government Departments are not cooperative.

There is however, coordination to a limited extent between LimDev and LIBSA. LimDev submits the names of the businesses that it assists with loans for executing tenders to LIBSA. LIBSA can then follow up by providing non-financial business support to these businesses.

## SEDA

SEDA provides non-financial business services to the following target groups

- 20% medium sector
- 80% small, micro-list and survivalist entrepreneurs

Its services are not are not limited to HDI groups

SMME targeted interventions offered include

- Business Planning
- Business management
- Access to finance
- Access to markets
- Government regulation
- Human resources
- VAT
- National procurement

Over 60% of businesses that approach SEDA for procurement assistance in Limpopo do so for financial reasons.

SEDA has a national procurement programme that it runs to assist SMMEs. This programme provides basic training on how to complete tenders and how to claim points, how to access finance and basic knowledge needed to execute tenders effectively. The programme is conducted on a national scale and is not exclusive to Limpopo

SEDA has identified the following challenges when assisting SMMEs with procurement

- Most of the clients who approach SEDA for procurement assistance are often looking for access to finance. SEDA can only assist them by referring them.
- SEDA charges a fee of between 10-35 % percent for business assistance, which could in effect exclude smaller businesses from getting tender assistance.
- The procurement programme offered is designed to help the businesses help themselves, the entrepreneurs end up expecting SEDA to make everyday business decisions for them.
- SMMEs lack commitment in completing training or any other interventions targeted to them.

The agency runs awareness campaigns of all its services, including its procurement programme in municipalities through pamphlets and business

advisory sessions. As a result there has been an influx of people to its centers in the province since the launch of the campaigns in 2006.

There is no coordination between SEDA and Government Departments when it comes to procurement-targeted services. SEDA however is of the opinion that it can play a big role in this regard, especially when it comes to the verification of SMMEs that submit tenders. This would ensure optimum tender performance and minimize “fronting”. SEDA feels that all Government Departments are aware of SEDA as a Government Parastatal offering small business development service targeted at National Procurement, but fail to coordinate for optimal efficiency.

Whilst SEDA offers tender assistance services that are similar to Umsobomvu and LIBSA, there is no coordination between them and other service providers.

## ANALYSIS OF SERVICE PROVIDER FUNCTIONS

### PROCUREMENT SERVICES OFFERED

All the service providers interviewed provide Procurement targeted services that can be utilized by SMMEs and HDI. SEDA and LIBSA provide non-financial tender services; Umsobomvu provides both financial and non-financial tender services whilst LimDev provides financial tender services.

LimDev however, has strict lending criteria which must be fulfilled before it can provide financial assistance to SMMEs or any other businesses. These strict controls tend to exclude access to financial assistance for SMMEs.

All the service providers interviewed have reported that the majority of people who seek procurement assistance are looking for finance to get tender jobs initiated. Actual statistics were not available.

#### CHALLENGES FACED BY SMMEs AND HDI WHEN DEALING WITH PROCUREMENT

Table 37 below shows that key challenges that the interviewed service providers communicated as being faced by SMMEs and HDI include; the lack of finance to initiate contracts (communicate by all four service providers) and the lack of business skills, including financial management skills. Two of the service providers interviewed expressed that SMMEs and HDI lacked motivation to see Tender training through.

**Table 37: Challenges SMMEs and HDI encounter when dealing with Government Procurement**

Challenges	Departments				Total
	SEDA	UMSOMBOMVU	LIMDEV	LIBSA	
Lack Finance to initiate contracts	✓	✓	✓	✓	4
Lack business skills	✓	✓	✓		3

Lack of motivation to see tender training through	✓	✓			2
Time to attend training				✓	1
Inability to repay loans			✓		1
Inability to pay for training	✓				1

#### PROCUREMENT AWARENESS CAMPAIGNS

All the service providers interviewed with the exception of LimDev run awareness campaigns about their tendering services. In all cases the awareness campaigns have had a positive impact. Umsobomvu has had more people becoming aware of its non-financial tender services, LIBSA has registered an increase of clients visiting their offices over the 2005-2006 period looking for tendering services and SEDA has managed to have up to a 150% increase in the number of businesses looking for tender assistance (15% of total people that seek for services from SEDA). The procurement awareness campaigns are expected to inform SMMEs and HDI as well as any other businesses about tendering services provided by the different Service Providers.

#### COORDINATION OF PROCUREMENT SERVICES WITH GOVERNMENT DEPARTMENTS

Umsobomvu is the only Service provider that coordinates activities with any Government Department. The coordination brings together the Department of

Public Works, Construction Seta, Labour Department and Umsobomvu in the creation of opportunities for construction projects aimed at the National Youth Service.

#### COORDINATION OF PROCUREMENT SERVICES WITH OTHER SERVICE PROVIDERS

LIBSA and LimDev are the only Service providers that coordinate procurement oriented services between them. The coordination results in businesses awarded loans by LimDev being referred to LIBSA for non-financial services training and incubation. This coordination can be beneficial to SMMEs or HDI that would have been awarded procurement loans by LimDev.

#### SELECTED POST-PROCUREMENT SMMEs AND HDI FINDINGS

Telephonic interviews were held with 18 SMME HDIs, who had won tenders over the past two years in order to ascertain the impact of Procurement on their businesses. The following findings and analysis are representative of a post-procurement/tender impact assessment.

#### ECONOMIC IMPACT ASSESSMENT OF TENDERS ON HDI SMMEs

The table 38 below shows the average annual turnovers before businesses were awarded tenders. It shows that eleven companies had turnovers of below

R1million and four had turnovers above R 2million.

**Table 38: Average Annual Turnovers before Awarding of Tenders**

<b>Value of Tender applied for</b>	<b>Below 1 million rands</b>	<b>Between 1 million to 2 million rands</b>	<b>Above 2 million rands</b>
Below R200 000	4	0	2
Between R200 000-500 000	3	1	2
Above 500 000	4	2	0

Table 39 below shows the current turnover of the businesses interviewed. It shows that the number of businesses with an annual turnover of below R 1million had declined from eleven businesses to eight businesses. The number of businesses with more than R2 million had increased from four businesses to seven businesses.

**Table 39: Average Annual Turnovers (Present Situation)**

<b>Value of Tender Awarded</b>	<b>Annual Turnover below 1 million rands</b>	<b>Between 1 million and 2 million rands</b>	<b>Above 2 million rands</b>
Below R200 000 tenders	4	0	2
Between R200 000-500 000	3	0	3
Above R500 000	1	3	2

Tables 38 and 39 also show that companies awarded tenders less than R200 000 did not experience any change in their turnover. Only one company that was awarded a tender worth between R200 000 and R500 000 experienced a gain in post-tender annual turnover from less than R2million before the tender, to more than R2million after the tender.

The biggest post-tender gain in turnover was experienced by companies who were awarded contracts worth over R500 000. Two companies reported a gain in turnovers from less than R1 million before obtaining tenders to over R1 million after receiving the tenders.

Two companies who had turnovers less than R2 million before the tenders also reported turnovers of over R2 million after receiving the tenders. The evidence points to the fact that higher value contracts have a greater impact on revenue streams.

### **Job Creation**

Table 40 shows that 95% of HDIs reported that the awarding of tenders brought about job opportunities albeit temporary ones due to lack of consistency in the awarding of tenders by the Government Departments.

The awarding of tenders once off over lengthy periods of time brought about a short-term business boom (and job creation) that could however not be sustained over a long period of time. This, is mainly due to the fact that Government is the

biggest market in Limpopo, and in order for businesses to survive, they need consistency.

**Table 40: Economic Assessment Breakdown**

	<b>Total HDIs with Positive impact</b>	<b>Total HDIs without any impact</b>
Job Creation	17	1
Financial	16	2
Skill Development	10	8
Infrastructure	7	11

### **Financial Impact**

From the companies that were interviewed, 89% of HDI benefited financially from tenders. However, the majority complained about the late payment by Government Departments. Some tenders were also awarded to the HDIs on a once off basis thus leaving affected HDIs with minimal cash flows before the awarding of another tender.

## **Skill Development**

Fifty five percent of the businesses reported having gained skills as a result of executing the tenders. This shows that tenders fostered learning as businesses experienced situations that they might not have encountered during previous routine operations.

## **Capital Development**

Of the businesses interviewed, 39% reported some capital development as a result of being awarded a tender. The businesses which experienced capital development had all been awarded tenders over R200 000, six having been awarded tenders over R500 000. This shows a direct correlation between increasing tender amounts and development.

## COMPLAINTS BY COMPANIES AWARDED TENDERS

The following complaints were reported by HDI owned SMMEs interviewed, and point to challenges faced by Government Departments during the execution of Procurement.

## **Insufficient Provision of Time to Execute Tenders**

A significant (20%) number of the business owners complained about the failure of some Government Departments to provide adequate time for the delivery of goods and services.

## **Government's inefficiency to pay timeously**

The majority (70%) of service providers were quite unhappy with the failure of the Government to pay on time. This led to contractual obligations with financial institutions not being met. This in turn reduced the credit worthiness of the business.

## **Unclear Deliverables**

It was also found that Government Departments had unclear deliverables pertaining to what exactly was expected of the service provider. This meant that service providers had to make up for unclear instructions from Government Departments. Up to 61% of the businesses interviewed reported that there was generally a lack of clear terms of reference from Government Departments.

## **Inadequately skilled Officials**

Of the businesses interviewed, 66% complained that officials responsible for giving out tenders did not have the proper know-how to assess the quality of

goods. An example given was the awarding of tenders for computer consumables, it was pointed out that some Government Departments were only concerned with low prices and not quality thus awarding tenders to companies with low quality cheap products and thereby compromising efficiency. It was suggested that when ordering goods, personnel who had the right product knowledge area should be involved.

### **Inconsistency in Awarding Tenders**

All the companies interviewed complained about the lack of consistency by the Government in awarding tenders. Chances of winning of tenders were few and far in-between. Companies therefore only employed temporary staff due to the fact that they were not sure when the next tender would be awarded; as a result reducing the potential to create long term employment.

#### CHALLENGES EXPERIENCED BY PROCURING BUSINESSES

From the interviews conducted, the following challenges were identified by SMME and HDIs that have been awarded tenders

- Lack of specialisation. Some companies were multi tasking instead of specialising, thereby minimising their skills in particular areas.
- Inadequate contact details, making it hard for Government Departments to reach them should they need quotes.
- Lack of adequate exposure, due to inconsistency in awarding of tenders.

- Lack of funding: It was also observed that some companies lacked adequate funding to carry out projects thus they had to borrow money from financial institutions to carry out the work. This in turn caused delays in delivering the service.

#### OPPORTUNITIES EXPERIENCED BY PROCURING BUSINESSES

Two of the HDI s interviewed where aiming for quality assurance recognition and measures were already in place to ensure that they were certified with national quality assurance bodies like SAQA.

#### IMPACT OF TENDERS AWARDED TO HDI SMMES

The following information represents a summary of the tender impact assessment done on businesses that had been awarded tenders by Departments over the past 2 years.

**Table 41: Details of Companies Contracted by the Department of Pubic Works**

Name of Company	Category Of Business	Location	Annual Turnover Before awarding of Tender	Annual Turnover Current	Number of Employees	Amount of Tender Awarded
Kgabo Transport	Transport	Phalaborwa	R100 000	R360 000	3 Permanent 3 part Time	R353 080
Alex Transport	Transport	Thabazimbi and Polokwane	R500 000	1 million	15 permanent	R970 088

### **Kgabo Transport**

This company has improved financially to the extent that it has been able to employ three more drivers. With regards to skills training the owner has already embarked on a Business Management course with UNISA to improve on Business Management Skills. Though services were delivered on time there were concerns of late payment by the Department. The company's credit worthiness has improved and plans are underway to secure a fleet of trucks. The company applauds Government in its efforts to empower HDI businesses.

## Alex Transport

This company has benefited positively from Government Procurement policy. The major problem the company has faced is the late payment for services rendered. This has resulted in the company having bad terms with creditors. The company urges the Department to pay in time.

## DEPARTMENT OF AGRICULTURE

**Table 42: Details of Companies Contracted by the Department of**

### Agriculture

Name of Company	Category Of Business	Location	Annual Turnover Before	Annual Turnover Present	Number of Employees	Amount Of Tender Awarded
Nduvho C	Construction	Sibasa	R500 000	R2 million	35 temporary	R5 202 331
Kwara Technologies	IT	Polokwane	Nil	R25 million	2-18 people	R95 443 30

## Nduvho Construction

This company is doing quite well with regards to capital development. The company has bought a plant and a TLB Tipper truck. It has also gained the skill of packing horticultural produce. However, because the company's market is agriculturally based, work often comes in on a seasonal basis. The company is also contracted to the Department of Public Works. Although progress is

noticeable, payment of services rendered to the Department is still unreliable and slow.

### **Kwara Technologies**

This company has witnessed a phenomenal growth in terms of average annual turnover. Improvement has also been witnessed in terms of capital development. As regards to human resources improvement consultants are now being employed on a contractual basis. The business believes that since clients have not complained they deliver quality services. They are also doing work for other Government Departments including, Office of the Premier, Public Works, Economic Development and various municipalities.

The company suggests that Government procurement teams should be comprised of teams of experts who are familiar with product lines. For example in the IT industry tenders are normally given to lower prized bidders who have no knowledge of the industry.

DEPARTMENT OF PUBLIC WORKS

**Table 43: Details of Companies Contracted by the Department of Public Works**

Name Of Business	Category Of Business	Location	Annual Turnover Before Tender	Annual Turnover Present	Employment	Amount Of Tender Awarded
Afguard Security	Security Services	Polokwane	N/a	R2-4 million	Over 200	R264 544
Sebo Seholo Developers	Construction	GaRamakgoba	Negative	R1 million	1 Full time secretary 26 part time construction workers	R1291 300

**Afguard Security**

It was acknowledged by the owner that there have been noticeable changes in business growth. There have been a lot of investment in equipment and the major thrust of the business at the moment is working towards accreditation with SETA and ensuring that employees gained NTS qualifications. The company is also now exposed to other Government Departments because of the quality of products that they deliver. The company also takes pride in the fact that it does

not change its contact numbers, which promotes client confidence and their credibility.

### **Sebo Seholo Developers**

This company is growing very fast and employs about twenty-six part time employees. The company has already acquired a CO2 Contracting Level certificate and is looking forward to the next contract. The owner is satisfied with Government's HDI policies. Other opportunities with other Government Departments have also arisen because of this contract.

DEPARTMENT OF HEALTH AND SOCIAL DEVELOPMENT

**Table 44: Details of Companies Contracted by the Department of Health and Social Development**

<b>Name Of Company</b>	<b>Category Of Business</b>	<b>LOCATION</b>	<b>Annual Turnover Before</b>	<b>Annual Turnover Present</b>	<b>Number of Employees</b>	<b>Amount of Tender Awarded</b>
Dipitsi Ditaui	Catering	Mashashane	R100000	R200000	12 full time	R591 769
Lesedi Security	Security Services	Plokwane/Waterberg	R80000	R800000	60 full time	R333 467

### **Lesedi Security**

This company has been growing and it is now exposed to other Government Departments, which are the Department of Education and Public Works. The

company however, suggested that the Department of Economic Development Environment and Tourism needs to readily avail information so that companies can make informed decisions about future business developments. This information should include: available business opportunities and opportunities for expansion of business taking into consideration the 2010 World Cup.

### **Dipitsi Ditau**

This company has been growing steadily and has bought catering equipment from tenders awarded. The company is now trying to work with other Government Departments and they applauded the Department of Health's efforts for timely payment of fees. The company also views the staff they deal with at the Department to be exemplary and extremely professional

This business has not been thriving as much as it would like because of the scarcity of tenders. The owner is not sure why his bids get disqualified and feels that reasons should be given for the disqualification of bids so that businesses can seek to align their services with Government quality assurance requirements. Again not enough notification periods is given for tenders and sometimes they end up losing the tender.

**Table 45: Details of Companies Contracted by the Department of Safety and Security**

Name Of Company	Category of Business	Location	Annual Turnover Before Tender	Annual Turnover Current	Number of Employees	Amount of Tender Awarded
PIB Services	Hiring Equipment and Catering	Thohoyandou	R8 million	R8 million	25 Permanent 15 part time	R40 260
All Eyez Construction	Construction General Supply Maintenance	Botlokwa Capricorn	R250 000	R45 000	Temporary staff (graphic designer)	R110 979

### **All Eyez Construction**

Although the company is growing the owner would still like to see consistency in the awarding of tenders. As a result of inconsistency, the owner states that only temporary staff can be employed. The owner further states that as a result of the size of his business, he does not have enough surety for banks to be in a position to apply for bigger contracts. He however, feels that the quality of his lifestyle has improved with the acquisition of a car and some personal effects.

## PIB Services

This business has improved financially. Previously unavailable skills have also been added and they have gained more exposure in other Government Departments and municipalities. They however, contend that orders are not given in time hence at times compromising on quality.

DEPARTMENT OF ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM

**Table 46: Details Of Companies Contracted By The Department Of Economic Development, Environment And Tourism.**

Name Of Business	Category Of Business	Location	Annual Turnover Before Tender	Annual Turnover Current	Employees	Amount Of Tender Awarded
Afrisearch	Consultancy	Polokwane	R2 Million	R2.5 million	4	R390 440
Dibane Printing	Printing	Polokwane	R600 000	R800 000	6	R80 000

### Afrisearch

This company has been growing. Infrastructure has certainly improved with the acquisition of new computers, printer, photocopier and the renovation of the office. They are also expanding into other provinces. The only problem they faced with the Department was unclear deliverables on projects tendered.

## Dibane Printing Services

The company is growing and is in the process of identifying new markets. The owner was previously employed and trained as a printer but had decided to establish his own company. He is quite happy with the Department's timely payments for services rendered.

DEPARTMENT OF SPORTS, ARTS AND CULTURE

**Table 47: Companies Contracted by the Department of Sports, Arts and Culture.**

Name Of Business	Category	Location	Annual Turnover Before Tender	Annual Turnover Current	Number of Employees	Amount Awarded
Batlokwa Transport	Transport Services	J Gamatlala	R100 000	R2 000 000	10 permanent And 2 casual	R321 314
Hines Trading	Manufacturing of T shirts	Polokwane	R500 000	R2.3 million	5 permanent 3 part time	R885 612

## Batlokwa Trading

This company has grown significantly and annual turnover has doubled over the past year. The company is in the process of acquiring another bus. Though the Department sometimes pays the fees for services rendered late the company is satisfied with the partnership between Government and upcoming black businesses. The company would also like to see consistency in the awarding of tenders.

## Hines Trading

This company has gained more skills in manufacturing of clothing and was financed by LimDev. They have now been exposed to other Departments such as the Premier's office and Department of Agriculture. They however, lament the lack of funding for small businesses but are quite satisfied with doing business with Government Departments.

### DEPARTMENT OF LOCAL GOVERNMENT AND HOUSING

**Table 48: Details of Companies Contracted by the Department of Local Government and Housing.**

Name of Co.	Business Category	Location	Annual Turnover before awarding of Tender	Annual Turnover Present	Number of Employees	Amount Of Tender Awarded
Revising Trading	Printing	Polokwane	R200 000	R4 000 000	3	R47 520
Molebo Business Solutions	Business Consumables	Polokwane	R100 000	R300 000	4	R445 054

## **Molebo Business Solutions**

This company has been growing steadily but the owner says that this particular tender from the Department of Local Government was not very helpful for the business. It states that the Department gave short notice for the company to deliver the needed services. Consequently the company ended up not delivering on time. There was also the added problem of non-payment of fees on time by the Department. The owner however, now believes that he has gained the valuable skill of good public relations.

## **Revising Trading**

This company has experienced some growth with the employment of one more person. It has now been exposed to other government departments and also private companies. The owner contends that he is happy with tender procedures

**Table 49: Details of Companies Contracted by the Department of Education**

<b>Name of Company</b>	<b>Business Category</b>	<b>Location</b>	<b>Annual Turnover before awarding of Tender</b>	<b>Annual Turnover Present</b>	<b>Number of Employees</b>	<b>Amount Of Tender Awarded</b>
Kutsuma Trading	Equipment Supplier	Polokwane	-	R 100,000	5	R228 401.50
Karibu Lodge	Lodge	Landsdale	5,500,000	R11,000,000	38 Permanent  21 temporary	

### **Kutsuma Trading**

There has been minimal growth in this company due to inconsistency of tender procurement. The company is of the view that government should provide explanations for the disqualification of tenders. The reasons will empower the companies to align their services with government standard regulations. The company also expressed concern over the generally limited time provided to execute the tenders. As a result the businesses lose the tender if they do not deliver quality products.

## **Karibu Lodge**

This company has grown considerably over the years. From an initial capacity of twenty rooms this business has extended its room capacity to fifty two. Another restaurant has also been added and the business has even managed to resurface the road leading to the premises. In addition the company has managed to capture foreign clientele. The company is satisfied with the timely payments for services rendered to the government.

## 6 CONCLUSIONS

This section presents the conclusion to the study and addresses each of the research objectives.

### 6.1 ARE SMMEs AND HDI BENEFITING FROM GOVERNMENT PROCUREMENT?

Analysis of procurement reports revealed that whilst there were records on HDI procurement, no records on SMME procurement were being kept. Further investigation revealed that Departments were not making use of the SMME points claim form for awarding points for SMME promotion, due to the perceived complexity of the forms. This therefore implied that the PPPFA was not being adhered to in its entirety. In addition it also meant that data analysis of procurement reports was limited to HDI analysis.

A review of SMME HDI procurement targeted systems revealed that most Departments had electronic databases that were used to source goods and services from SMMEs. Whilst some Departmental databases were not exclusive to SMMEs, most of the businesses that registered on the databases were predominantly SMMEs, possibly because contracts less than R200 000 were shunned by corporate businesses. The conclusion was that all the Departments, directly or indirectly promoted SMME procurement through the databases. This support was evident where businesses were selected to provide quotations for delivery of goods and services costing less than or equivalent to R200 000. The

databases however, only favor SMME Procurement and not HDI procurement, as they are also open to non-HDIs.

Quantitative analysis of procurement reports also revealed that there was nearly a 50-50 split between HDI and non-HDI on contracts of lesser value i.e. R200 000 and less. HDIs however, got the bigger share with an average of 51% in value of contracts in 2005 and an average of 59% in 2006.

There was a general increase in the percentage number and value of tenders awarded to HDIs between the period 2005 and 2006, and in absolute figures over 51% of all contracts and values being awarded to HDI. This shows that HDI are benefiting from Government Procurement more than non-HDI in the number and value of contracts. However further analysis revealed that non HDI companies were still benefitting more than HDI in sectors that require procurement of highly specialized equipment especially in the Agricultural and Health Sectors. The study also revealed that tenders in the Property services were mostly awarded to non HDI companies. Again procurement of highly specialized equipment was awarded to non HDI companies with the Agriculture and Health Departments awarding these highly valued contracts to non HDI.

Further analysis of contract class data also showed that the general trend was that HDI were benefiting more from bigger contract amounts, with over 80% of the value of contracts over R500 000 going to HDI in both 2005 and 2006. Comparatively 55% of the value of contracts worth R200 000 to R500 000 were awarded to HDI. Whilst a higher percentage of high value contracts were awarded to HDI, it is to be noted that small value contracts worth less than

R200 000 make up the majority of contract numbers, and thus are awarded more frequently than high value contracts. The data also

Whilst the procurement reports had no data pointing to SMME procurement, the results analyzed from telephonic and in-depth interviews held with Departments revealed a prevalence of small tenders being awarded.

The study also revealed that the most predominant challenge that HDI and SMMEs were facing in regards to procurement opportunities with Government Departments was the availability of working capital finance to initiate the supply of goods and services. Because of the regulation which stipulates that a business awarded a contract worth over R500 000 must produce 10% of the contract value as collateral, SMMEs generally face challenges in fulfilling these requirements thus they can only aim for the lower value tenders and quotations.

## 6.2 IMPACT OF GOVERNMENT PROCUREMENT ON HDIS AND SMMEs

The resultant impact of SMME HDI Procurement can then be best analysed by considering the contracts in three distinct categories of High Value contracts, Medium Value and Low Value Contracts. High value contracts are those worth over R500 000, medium value are worth between R200 000 and R500 000 inclusive, and Low value are those worth below or equivalent to R200 000.

Low value contracts, which are subjected to quotations and not to 'tender', generally have a "once-off" economic influence on SMMEs due to that quotation selection is rotational, so any benefits brought about by providing goods and services is short-lived. Employment gains are temporal, and any experience or skill gains are not extended or put into further practice. This 'anomaly' is as a result of some of the challenges that were noted as being faced by SMMEs, predominantly, the lack of business capacity and adequate business skills. Coupled with these challenges is the fact that Limpopo Government serves as the biggest business market for goods and services. Failure for the Limpopo Government to provide a market for these businesses will have negative repercussions to the growth of this sector.

Small businesses that have limited skills and capacity find it difficult to adapt to other business markets in the short term, and would rather trade as enterprises or register multiple businesses in an attempt to gain maximum exposure to Government contracts. The result is that SMME entrepreneurs only employ temporary staff with booms in short-term employment only when tenders are awarded. This brings about cyclical trends of business growth with peaks only when tender are awarded. Any positive economic impact on the business occurs during the contract phase. The in-depth interviews with the Departments also alluded to this trend through reference to the prevalence of individuals that use money from small contracts to enrich themselves rather than bring economic benefit by injecting money into their businesses.

The impact of medium value contracts on HDI SMMEs tends to be generally marginal with minor economic gains being made by the businesses. The impact of Security tenders on HDI SMMEs from a monetary perspective has shown to

be potentially beneficial. When looking at the Department of Health and Social Development one can conclude that the awarding of tenders to multiple security companies by limiting sites awarded to single companies and then conducting monitoring can go a long way in achieving positive outcomes.

High value contracts on the other hand, have a positive impact on HDIs and SMMEs, mainly because the contracts are usually for long-term periods and bring considerable amounts of money and experience into companies. They therefore often result in long-term employment, financial and capital gains as capacity expansion brought about by contracts are enjoyed even after the contract is completed. The experience gained from completion of a tender in one Department can also lead to increased tender opportunities from other Departments.

### 6.3 EFFECTIVENESS OF GOVERNMENT HDI AND SMME TARGETED PROCUREMENT

From the background to the study, it is clear that procurement targeted at HDI and SMMEs is used by the Government to address socio-economic imbalances brought about by apartheid, as well as to bolster regional economic development through the promotion of SMMEs. The procurement reports clearly indicate that HDIs are benefiting immensely from procurement, with an average of 80% of contract values being awarded to them, as compared to an average of only 20% going to non-HDIs. The long term socio-economic impact of Government Procurement requires different monitoring tools and could not be determined in the context of such research.

The heavy reliance on the Government market by businesses in Limpopo means that most SMMEs only hire skeleton staff when not engaged in tenders. High value tenders are awarded inconsistently, and small tenders are rotated to empower various companies such that SMMEs that rely on the Government market can go for long periods without being awarded tenders. As a result this leads to business stagnation in between tenders for most SMMEs. Tenders therefore bring cyclical and short-lived economic gains, which need a level of consistency or an expansion of the non-Government market to be maintained.

There also seems to be no downstream business value addition from Procuring SMMEs. In-depth interviews revealed that SMMEs have difficulties in obtaining working capital finance from institutions to initiate contracts. As a result, they cede contracts to businesses in the “upstream”, which have the necessary capital and capacity to carry out tenders. The result is that capital is flowing back into the hands of big businesses potentially widening the socio-economic gap.

#### 6.4 EFFICIENCY OF HDI AND SMME TARGETED PROCUREMENT

Interviews conducted with the various stakeholders (Government Departments, service providers and procuring HDI SMMEs), revealed that procurement targeted at HDIs and SMMEs suffered from policy and operational inefficiencies.

Policy inefficiencies emanated from non-compliance as a result of Departments not awarding points for SMME procurement resulting in the lack of reporting on SMME procurement. Points were not being awarded for SMME procurement due

to the fact that Departmental employees tasked to assist tender applicants to complete out the SMME points claim form did not understand the form. As a result applicants were also unable to correctly complete the forms, and this culminated in points for SMME promotion not being considered or claimed in the awarding of tenders. This means that the PPPFA policy is not being adhered to in its entirety, and therefore Procurement targeted at SMMEs is inefficient.

Operational inefficiencies resulted from the manner in which Supply Chain management was conducted and also from the lack of coordination amongst Government and Service Providers in ensuring that procuring SMMEs and HDI received optimal assistance to empower them to access and carry out Government tenders.

Most of the businesses interviewed complained about the late payment by Government for services rendered. This, they said, exacerbated their financial problems. Some businesses also complained about the skill levels of people involved in procurement mainly because of their inability to assist them with completing the SMME point claim forms. Treasury also hinted that a workshop was held in the past to address the problems that arose as a result of the SMME points claim form. Other operational inefficiencies resulted from unclear terms of reference by Government Departments, meaning that variables would change as work went along and potentially resulting in unfinished or inadequately executed contracts

## 6.5 SECTOR SPECIFIC OPPORTUNITIES ON SMME PROCUREMENT

Sector specific opportunities for SMMEs in procurement were mainly in the Construction and Medical industry. The Departments of Public works and Education saw enormous potential for SMMEs if they partnered with bigger companies, as this not only increased the combined effort of getting tenders, but also brought about experience for the smaller companies. Partnering for construction tenders would also give the smaller companies access to bigger tenders, which they would otherwise not get should they not have the 10% collateral deposit required. Bigger companies came with technical know-how, experience, machinery and capital. The Departments reported that partnering increased the chances of both companies obtaining a particular tender, and that they actually encouraged such arrangements.

The Department of Health reported that the goods and services that it usually procures are highly specialized, and goods usually have to be imported. The Department felt that the partnering of SMMEs and HDI with bigger non-HDI businesses was an imperative to gaining technical know-how, skills and a greater chance of accessing tenders.

## 6.6 LINK BETWEEN SMME PROCUREMENT AND JOB CREATION

Interviews conducted with HDI SMMEs that had been awarded tenders revealed that tenders usually only created temporary employment for the duration of the tender. Inconsistencies in the awarding of tenders meant that permanent employment resulted in increased overheads once a tender is completed. With

Government being the biggest market in Limpopo, many SMMEs rely on tenders as sources of income and only expand their business capacity for the term period of the contract to avoid increased overheads once the work is completed. There is therefore a temporary cyclical link between SMME and HDI procurement and job creation.

## 7 RECOMMENDATIONS

### 7.1 ARE SMMEs AND HDIs BENEFITING FROM GOVERNMENT PROCUREMENT?

The promotion of SMMEs through electronic Supplier databases is ensuring that SMMEs gain access through quotations, as they would otherwise not stand much chance in obtaining tenders. These challenges either preclude them from getting tenders, or from carrying out work appropriately. It is thereby recommended that all Departments comply with the usage and seclusion of electronic databases for SMMEs contracting only.

SMMEs selected for quotations and subsequently contracts should however, be based on merit, and not on rotation. Rotational selection hinders the survival of competitive businesses which could otherwise be used to stimulate socio-economic growth consistently. Rotational selection leads to inconsistent business opportunities and hence cyclical growth patterns that are not sustainable. It is the view of the study that sustainability can be maintained by allowing all competitively placed SMMEs in the databases bid for tenders.

### 7.2 IMPACT OF GOVERNMENT PROCUREMENT ON HDIs AND SMMEs

It is recommended that Government Departments should engage in tender monitoring, during and after tenders carried out to ensure that economic benefit is being realized from the tenders.

A form that captures economic impact information for companies that have received tenders and gives them points based on certain developmental goals (resulting from the tender) should be designed. This would result in companies that are contributing to socio-economic goals through tenders having more chances of being awarded more tenders and result in sustainable development.

From the HDI owned SMMEs interviewed, it appears that they are unable to develop due to lack of access because they lack working capital. It is recommended that Government Departments coordinate with Umsobomvu and LimDev. Umsobomvu is in a position to grant finance to youths who are awarded tenders, and Departments can be in a position to actively impart this information, or directly forward details of youth who will have been awarded tenders to Umsobomvu for possible loans.

Government Departments can enter into agreements with LimDev for possible loan advances for SMMEs should they need working capital. LimDev has the capability, resources and competency to assess businesses for loan approvals.

### 7.3 EFFECTIVENESS OF GOVERNMENT HDI AND SMME TARGETED PROCUREMENT.

Post-assessment of HDIs and SMMEs that procure services should be conducted to track the effectiveness of procurement policy on HDIs and SMMEs.

Tracking will allow for compilation of long term Socio-Economic gains resulting from Procurement targeted at HDIs and SMMEs

#### 7.4 EFFICIENCY OF HDI AND SMME TARGETED PROCUREMENT

It has been claimed that the Points Claim Form for SMME Promotion is not user-friendly. It does not award points for a business that is tendering having the status of an SMME; rather it awards points for SMME Promotion (tendering business procuring from SMMEs). The information requested is presumably difficult to obtain, and the form can be easily misinterpreted. The form should either be replaced, or officials should be clearly educated on how to interpret it and in-turn communicates what is required to tendering businesses. It is however the recommendation of the consultants that a form that focuses on the SMME status of the business tendering be used in substitution of the current form which focuses on SMME promotion.

Government Departments should honor payment agreements, and pay businesses for the delivery of goods and services on time. Late payment prejudices SMMEs who already face challenges of obtaining finance.

Government Departments should also coordinate procurement-targeted activities with Service Providers. The challenges surrounding procurement that are faced by HDIs and SMMEs can easily be remedied if coordination existed between Government Departments and Service providers. Amongst them, all four Service providers interviewed fully cater for procurement-targeted services. Coordination

would seek to empower bidders on where to get assistance. Programmes that look at monitoring and evaluation of businesses are highly likely to emerge as a result of coordination between Government Departments and Service providers.

## 7.5 SECTOR SPECIFIC OPPORTUNITIES ON SMME PROCUREMENT

SEDA conducts networking sessions for businesses where entrepreneurs meet and discuss mutually beneficial business agendas that result in formation of joint ventures or partnering for BEE compliance including other business ventures. Government Departments can either initiate their own networking sessions for HDI and SMMEs with other businesses or they can refer businesses to SEDA. Again coordination between Government Departments and Service Providers points to greater efficiency being achieved from procurement targeted at HDIs and SMMEs. In addition Government should move towards encouraging SMMEs to set up businesses in these areas.

- Property Industry
- Electrical Installations Industry
- Supply of Agricultural and specialized Health Equipment
- Setting Up training for more Specialized Construction

The study revealed that these areas are still dominated by non HDI procurement.

## APPENDIX 1: SMME DEFINITION TABLE

<b>Sector or Subsector in accordance with the Standard Industrial Classification</b>	<b>Size or Class</b>	<b>Total full-time equivalent of paid employees Less than:</b>	<b>Total Annual Turnover Less than:</b>	<b>Total gross asset value (fixed property included) Less than:</b>
<b>Agriculture</b>	Medium	100	R4.00m	R4.00m
	Small	50	R2.00m	R2.00m
	Very Small	10	R0.40m	R0.40m
	Micro	5	R0.15m	R0.10m
<b>Mining And Quarrying</b>	Medium	200	R30.00m	R18.00m
	Small	50	R7.50m	R4.50m
	Very Small	20	R3.00m	R1.80m
	Micro	5	R0.15m	R0.10m
<b>Manufacturing</b>	Medium	200	R40.00m	R15.00m
	Small	50	R10.00m	R3.75m
	Very Small	20	R4.00m	R1.50m
	Micro	5	R0.15m	R0.10m
<b>Electricity, Gas And Water</b>	Medium	200	R40.00m	R15.00m
	Small	50	R10.00m	R3.75m
	Very Small	20	R4.00m	R1.50m
	Micro	5	R0.15m	R0.10m
<b>Construction</b>	Medium	200	R20.00m	R4.00m
	Small	50	R5.00m	R1.00m
	Very Small	20	R2.00m	R0.40m

	Micro	5	R0.15m	R0.10m
<b>Retail And Motor Trade and Repair Services</b>	Medium	100	R30.00m	R5.00m
	Small	50	R15.00m	R2.50m
	Very Small	10	R3.00m	R0.50m
	Micro	5	R0.15m	R0.10m
<b>Wholesale Trade, Commercial Agents and Allied Services</b>	Medium	100	R50.00m	R8.00m
	Small	50	R25.00m	R4.00m
	Very Small	10	R5.00m	R0.50m
	Micro	5	R0.15m	R0.10m
<b>Catering, Accomodation and Other Trade</b>	Medium	100	R10.00m	R2.00m
	Small	50	R5.00m	R1.00m
	Very Small	10	R1.00m	R0.20
	Micro	5	R0.15m	R0.10m
<b>Transport, Storage and Communications</b>	Medium	100	R20.00m	R5.00m
	Small	50	R10.00m	R2.50m
	Very Small	10	R2.00m	R0.50m
	Micro	5	R0.15m	R0.10m
<b>Finance and Business Services</b>	Medium	100	R20.00m	R4.00m
	Small	50	R10.00m	R2.00m
	Very Small	10	R2.00m	R0.40m
	Micro	5	R0.15m	R0.10m
<b>Community, Social and Personal Services</b>	Medium	100	R10.00m	R5.00m
	Small	50	R5.00m	R2.50m
	Very Small	10	R1.00m	R0.50m
	Micro	5	R0.15m	R0.10m

# APPENDIX 2 PROJECT CHARTER

## 1. INTRODUCTION

The Government of Limpopo, through the Department of Economic Development Environment and Tourism has commissioned this research. Specific instructions were to conduct a research to evaluate Government Procurement targeted at supporting SMME and in particular the Historically Disadvantaged Individuals (HDI). The Provincial Government has supported fully the Preferential Procurement Policy; however there is a need to evaluate the effectiveness of the implementation of this policy.

As such the Limpopo Department of Economic Development Environment and Tourism requested that a study be conducted in the SMME development field with the view of addressing the following issues:

Impact of Government Procurement Policy on SMMEs as intended prime benefactors

Potential of Sector Specific Procurement opportunities for SMMEs

Adequacy and delivery of non-financial services to SMMEs

The following sub-research areas were also identified for the purpose of this research and for the purpose of further amplifying and delivering the Department's mandate

1. Impact of SMMEs on job creation
2. Impact of SMMEs on provincial GDP

## **2. PROBLEM IDENTIFICATION**

The South African Government as a whole has realized the importance of SMMEs in achieving economic growth and prosperity and in further narrowing the income divide between the most developed and least developed provinces and economic areas. SMME formation and growth are therefore seen as an imperative by the Limpopo Government. However it is not known to what extent SMMEs are benefiting from Government Procurement policy and also if Non-financial services are adequately available for the benefit of SMMEs within the province.

### **Provincial Strategic Objectives**

The Strategic Objectives of the province, as enshrined in the Provincial Growth and Development Strategy (PGDS), are as follows:

- Improve the quality of life of the Provincial Population using Spatial Rationale
- Promote economic growth through competitive cluster formation and SMME development
- Raise the institutional efficiency and effectiveness of Government
- Address unique priorities as they arise, such as BEE, Poverty reduction and HIV/AIDS, TB and Malaria
- Regional social and economic integration towards achieving the objectives of NEPAD.

## **3. RESEARCH QUESTIONS**

The following are the research questions that arise from the Terms of reference and Problem identification.

1. Are SMMEs benefiting from Government Procurement Policy targeted at HDI/BEE?

2. Are there any sector specific SMME procurement opportunities within the province?
3. Do SMMEs have adequate access to non-financial services?
4. What has been the impact of SMMEs on the provincial GDP if any?
5. Has the prevalence of SMMEs within provincial segments had any impact on job creation?

#### 4. RESEARCH OBJECTIVES

The research questions have been communicated into clear delivery objectives that set the precedence of the scope of research that needs to be carried out.

- To ascertain the opportunities that exist for SMMEs within the province.
- To find out if SMMEs are benefiting from Government support services, with a bias towards non-financial services aimed at enhancing business sustainability.
- To ascertain if SMMEs are benefiting from HDI Procurement.

To establish the impact, effectiveness and efficiency of Procurement Policy on SMMEs.

- To establish sector specific opportunities on SMME procurement
  - o To establish if there is a link between SMMEs and GDP growth within the province.
  - o To establish if there is a link between SMME prevalence and job creation within the province.

The Research Objectives call for a three pronged research approach:

**Exploratory Research:** - In gathering preliminary information to uncover the problems being faced by the SMMEs

**Descriptive Research** : - In describing the market setting, market potential and market challenges, including industry specific opportunities and challenges for SMMEs within the Geographic setting

**Casual Research**: - In defining the cause-and -effect relationships that might exist between SMME development and Economic development within the Province.

## 5. RESEARCH METHODOLOGY

*Please Refer to the Detailed Work Plan Attached\**

## 6. ASSUMPTIONS AND CONSTRAINTS

The successful completion of this project is premised on the fundamental assumption of the availability of information and free access to the information. Basic information that is required for this project is as follows:

LED and IDP for all the Districts.

List of key stakeholders and their contact details.

It is further assumed that consultants will have easy and timely access to provincial officials, company executives and other stakeholders.

At this point in time, no major constraints in executing this project are envisaged.

## **7. RISKS**

The risks pertaining to the successful and timely completion of this project are as follows:

Availability and timely access to information;

Timely access to stakeholders; and

Timely feedback on Progress Reports.

## **8. QUALITY MANAGEMENT APPROACH**

The Team Leader shall be responsible for quality assurance, check each report/submission for accuracy and integrity.

## **9. WORK PLAN**

The Work Plan is shown on Attachment 1.

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## APPENDIX 3: WORK PLAN

DETAILED WORKPLAN		Duration	Start Date	Completion Date
<b>A</b>	<b>PROJECT MOBILIZATION</b>	<b>7days total</b>		
1	Project Objectives	1 day	3/2/2007	3/2/2007
2	Work Plan	2days	3/6/2007	3/7/2007
3	Sectional proposal	3days	3/6/2007	3/8/2007
<b>B</b>	<b>FIELD PREPERATION</b>	<b>5days total</b>	3/12/2007	3/16/2007
1	<b>Sampling Criteria</b>	5 days		
	Field sample sizes at District and Municipal level			
	Sample constructs			
	Sample areas			
2	<b>Research Tools</b>	5 days	3/13/2007	3/16/2007
	Questionnaires			
	In-depth interviews			
	Procurement database stakeholder interview lists			
3	<b>Manpower Rationale</b>	5 days		
	Manpower numbers	5 days	3/13/2007	3/16/2007
	Manpower apportioning			
4	<b>Research Methodology</b>	5 days	3/13/2007	3/16/2007
	Research Methodology document		3/13/2007	3/16/2007
5	<b>Appointments for Procurement database stakeholder interviews</b>	5 days		
	Appointment schedule			
<b>C</b>	<b>PILOT STUDY</b>	5days		
1	Test marketing of Research tools and feedback from client			

<b>D</b>	<b>LAUNCH OF FIELD STUDY</b>	2 weeks	3/26/2007	4/6/2007
1	<b>Questionnaire field research</b>			
	Consumers			
	Service Providers			
	SMME Owners/Managers			
2	<b>Procurement Database Stakeholder Analysis</b>	2 weeks		
	Number of SMMEs who have obtained Tenders by Governmental Department			
	Socio-Economic Impact of Tenders on SMME			
	Socio-Economic Impact of Tender on intended target market			
	Area Socio-Economic Impact			
<b>E</b>	<b>Data Analysis</b>	2 weeks	4/9/2007	4/20/2007
1	Quantitative Data Analysis			
2	Qualitative Data Analysis			
	*Data captures and Raw formats handed over to client as deliverable			
	Review of SMME support infrastructures			
<b>F</b>	<b>DRAFT REPORT</b>	2 weeks	5/23/2007	6/4/2007
<b>G</b>	<b>CLIENT REVIEW</b>	2 weeks	6/7/2007	6/18/2007
<b>H</b>	<b>STAKEHOLDER WORKSHOP</b>	1 day	6/18/2007	6/25/2007
<b>I</b>	<b>FINAL DRAFT REPORT</b>	1 week	6/25/2007	7/1/2007

## APPENDIX 4: GOVERNMENT DEPARTMENT IN-DEPTH INTERVIEW GUIDELINE

1. DO YOU HAVE ANY SMME OR HDI TARGETED DATABASE?
2. DO YOU CONDUCT ANY MONITORING OF SMMES and HDI WHEN YOU CONTRACT THEM?
3. WHAT CHALLENGES HAVE YOU IDENTIFIED WHICH ARE FACED BY SMMES AND HDI WHEN TENDERING OR EXECUTING TENDERS?
4. HAVE YOU EVER POST-ASSESED ANY SMMES OR HDI THAT YOU HAVE ENGAGED IN THE PAST
5. DO YOU PROVIDE ANY FURTHER ASSISTANCE FOR EXAMPLE TRAINING OR WORKSHOPS FOR THE SMMES AND HDI ON YOUR DATABASES, OR THE SMMES AND HDI THAT YOU ENGAGE FOR PROCUREMENT?
6. WHAT HAS BEEN THE LEVEL OF TENDER EXECUTION FROM A QUALITY, TIMELINESS AND PRICE PERSPECTIVE?
7. FROM YOUR DEPARTMENTS PERSPECTIVE, WHAT HAS BEEN THE DEVELOPMENTAL IMPACT OF SMME and HDI PROCUREMENT?

8. FROM YOUR DEPARTMENTS PERSPECTIVE, WHAT SECTOR SPECIFIC OPPORTUNITIES HAVE YOU IDENTIFIED FOR SMMES and HDI?

## APPENDIX 5: SELECTED SMME IN-DEPTH INTERVIEW GUIDELINE

**Department From Which Tender was Procured.....**

**Name of Business.....**

**Category Of Business.....**

**Contact Details Of Business.....**

**Location.....**

### SECTION B

**What was your annual Turnover Before Awarding of Tender.**

.....

**What is Your Annual Turnover after Awarding of The Tender**

.....

**What has been the impact of the Tender on**

**Human Resources.....**

**Skill Development.....**

**Financial Development.....**

**Other.....**

**Did you encounter any challenges when delivering the Tender**

.....  
.....  
.....

**Do you have any suggestions to how Government can Improve on Delivery of Tender Procedures.**

.....

.....

**Any other Comments**

.....

.....

# APPENDIX 6: SERVICE PROVIDER STRUCTURED INTERVIEW GUIDELINE

## STRUCTURED IN-DEPTH INTERVIEW

- What SMME, HDI/BEE targeted interventions do you offer?
- Do you have a mandate that focuses on SMME and HDI procurement
- What challenges have you identified as being faced by SMMEs and HDI when dealing with Government Procurement?
- Do you run awareness campaigns about your Procurement oriented services? What impact do they have?
- Do you coordinate any procurement services with Government Departments
- Do you coordinate your procurement-oriented services with other service providers?