

**AN ASSESSMENT OF THE EFFECTIVENESS OF THE
GOVERNMENT'S PROCUREMENT POLICIES, WITH RESPECT TO
THE SMALL SCALE BUILDING INDUSTRY, IN KWAZULU-NATAL.**

By

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requirements for the

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DECLARATION BY THE CANDIDATE

I certify that this study represents original work by the author and has not otherwise been submitted in any form for any degree or diploma at any University or Technikon. Where use has been made of the work of others, it is duly acknowledged in the text.

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01 December 2004

DECLARATION BY THE SUPERVISORS

The study entitled **"An Assessment of the effectiveness of the Government's Procurement Policies with respect to the Small Scale Building Industry in KwaZulu-Natal"** for the Masters degree in Technology (Construction Management) has been submitted for examination with our approval as the Durban Institute of Technology Supervisors.

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Preface

This dissertation is undertaken in fulfillment of the requirements for the Masters of Technology Degree, Construction Management, in the Department of Construction Management and Quantity Surveying, at the Durban Institute of Technology, Durban.

This work is carried out under the supervision of Dr Godfrey Anyumba, and co-supervisor, Mr. Ganassen Reddy.

This study represents original work by the author and has not otherwise been submitted in any form for any degree or diploma to any University or Technikon. Where use has been made of the work of others, it is duly acknowledged in the text.

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I would also like to thank my supervisors, Dr Godfrey Anyumba, of the Department of Town and Regional Planning and Mr Ganesan Reddy, of the Department of Construction Management and Quantity Surveying, both at the Durban Institute of Technology for their guidance, support and encouragements in preparing this Research Report.

I would also like to thank my parents for their sacrifices that they made in ensuring my education and spiritual upliftment. To Ngconde and Mrs Felicity Malata, thank you for your encouragement and support.

My special thanks go to my colleagues in the Department of Construction Management for their support. My family and friends, who are too many to mention for their support and assistance.

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Dedication

This research is dedicated to my late father, Raymond Temba Sinda Mahlati, my mother Nomvula, my brother, Lonwabo and sisters, Nozuko, Pumela and to the rest of the Mahlati family.

Abstract

The research is concerned with the success of the procurement policies, implemented by the Government of South Africa, with regards to the emerging contractors, in the Building Construction Industry.

A total of 38 Building Contractors in KwaZulu-Natal were interviewed as part of the research to establish the effectiveness of Government procurement policies. The interviews with the construction firms were carried as follows: Sixteen in Durban, four in Ulundi, four in Pietermaritzburg, four in Port Shepstone, four in Richards Bay, two in Hammarsdale and four in Empangeni were interviewed as part of the research to hear their views.

An overview of the state of the Building Industry in South Africa, together with all the major role players, is briefly discussed, with an in-depth analysis of the emerging contractors in KwaZulu-Natal.

An in-depth analysis of the literature on emerging contractors in the Building Industry has revealed many problems and constraints experienced by emerging contractors, especially in the allocation of government contracts and other benefits. These constraints and problems affect the sustainability of the emerging contractors. These critical issues

also have an impact on the development of this small-scale sector. The research strategy was to conduct structured and semi-structured interviews as part of the research methodology to determine the effectiveness of current Government procurement policies.

The critical factors were identified through semi-structured interviews of thirty-eight emerging contractors. The research identified lack of skills, distorted perceptions about the ease of entry into the construction industry, the availability of public sector work, alleged racism, nepotism and corruption. Other difficulties identified by the research were the difficulties of securing work, irregular payment for work done, access to formal funding and in comprehension of Government tender documents.

The study concludes by recommending that the Department of Public Works needs to make a concerted effort, in order to help the emerging sector in the building construction succeed and sustain themselves.

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CHAPTER 1

INTRODUCTION TO THE BUILDING INDUSTRY

1.1 Introduction

The research study evaluates the effectiveness of the government's procurement policies, with regard to a small but important section of the building construction industry in South Africa. While the terms, "Emerging Contractors" and "Small Scale" are commonly used nowadays, there are different perspectives on the meaning of these terms. The concepts of "emerging contractors" and "small scale industry" are made clear in the following section.

1.2 Definitions Used By the Author in the Research Study

1.2.1 What Is an Emerging Contractor?

An emerging contractor is any construction related business, owned by previously disadvantaged individuals, where an individual or partners have the initiative, tenacity and drive to operate successful business ventures. These individuals take risks in terms of money, time and commitment to establish a business venture and also respond to opportunities that arise.

1.2.2 What is a "Small Scale" Sector?

A small scale sector is also a business venture owned by previously disadvantaged individuals, involved in starting and building an enterprise. One person, usually known

as the owner has a vision, commitment and motivation to start a business, or it can be a business partnership, where partners pool both their personal and financial resources in order to start a business. This type of business requires willingness to take personal and financial risks.

This type of business, also known as “Affirmable Business Enterprise (ABE)”, adheres to statutory labour practices, which is at least 2/3 owned by one or more previously disadvantaged individuals.

1.2.3 Affirmable Business Enterprise

A business that adheres to statutory labour practices. It has legal entity and is registered with the South African Revenue Services. It provides a commercially useful function and is owned by 2/3 or more by the previously disadvantaged individuals.

1.2.4 Previously Disadvantaged Individuals

These are South African citizens, who have been socially or economically disadvantaged, prior to the dispensation in April 28, 1994, and include previously identified Blacks, Coloureds and Indians.

1.2.5 Nature of Previously Disadvantaged Individuals

According to the White Paper on Restructuring and Development, (1995), the previously disadvantaged individuals are individuals, who being South African citizens were socially and economically disadvantaged by the legacy of the South African political dispensation, prior to April 28, 1994. Previously disadvantaged individuals intending to become emerging contractors must have the desire and willingness to take risks. However, these characteristics are acquired through life's experiences and also through the running of a business enterprise. The success of this type of business is dependent on personal motivation and the willingness to succeed.

1.2.6 Structured Joint Ventures

Basically, the Joint Ventures were formed with the purpose of developing the emerging contractors. The contractual arrangement permits such contractors to acquire new skills and competencies and greater credibility.

1.2.7 Joint Venture

Joint venture means an association of persons for the purposes of combining their expertise, property, capital, efforts, skill and knowledge, in an activity for the execution of the contract.

According to the White Paper on Reconstruction and Development, (1995), joint ventures, were formed with a purpose of developing the emerging sector. A Joint Venture

is a contractual agreement between established contractors and emerging contractors, in order to transfer new skills, competencies and greater credibility.

1.2.8 Sub-contracting

Sub-contracting means the primary contractors assigning or leasing or making out work to or employing another person to support such primary contractors in the execution of part of a project, in terms of the contract.

1.2.9 Public Finance Management Act

Public Finance Management Act was passed in 1999. It regulates the manner in which government manages its finances. It also aims at ensuring that all revenue, expenditure, assets and liabilities are managed effectively and efficiently. It is empowered amongst other things, to determine a procurement framework.

1.2.10 Procurement

Procurement means the process of obtaining business opportunities in the public sector. This involves procurement of goods, services, engineering and construction works by public bodies.

1.2.11 Targeted Procurement

Targeted Procurement provides employment and business opportunities for marginalized/disadvantaged individuals and communities. It also enables social objectives to be linked

to procurement in a fair, transparent, equitable, competitive and cost effective manner.

Lastly, it promotes business linkages between large and small-scale contractors.

1.3 Background of the Study

Since 1994, there have been significant changes in the allocation of contracts in the public sector. According to the Minister of Public Works, (2001), the allocation of contracts is intended to move towards lifelong equalization, economic empowerment and development of emerging contractors. These policy changes have been determined to link the emerging contractors with the established firms, in improving South Africa's international competitiveness to tendering and to contribute to the solution of the country's internal economic and social problems (Preferential Procurement Policy Framework Act, 2000).

In trying to achieve the aim of policy changes, the Department of Public Works, together with a task team which represented key players in government, adopted a Ten-Point Plan that is linked to the Preferential Procurement Policy Framework Act (2000), which was intended to enable previously disadvantaged individuals to use their skill, knowledge and creativity in arriving at a favourable mix of socio-economic and development objectives and poverty alleviation.

The Preferential Procurement Policy Framework Act (2000) and Targeted Procurement Act present the emerging contractors with an opportunity, unprecedented in their history, to become involved in creating employment, generating income and input growth. The Preferential Procurement Policy Framework Act and Targeted Procurement Act also present major challenges for the emerging contractors and established firms, such as to abolish the restrictions and limitations of the past, to develop a new vision and purpose and to become more responsive and accountable to the communities they serve.

A way forward towards meeting the new challenges and opportunities for emerging contractors is for the government to maintain a reliable database reflecting what work has been completed and also which contractors are competing for the work, Minister of Public Works (2003).

This research study looks at several issues. It looks at whether the new procurement policies have achieved their goals. Secondly, it canvasses the smaller contractors and emerging contractors and ascertains their general working knowledge, more specifically in joint venture performance. Thirdly, it seeks to find out what difficulties these emerging contractors have with established firms.

1.4 Goals of the Research

The purposes of this research are twofold. The first is to ascertain the effectiveness of the current procurement policies, as from April 28, 1994, with regard to the building

construction Industry in KwaZulu-Natal. The second purpose is to ascertain the extent of the achievement of socio-economic goals and empowerment of emerging contractors.

This study also focuses on the appropriateness and adequacy of delivery by the small scale sector. More specifically, the study is focused on the following three goals:

- 1.4.1 Identifying the procurement policies that exist for the building construction industry, nationally and in KwaZulu-Natal.
- 1.4.2 Finding out the purpose that these procurement policies serve in KwaZulu-Natal.
- 1.4.3 Evaluating the impact that these procurement policies have had in the building industry, especially to the emerging sector of construction in KwaZulu-Natal.

1.5. Objectives of the Study

- 1.5.1 The first objective of this assessment is to compare the National Preferential Procurement Policy Framework Act, Act No. 5 of 2000 and the KwaZulu-Natal Procurement Act No. 3 of 2001, and within this to determine similarities, contradictions and discrepancies between the two and to suggest how the latter should be addressed.
- 1.5.2 Secondly, to identify whether the new policies have achieved their goals and if they have not achieved them, to identify failures.

1.6 Rationale for the Study

There are several reasons why this study is undertaken:

- 1.6.1 Even though there are so many emerging contractors in the Building Industry, yet up to 80% of them fail every year (Cattell 1992).
- 1.6.2 To investigate the effectiveness of participation goals between emerging contractors and established firms in the joint venture structure.
- 1.6.3 To investigate the allocation of contracts and to establish if these tenders are adjudicated on a basis of:
 - 1.6.3.1 Technical/financial qualifications
 - 1.6.3.2 Affirmative action
 - 1.6.3.3 Or both.

1.7 Scope of the Research

This is a pilot study limited to the seven towns in KwaZulu-Natal, namely, (i) Durban, (ii) Hammarsdale, (iii) Ulundi, (iv) Pietermaritzburg, (v) Port Shepstone, (vi) Richards Bay and (vii) Empangeni. These towns can be regarded as microcosm of the various areas in which small building contractors operate, mainly because they are developed towns in KwaZulu-Natal where a large population of emerging contractors exist.

1.8 Limitations of the Research

The following are limitations that should be noted about this study. This research is limited to four building contractors in each of the seven towns, with the exception of

Durban, where sixteen contractors were interviewed and two in Hammarsdale. The validity of the study is enhanced by interviewing major role players, including established firms and emerging contractors.

1.9 Significance of this Research

The building industry, especially emerging contractors, is believed to be important, based on the following points:

- 1.9.1 Government believes that emerging construction related small enterprises could be powerful generators of income and employment opportunities, since they generally use less capital investment per unit of output than large contractors, DTI (2002).
- 1.9.2 The small scale sector is critical because it generally has relatively lower overheads.

But, despite the number of government procurement policies in place, which show direction for the nation, the small scale sector of the building industry is still marginalized and has great difficulty in procuring government work. Furthermore, the emerging sector is believed to be a failure, because these emerging contractors lack the managerial and technical skills (Khumalo, 1995).

This study highlights the problems faced by this sector of the construction industry, which has to be protected to mobilize a great number of potential construction enterprises

in South Africa. The findings may lead to a positive understanding of the industry, not only in KwaZulu-Natal, but nationally as well.

1.10 Dissertation Outline

The rest of the dissertation is structured as follows:

Chapter 2 provides an analysis of the literature around the nature of the emerging contractors, overview of the building industry in general, including the small scale sector. This Chapter also looks at the development of the targeted procurement policy; legislation relevant to procurement; how the Ten-Point Plan works in the allocation of contracts and the unbundling of construction contracts. Chapter 2 ends with role players in the regulation of Government procurement and financial institutions for housing, which fund emerging contractors.

Chapter 3 deals with the research methodology including its design, interview sample, the execution of the interviews, problems of analysis and the limitations of the research.

Chapter 4 presents the findings and analysis of emerging contractors in KwaZulu-Natal.

Chapter 5 presents a summary of the research findings, conclusions and recommendations.

CHAPTER 2

AN OVERVIEW OF THE BUILDING CONSTRUCTION INDUSTRY IN SOUTH AFRICA

2.1 Introduction

This chapter begins with a brief overview of the building industry in South Africa and then presents the state of the industry, with particular emphasis on the emerging contractors. The major role players in the building industry in South Africa are also dealt with. A brief outline of the classification of the various sectors of the emerging contractors follows.

2.2 Overview of the Building Construction Industry in South Africa

The construction industry performs an indispensable role in the economy of South Africa and increasingly of the region as a whole. According to the Department of Trade and Industry (2002), the construction sector had a major role to play in the South African economy, in terms of employment creation, income generation and output growth.

According to the Minister of Public Works (2001), the construction industry provides infrastructure, which is fundamental to the ongoing development of South Africa. Its activities affect everybody's infrastructure in underdeveloped areas, designed to bring relief to people living there, in the form of jobs, linkages to the markets and assets that promote economic business development.

Jobs, expanding business opportunities, the potential investment for emerging contractors and individuals are some of the benefits that will flow from an expanded and motivated industry.

Figure 1 reflects the enormous contribution as a whole that the construction industry has made over the previous years as from 1996 to total employment, i.e. workers and bricklayers, the architects and quantity surveyors, the financial institutions and local authorities. But the visual map also highlights that there is so much to be done.

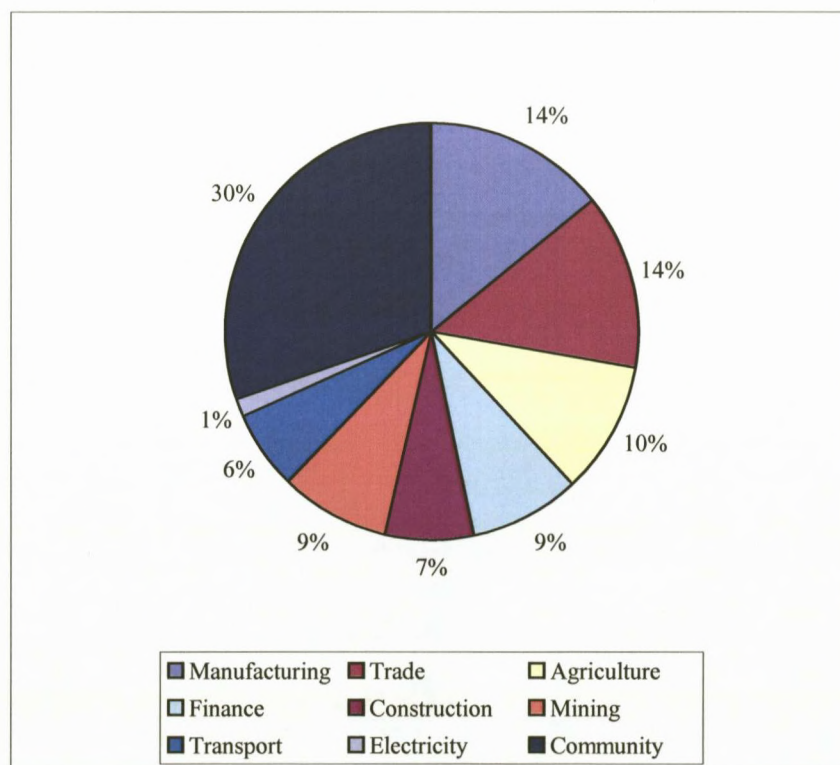


Figure 1 Statistics of the construction industry in comparison with other sectors

Source: www.statssa.gov.za/census96

Figure 1 shows percentage of the employed aged 15 to 65 years by economic sector. According to Bob Hindle (2001), the weakness of the general economy has had a major dampening effect on investment in construction. Figures 2, 3 and 4 show three snapshots in time that demonstrate a steady reduction in the demand over the past twenty years and a shift in the source of demand from the public sector into the private sector.

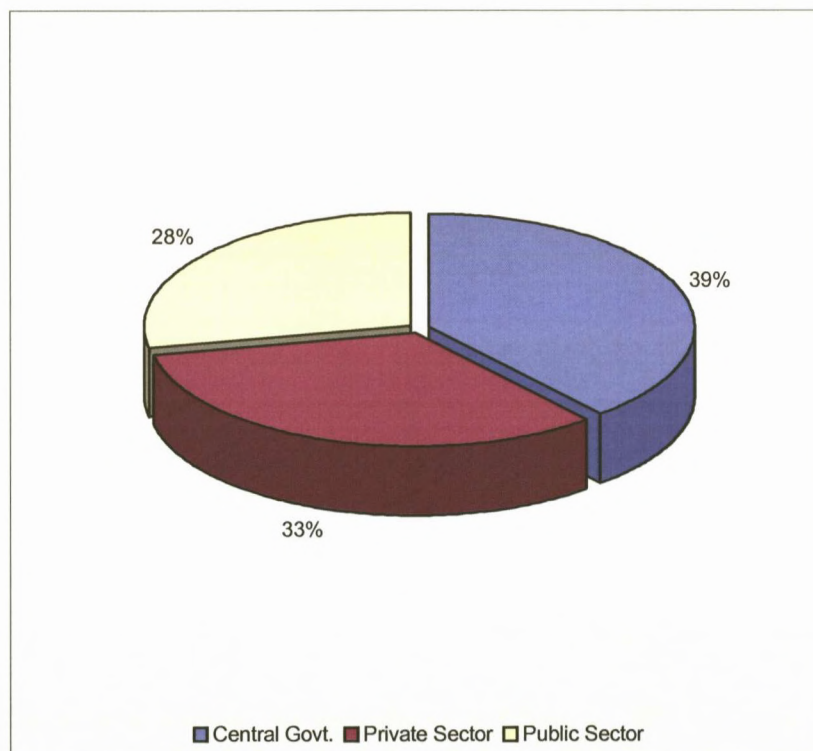


Figure 2 Demand change for construction work and customer type 1980

Source: SA Reserve Bank - Constant 1995 Prices

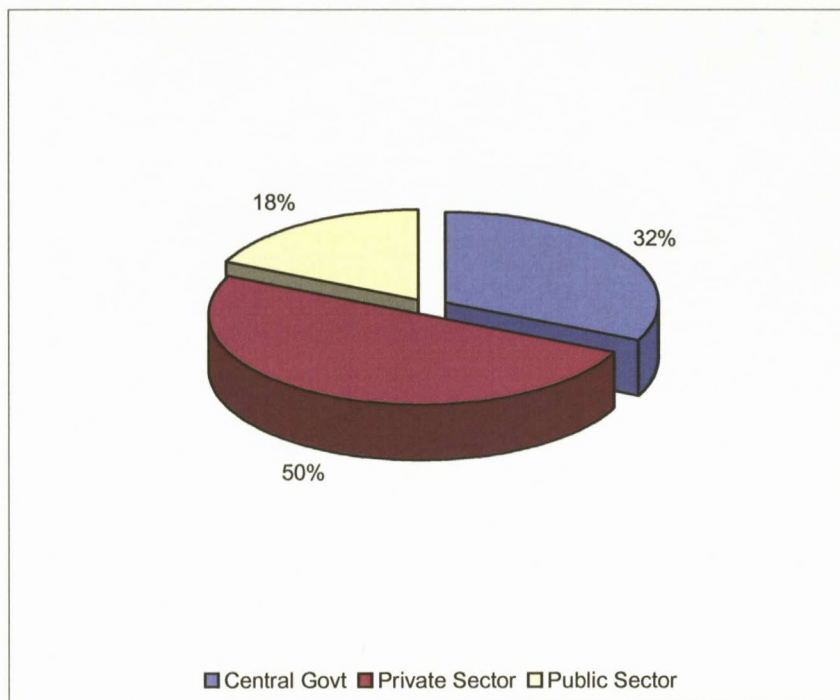


Figure 3 Demand change for construction work and customer type 1990

Source: SA Reserve Bank - Constant 1995 prices

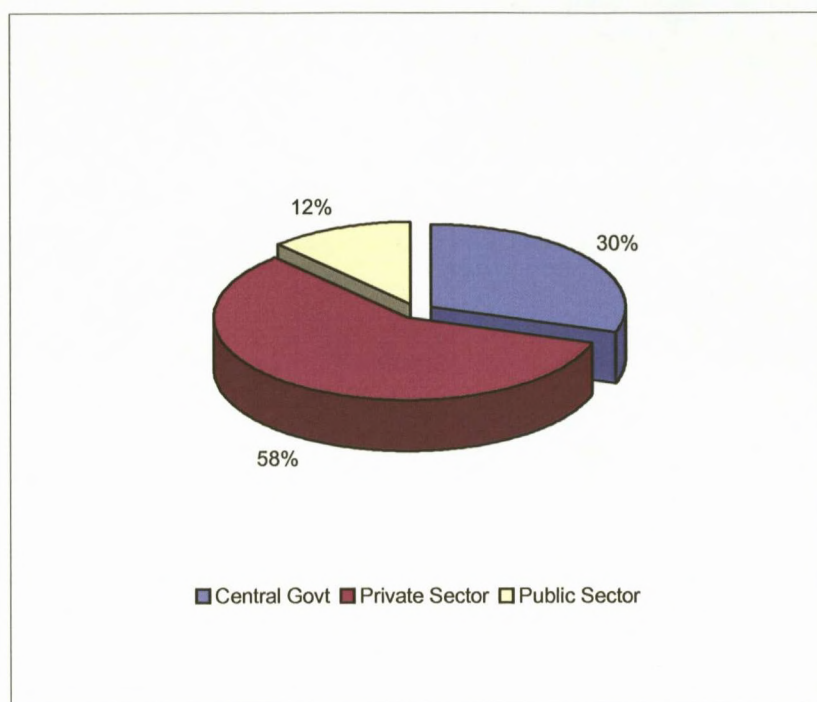


Figure 4 Demand change for construction work and customer type 1999

Source: SA Reserve Bank - Constant 1995 prices

According to Bob Hindle (2001), from these three graphs, one can see that the demand for construction in the public sector has indeed fallen significantly over the past twenty years, i.e. by 31,5% and by 18.8% over the past nine years. That the greater share of demand now emanates from the private sector rather from the public sector as was the case in the past. That housing and general building contracting, though fluctuating, have experienced some growth in the period.

2.3 State of the Building Industry in South Africa, Pre-1994

In the years prior to the dispensation in 1994, the building industry has not stimulated the economy due:

- (i) To poor economic growth
- (ii) Downsizing of government contracts
- (iii) Capital expenditure on buildings and
- (iv) High interest rates

Since the rise in interest rates in 1984, building activity has dropped by about 30%, BIFSA (2001) because of the cyclic nature of the building industry. Thousands of small firms went out of business during the downsizing in the industry, leaving only some of the well established firms. There was a liquidation of over 450 companies in 1999, compared with 350 liquidations in the previous year. It was also predicted that the overall construction industry reached its worst by the last quarter of 1999, with conditions improving gradually during 2000. South Africa's growth of 4% was then possible in 2000 and another 6% in 2001.

According to BIFSA (2001), it was probably the worst the industry had seen in the past 30 years. High interest rates and a sluggish economy have been the major reasons behind large companies in the sector reporting weak financial results.

The success of the building industry is the most important reflection of the economic well being of any country. At times, the growth of the building construction industry slows down, due to a rise in mortgage bond rates. This impacts on the demand for new building work as banks limit loans required by individuals. Due to the high interest rates, people opt for alterations or extensions, rather than building new homes, (Moodley, 2003). This helps emerging contractors, as they will concentrate in activities like these. During times of economic recession, when work is scarce, the tendering fields overlap to a much greater degree as contractors start tendering on virtually any available work.

The problem of poor performance in the construction industry has been widely recognised. The implementation of new contracting techniques, inadequate pricing methods, lower productivity, insignificant technological co-operation among professional groups, disappearance of true general contractors, are considered to be causing the decline in the quality of construction.

2.4 Transformation of the Building Industry

In 1994, following the first democratic elections in the Republic of South Africa, the South African Government adopted the Reconstruction and Development Programme (RDP), a comprehensive socio-economy policy instrument aimed at eradicating the legacy of apartheid, which had left South Africa with an economy which was inward

focused, distorted by growth inequities, inefficiencies and under developed resources and markets. The South African Government therefore sought to redress the disparities arising from apartheid in a number of pieces of legislation:

- 2.4.1 To create categories of preference in the allocation of contracts and to provide for the protection or advancement of persons or categories of persons disadvantaged by unfair discrimination. (The Preferential Procurement Policy Framework Act No. 5 of 2000).
- 2.4.2 To facilitate a greater equalization in income, wealth and economic opportunities and to address the legacy of apartheid-based disempowerment of black businesses. (The White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, 1995).
- 2.4.3 To redress the imbalances of the past without compromising the ability to function effectively and profitably. (This was sought through The Employment Equity Bill, 1995).

Building Industry Federation of South Africa (BIFSA) then embarked on plans for improving the conditions of its Association Members and the building industry as a whole, by providing certain clauses that provide fair compensation for fluctuations in the cost of building contracts through a system of security for payments.

2.5 State of the Building Industry Post-April 28, 1994

Current business ownership is however, not reflective of population demographics. According to the Minister of Public Works (2001), even seven years later this legacy of the apartheid system was still in place and therefore it was unacceptable and required urgent redressing. It was against this background that a decision was made in the construction industry that in order to address the skewed nature of the business and the lack of skills, the industry had to be looked at as a whole and measures introduced to correct the skewed representation process (Watermeyer 2000).

2.6 Targeted Procurement Document

According to Binnington and Copeland 2001, "Targeted Procurement" provides employment and business opportunities for the marginalized individuals and communities. It enables social development to be linked to procurement in a fair, transparent, equitable, competitive and cost effective manner. Targeted Procurement enables targeted enterprises and targeted labour to participate in contracts.

With Targeted Procurement, small and medium enterprises are targeted in a generic area or area bound (localized) basis. Generic targeting in turn, can either target all small scale enterprises within a country or small scale enterprises within demarcated political boundaries or with specific control by disadvantaged persons, for example women. Individuals can be targeted for employment and services contracts on the basis of gender, race, ethnicity, locality, age, disability, period of unemployment, etc.

Targeted Enterprises, depending upon the targeting strategy which is adopted, can be engaged in the performance of contracts as prime contractors, joint venture partners, subcontractors, suppliers, service providers and manufactures. Targeted Labour can be engaged as either employees or contract (project specific) workers.

According to Watermeyer (2000), the Targeted Procurement document also promotes linkages between large and small scale enterprises. Such linkages are not, however, confined to physical construction activities, but extend into service, provision, material supply and manufacture, transportation etc.

The government's primary focus in the Targeted Procurement document is to enable businesses, which are owned, managed and controlled by the previously disadvantaged individuals to overcome the impediments arising from the legacy of apartheid.

According to the Department of Trade and Industry (1995), the government looked at ways in which the small businesses could be developed:

- 2.6.1 Through the provision of business development services.
- 2.6.2 Through the provision of business and management training.
- 2.6.3 The establishments of linkages with established business donor funded organizations.
- 2.6.4 The establishment of mentorship programmes.
- 2.6.5 Through financial facilitation.

The approach programme will be continued until such time that there are no disparities between those who are categorized as being emerging contractors and equivalent businesses which are not, and when the impediments facing contractors have been overcome.

2.7 Promoting New Industry and The Emerging Sector

Given the numerous historical and economic constraints that have hindered the full participation of emerging contractors in the economy, government is committed to bringing small businesses into the mainstream of the economic activity. The Government of South Africa believes that emerging contractors can contribute significantly to the realization of key economic and redistribution objectives for a number of reasons, for example:

- 2.7.1 They can be powerful generators of income and employment opportunities, since they generally use less capital investment per unit output than large contractors, Emerging contractors can be more competitive than larger firms on certain types of small, disparate and geographically dispersed projects because they generally have relatively lower overheads, White Paper on Creating an enabling environment for reconstruction, growth and development in the Construction Industry, (1999).

- 2.7.2 Emerging contractors can be more competitive than larger firms on certain types of small, disparate and geographically dispersed projects because they generally have relatively lower overheads. White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, (1995).

But the construction related emerging contractors face various difficulties in gaining access to the market.

2.8 Difficulties Faced by Emerging Contractors

Emerging contractors are generally regarded as the most appropriate instrument for achieving the goals of job creation and income generation. But the small scale sector of the construction industry has many problems.

According to Watermeyer, (2000), emerging contractors face the following difficulties:

- 2.8.1 Inexperience, most fail within two years of starting up.
- 2.8.2 Lack of standard education skills.
- 2.8.3 Lack of access to capital.
- 2.8.4 Poor costing methods, leading to unrealistic tenders.
- 2.8.5 Lack of planning skills.
- 2.8.6 Fail even to keep basic records, on subcontractors, Krafchik (1991).
- 2.8.7 Inability to handle large sums of money, leading to unnecessary personal expenses.

These factors, as determined by Watermeyer (2000), contribute to a circle, which hinders growth and development of the emerging contractors. However, despite the existence of several associations for emerging contractors, the bulk of emerging contractors remain unaffiliated and unregistered.

In 1995, the Department of Public Works introduced the Ten-Point Plan which was aimed at the immediate transformation of the situation facing previously disadvantaged contractors.

2.9 The Development of the Targeted Procurement Policy

2.9.1 The Ten Point Plan

The Ten Point Plan is a government strategic plan drawn up by a task team which represented key players in the government. The Ten Point Plan was adopted by what was the then National Cabinet of Unity in November 1995. The State Tender Board adopted it in 1996.

According to Binnington and Copeland (2001), the Ten Point Plan does not prescribe legal principles. It merely lays down what the government has approved as policy. While the plan has been approved at National level, it has not been adopted in its original form by all provinces or at local level.

While some Provinces, Western Cape, Northern Cape, KwaZulu-Natal, Free State and Limpopo, have accepted the policies in their entirety others see them as guidelines only. According to Binnington and Copeland, (2001), the result of this piecemeal adoption is that there has been a lack of uniformity between the provinces and the danger of provinces introducing policies that may have the effect of undermining the other provinces. Government is now trying to move towards greater uniformity at national, provincial and local level.

2.9.2 The Ten Point Plan

The Ten Point Plan consists of the following:

- 2.9.2.1 Improved access to tendering information.
- 2.9.2.2 The formation of Tender Advice Centers.
- 2.9.2.3 The review of procurement for contracts valued at less than seven thousand five hundred rands, R 7 500.00, so that the participation base for these contracts may be broadened.
- 2.9.2.4 The waiver of security or sureties on contracts with a value of less than one hundred thousand rands, R100 000.00.
- 2.9.2.5 The unbundling of large projects into smaller contracts (break-out procurement).
- 2.9.2.6 The promotion of early payment by government.
- 2.9.2.7 The development of a preferential system for small and medium enterprises owned by historically disadvantaged people.

- 2.9.2.8 The simplification of tender submission requirements.
- 2.9.2.9 The appointment of a procurement ombudsman.
- 2.9.2.10 The reclassification of building and engineering contracts.

2.10 Points to be Noted on the Ten Point Plan

2.10.1 Waiver of Security

The requirement that contractors provide security for their obligations has proved to be a stumbling block, preventing contractors who have not had the opportunity of building up a track record from accessing work. In order to assist these contractors, government has waived the requirement of security on certain contracts.

National Cabinet has approved the principle that sureties should be waived where the value of the contract is less than R100 000.00. Provinces are then free to waive security, with a higher value and one of the provinces has gone as far as to waive the requirement of security where the contract value is up to R2 000 000.00 . Contractors can also get access to finance by having a mentor who helps the emerging contractors to manage their own finance.

2.10.2 Unbundling (Break-out Procurement)

Emerging and historically disadvantaged contractors have traditionally been excluded from operating as main contractors due to the scale and scope of jobs. They have therefore been relegated to the role of sub-contractor and have been excluded from

certain jobs. According to Binnington and Copeland (2000), this trend is reversed through a process of unbundling of contracts. The tenders for government contracts have been unbundled into smaller units so that emerging contractors may operate as main contractor on a particular unit of work. The unbundling of contracts is not always cost effective or practical. It may also impose considerable administrative constraints. The government employer therefore needs to assess each contract to determine whether the unbundling would be appropriate.

In the case of unbundling, the main contractor would then be liable where there is unbundling of work, for example, sub-contractors or previously disadvantaged individuals. However, if the main contractor is not happy with the “subbing” of previously disadvantaged individuals, then, the main contractor has the right to walk away.

2.10.3 How the Unbundling of Contracts is undertaken

The Unbundling of the contracts is undertaken as follows:

2.10.3.1 By obliging established main contractors to form joint ventures with emerging contractors. In terms of this unbundling mechanism, established contractors are obliged to partner with emerging contractors, who then perform with their own resources and are responsible for their portion of the works.

2.10.3.2 By obliging established firms to use targeted businesses in the performance of their contracts. The contract is therefore unbundled by the main contractor, in fulfillment of specifications laid down by the government employer. These specifications lay down the participation goals which the main contractor is obliged to meet.

2.10.3.3 Some ways that this can be achieved are:

2.10.3.3.1 by subcontracting portions of the work to emerging contractors.

2.10.3.3.2 by obtaining materials from emerging contractors.

2.10.3.3.3 by engaging professionals from emerging contractors or the like.

2.10.3.3.4 by breaking up contracts into the smallest appropriate units where this will not prejudicially affect cost or efficiency.

2.11 The Development of a Preferential System for Small and Medium Enterprises Owned by Historically Disadvantaged People

According to Binnington and Copeland, (2000), it has become clear that the Ten Point Plan was not in itself sufficient and that detailed specifications needed to be developed so that contractors and government employers would have greater clarity on tender awards. The Preferential Procurement Policy Framework Act of 2000 does not give enough clarity on guidelines pertaining to allocation of contracts to the previously disadvantaged individuals, especially women.

There is lack of understanding of procurement processes and there are no clear guidelines regarding the Small, Medium and Micro Enterprises.

2.12 Contradictions of Community Demands and Emerging Contractors

One of the difficulties experienced by the emerging contractors is the understandable demand by communities for local employment in their areas. For example, the use of “local labour” specification, in fact features in many current contract documents. This creates a number of problems for the emerging contractors. Contractors operating at this level are unable to establish and consolidate a permanent skilled labour workforce.

According to Binnington and Copeland, (2001), this phenomenon affects small scale contractors more severely than it does to their established counterparts because the emerging contractors are viewed as a threat and as competitive by local communities. With these problems arising, it became necessary that with the support of the Construction Industry Development Board, (CIDB), the Department of Public Works, would promote continuous review of conditions of contract, tender application and design criteria to ensure that these do not constitute barriers to greater participation of emerging contractors in the mainstream of the construction economy.

2.13 Overview of Socio-Economic Goals

In an effort to achieve socio-economic goals, government has embarked on a number of initiatives, which aim to direct its spending. Some of the initiatives are:

2.13.1 The National Public Works Programme (NPWP)

The National Public Works Programme was launched in 1994/1995 and was based on the work of the National Economic Forum. According to Binnington and Copeland (2001), the key aim of this programme was to identify areas of construction and infrastructure development where labour intensive methods could be used to ensure both the provision of infrastructure and optimal creation of employment. This programme, therefore, aims at reducing unemployment through the use of labour rather than machinery.

2.13.2 How Are These Socio-Economic Goals Achieved?

According to Binnington and Copeland (2001), it is important to note that these specifications have not yet been legislated and are therefore not part of the law of South Africa. They are rather contractual specifications, which have the same status as technical or other specifications traditionally found in construction contracts.

The socio-economic goals of a targeted procurement programme may be achieved in a number of ways. The key mechanisms employed are the following:

2.13.2.1 The Classification of Contracts

The classification of contracts facilitates the process of the unbundling of contracts such that smaller contractors are able to participate in the unbundled units. This can be done in a number of ways.

2.13.2.1.1 The employer can unpack the contract alone and award individual units to individual contractors.

2.13.2.1.2 Alternatively, the employer may award the contract to one main contractor and then require that the main contractor unpacks the contract and awards individual units to smaller contractors.

This also enables government to maintain a reliable database reflecting what work is being completed and which contractors are completing the work. The size of the contract, the nature of the contractor and the nature of liability undertaken are also taken into consideration, with respect to:

2.13.2.1.3 The joint venture contractor in which case the responsibility for the various aspects of the works are divided amongst the partners.

2.13.2.1.4 The development contractor in which case the contractor assumes certain defined roles. A typical example would be the situation where a particular contractor has the resources to supply the work and the materials but lacks the management skills needed to manage the process and the finances. In this case, the employer may appoint the contractor as a development contractor and may appoint a third party responsible for the management of the construction process.

2.13.2.1.5 The prime contractor who is responsible for all the aspects of the works.

2.13.2.2 The Use of Resource Specifications

The tendering contractor may be required to meet not only the technical specifications of the contract, but also the resource specifications. These specifications express the socio-economic goals that the procuring entity wishes to achieve. Thus, if the Department of Public Works decides that it wishes to use a particular contract to advance the cause of unemployed people in the area where the work is to be done, it may choose to do so by including resource specifications requiring the use of targeted labour.

2.13.2.3 The Use of Development Objectives or Price Mechanisms

Enables tenderers to use their skill, knowledge and creativity in arriving at a favourable mix of economic and development strategies. It also penalizes those tendering entities which fall outside the targeted groups, or who offer to meet certain socio-economic objectives to only a limited degree, but does not prevent them from tendering or engaging in economic activity in a meaningful way. Lastly, it prevents those who fall within a targeted group from tendering grossly uncompetitive prices, as the reward for compliance with socio-economic objectives will be outweighed by the loss of points incurred through uncompetitive tender prices, (Binnington and Copeland, 2001).

The use of development objectives or price mechanisms is for the adjudication of tenders. It enables adjudicators to award points both for the price and also for the offer to achieve certain socio-economic goals. In much the same way, as tenderers use their innovation to arrive at a favourable tender price, so too will they be expected to use their innovation to

arrive at a tender, which will score points not only for the price, but also for the attainment of socio-economic goals. As it is clear from the Preferential Procurement Policy Framework Act of 2000 and from practices under the Targeted Procurement strategies thus far, points are usually allocated on a 90:10 basis, where 90 points are awarded for the price and 10 points are awarded for the attainment of socio-economic goals. Where contracts have a relatively low value, an 80:20 split may be employed.

The Preferential Procurement Policy Framework Act, (2000), requires that for contracts with a rand value below a prescribed amount, a maximum of 10 points may be allocated for specific preferencing goals provided that the lowest acceptable tender scores 90 points for price. For contracts with a rand value equal or below a prescribed amount, a maximum of 20 points may be allocated for specific preferencing goals provided that the lowest acceptable tender scores 80 points for price.

According to Binnington and Copeland (2001), the aim of a point system, is to strike a balance between the socio-economic goals of a targeted procurement and the financial objectives of keeping government spending within reasonable limits.

2.13.4 Some of the Socio-Economic Goals for which points may be awarded are:

2.13.4.1 The use of local labour or local resources.

2.13.4.2 The use of women or previously disadvantaged individuals.

2.13.4.3. The use of labour- intensive processes, rather than capital-intensive processes.

2.13.4.4 The use of "Affirmable Business Enterprise".

2.14 Tendering on Government Contracts

The Preferential Procurement Policy Framework Act, No. 5 of 2000, and the Public Finance Management Act (1999) regulate nationally how government may procure construction goods and services. However, on the issue of standardisation of standard contracts, the task team recommended that only four forms of contract be used in the public sector works in South Africa.

2.12.1. Engineering and Construction Contract / New Engineering Contracts (ECC/NEC)

2.12.2. Federation Internationale des Ingenieurs-Conseils (FIDIC)

2.12.3. General Conditions of Contract (GCC 90)

2.12.4. Joint Building Contracts Committee (JBCC)

2.15 How Do These Mechanisms Work Together?

According to Binnington and Copeland (2001), these three mechanisms i.e. classification of contracts, the use of resource specification and the point system are not mutually exclusive, rather they work together.

2.16 Report by Stakeholders

There is mounting concern that the new government procurement procedures have regressed, with some analysts saying they are a setback for black economic empowerment and others expressing the view that they make the tendering process susceptible to corruption, (MEC for Finance in KZN, 2000).

Critics say the new procedures, which replace the national and provincial tender boards, give too much power to civil servants, who manipulate the system to suit themselves. They have singled out the Gauteng Provincial government as the worst culprit, although the Western Cape government came under fire from a contractor who went into provisional sequestration after being awarded a R7.2 million tender to upgrade a nursing college (Business Report, 13 July 2003).

The owner of the building construction firm expressed her frustrations at the difficulties she experienced in getting progress payments from the provincial government for work already done. According to SAPA (2003), Gauteng abolished its tender board in March 2002. This happened in line with the national government's new policy, which is *"aimed at removing bottlenecks in the awarding of tenders, curbing corruption and making sure that the government gets the best deal"*, (The Business Report, July 2003).

The Business Times, in its July 2003 issue, records that it is believed that through the Public Finance Management Act (1999), substantial changes have been brought in the manner in which finances are managed in the public sector. The process of procurement is one of the major reforms with the introduction of the Act. In the eulogy to the Gauteng Tender Board, the department commented that amongst its achievements, the Board has championed the participation of the small and medium enterprises in government procurement processes, thereby ensuring that small businesses development and the objectives of black empowerment initiatives are realized.

The Board actively educated Small Medium and Micro Enterprises on procurement processes, in order to ensure that they are able to actively participate in the socio-economic processes. However, through the compliance procedures and conscientisation of businesses, it succeeded in ensuring that fronting is minimized.

According to the SAPA (2001) of the R658 million worth of tenders in Gauteng Tender Board approved in its last year of existence, 53 percent was awarded to black enterprises. To affirm the criticism of the new procedures, a senior official in the local government and housing department, dismissed the approving of payments of more than R8 Million without the proper procedures. It was also reported that the senior official mentioned earlier had allegedly approved payments for claims for RDP houses before inspection. This official was dismissed on charges of misconduct. It is also believed that the above senior official bypassed payouts to contractors. Under the new procedures in place, as of March 31, 2002, a department acquisition process was then established in each of the departments, to adjudicate departmental tenders, Housing in Southern Africa (2001).

In the 2003 article (Sunday Tribune), the acting chief executive of the SA Black Technical and Allied Careers Organization, Mr James Ngobeni, represented his organization at the national government negotiations that introduced the black empowerment initiatives that have now been abandoned. Furthermore, it is stated that the Tender Boards ensured that government policy was adhered to and targets fulfilled, but

when they were abolished there was virtually a vacuum. When there is a problem, one does not know where to go, whereas in the past one could go to the Tender Board. The acting chief executive of the South African Black Technical and Allied Careers Organization, (2003) further emphasized that the implications are *"that government officials are dealing with these issues because they decide what to do and how to do it"*.

Monitoring policies are now internalized and obviously officials pick and choose as they wish and do not necessarily follow government policies. Mr Ngobeni believes that the issues have not only created difficulties for black and white service providers, but they are extremely difficult for emerging contractors to survive under these conditions because they find it difficult to access government jobs.

Furthermore, Ngobeni also a former Tender Boards chairman of the SA Rail Commuter Corporation stated that there are no uniform guidelines. Parastatals define their own procurement policies because they are not bound by government guidelines. According to SAPA, (July 2003), the chairman of the last Gauteng Tender Board also shared his sentiments that the new procedures have no evaluation and monitoring mechanisms. According to Tinker (2001), the construction industry operates in a volatile environment where demand varies greatly. i.e. *"industry instability is compounded by the fact that construction is a competitive and high risk business for both client and contractor and together with the wasteful loss of the skilled personnel, South Africa has lost the capacity of thousands of construction companies that were able to survive the volatility demand"*.

Furthermore, Tinker commented that the demand volatility was in the hands of government and its macro economic policies, but not the dysfunctional behaviours that were in the construction industry and should be addressed by stakeholders. According to the White Paper, on National Strategy for the Development and Promotion of Small Business in South Africa (1995), South Africa has large development needs and will need to expand capacity by up to 100% in the next five to ten years. The construction industry as a whole is a large employer of the skilled, semi-skilled and unskilled labour and the propensity for training is large.

According to Tinker, (2001) there are many incompetent and unskilled emerging contractors in the building construction industry. With the open tendering system and the ease of entry into the industry, failed contractors are soon replaced with the hopefuls, who are no better.

Loopholes and characteristics of the new entrants in the construction industry are listed below:

- (i) Ease of entry into the industry
- (ii) Low quality and poor workmanship
- (iii) Entry of unqualified contractors
- (iv) Excessive competition
- (v) Cost cutting claims conscious policy
- (vi) Very low prices

- (vii) Contractor insolvency
- (viii) Bad image of emerging contractors
- (ix) Dishonesty/fraud

Consultants are conditioned to deal with less competent contractors due to the lowest bidder usually winning the tender. Competent, solvent and ethical contractors have to deal with these conditioned attitudes. It seems that there is a lack of trust and confidence between the competent contractors and the less competent contractors.

According to Miller (2000), it was alleged that certain office holders in the regional council concerned, were demanding kickbacks and even payments upfront in return for awarding major contracts for development projects. Therefore, management of the joint venture contracts was one of the numerous challenges facing the contractors. This became a major challenge in the sense that the sourcing and employment of suppliers and subcontractors with the major contractors had not worked previously.

According to the Chief Executive Officer of the Independent Development Trust, Ms Gwagwa (2001), tokenism is when a bid is made, which include a few black faces in the proposal and presentation and then retreat into the traditional patterns of working and distribution of the benefits, after the award of the contract. This leads to the violation of professional ethics and undermines the strengthening of the industry and the national goal of economic growth and development.

Figures 5 and 6 show change over time, in the types of “construction procurement systems” used.

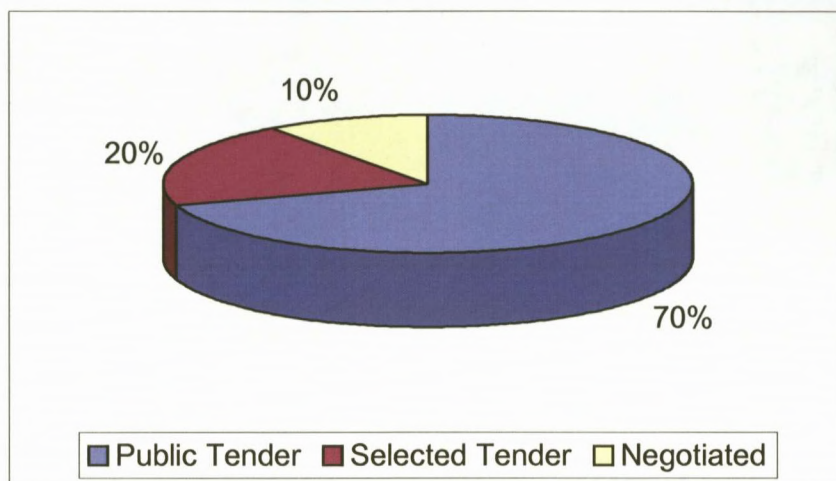


Figure 5 Change in use – Selection Systems (estimate) 1980

Source: The Civil Engineering & Building Contractor January 2001

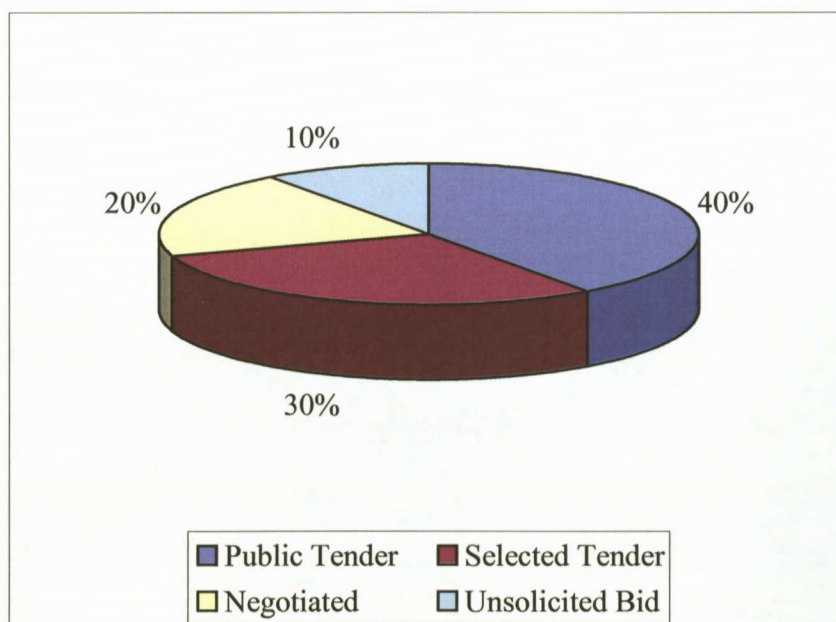


Figure 6 Change in use – Selection Systems (estimate) 1990

Source: The Civil Engineering & Building Contractor January 2001

From graphs 5 and 6, Bob Hindle, (2001) states:

- (i) That the systems that have shown considerable growth require an applicant with a good "track-record" and a new set of skills.
- (ii) That the number of procurement systems in use has more than doubled and that the new ones are growing, at the expense of the traditional system and its hybrids.
- (iii) That the affirmative/developmental requirements of public sector clients have added another dimension to procurement and that this is being emulated by most large private sector clients.

According to Hindle (2001), it is the effect of the introduction of affirmative developmental filters and the introduction and increase in use of new selection procurement systems have not been appreciated by most role players.

Those construction firms that have not changed the way in which they approach the market have not developed new skills and entered into the joint venture in order to match the changes in the business environment. This also applies to an established firm that has not undergone change and acquired its projects through the public tender.

According to Cedric de Beer, (2002), the emerging contractors' high hopes of making money are being overturned to a situation where they actually lose money or go bankrupt, through no fault of their own.

The problems relating to this are:

- (i) Mismanagement and corruption.
- (ii) Overpaid contractors.
- (iii) Claims for subsidies on stands where no houses were built.

2.17 Local Authorities

While provincial monies are allocated well in advance, local authorities face capacity constraints in the planning, development and management of housing projects. The development and implementation of housing projects take very long. More attention needs to be paid to the building of capacity in local government.

2.18 Policy Integration

Contradictions exist in national, provincial and local policies, which contribute to making government officials in the provincial department and local authorities ineffective. Clearer guidelines are required for the implementation of some procurement policies from national government.

2.19 Communications

There is a lack of communication around the policies. This requires additional capacity in the department. A strategic communications approach needs to be developed as part of the review in order for the targeted group to fully understand the policies relevant to procurement.

2.20 Construction Industry

Due to the lag in project approvals and construction in the previous years, various large construction firms closed down. According to BIFSA (2001), it has been estimated that more than 30% of all construction employees were lost to the industry during the recession of the mid-1970s and that at least a further 35 % of employees were again lost in the late 1980s and early 1990. Together with the wasteful loss of skilled personnel, South Africa has lost the capacity of thousands of construction companies that were unable to survive the volatility of demand.

Besides having a detrimental knock-on effect on the local economy, it can be assumed that many skilled people left the KwaZulu-Natal to go to other areas in the country where construction is taking place. There is also a need to communicate better with material suppliers. Many projects experience delays due to a shortage of building materials because manufacturers are not informed when big housing projects are planned and started.

The majority of managers in the development and construction industry are dubious about the current government policy of making local authorities responsible for the provision of low-cost housing. Some of these managers doubt whether these bodies have the incentives, the experience or the staff to get the work off the ground, at the required pace, *Housing in Southern Africa*, (2001).

According to the *Sunday Independent* (2003), the Department of Public Works had introduced a credit system to evaluate procurement contracts in a bid to stamp out the practice of fronting, as announced by the Minister of Public Works. Companies have been promised all sorts of incentives to comply with the government's procurement requirements, but according to the Minister of Public Works' Department, like most departments, they have found it difficult to verify and monitor those claims. As a result, real black economic empowerment was not always taking place.

The credit system would ensure that claims made by companies were accurate. The approach to be taken was more along the lines of the broad-based black economic empowerment policy envisaged by the Department of Trade and Industry, than the earlier equity-based version introduced by the Treasury. The broad-based approach also looked at community involvement, social and skills development.

According to the Minister of Public Works (2003) in a Parliamentary Media Briefing, credits will be given to contractors and consultants based on the actual performance rather than on the promises that were traditionally made when tendering.

These credits can then be redeemed on award of the contract and future performance can earn contractors more credits. In co-operation with the Labour Department, short training courses were being provided to give previously unemployed people skills, like carpentry or plumbing that they could use in community projects.

The Minister of Public Works, (2003) stated that the Public Works Department was refining the transformation charter for the construction industry. Furthermore, the Minister expressed the hope that this important piece of strategic intervention will provide a decisive framework for growth, development and reform of the construction industry and its associated challenges, including human capital. The Minister concluded that the construction industry would be consulted on the charter in due course.

Furthermore, the Minister stated that the department had pioneered empowerment through the introduction of preferential empowerment but emphasized that while procurement had opened up opportunities, this alone would not deliver sustainable black economic empowerment in the industry.

She further stated, *"There is no doubt that we need to focus on promoting greater levels of enterprise sustainability. Clearly, our empowerment focus must move beyond the dimension of quantity to home in on the dimension of quality. It is not how many, it is how sustainable"*. The Minister further added that "closing the empowerment loop" might well need the consolidation of smaller firms, to consistently access more work opportunities. On the other hand, it certainly requires transformation of larger companies in terms of management, equity, skills development and procurement practices that stimulate sustainable black businesses. The Minister believes that the government's black economic empowerment strategy held out potential for the construction sector to expand its approach to sustainable empowerment and enable all role players to contribute more meaningfully. However, the Minister still believed that the Construction Industry Development Board was examining the potential of the register of contractors and register of projects to drive the black economic empowerment's scoreboard criteria in the industry.

The Minister also emphasized that the registers would support client initiatives aimed at sustainability such as those by the Department of Public Works, which include an incubator programme to ensure that emerging contractors do indeed emerge into the mainstream construction industry. In conclusion the Minister emphasized the need to collectively apply mindsets to these aspects and also to the challenges of empowerment in the areas not yet penetrated within the public sector. These include material extraction, manufacture, supply and specialist subcontracting.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The survey researching the impact of the dissertation content, interview methodology and *modus operandi* forms the basis of this chapter. It also provides justification for the use of the above instruments in the study. The data collection and samples are provided with a description of the samples used in the study and the research context.

3.2 Research Design

The first task was to decide how best to obtain data and opinions on the subject. It was decided to gain some background knowledge of the subject, i.e. extract the relevant portions of the emerging contractors, liability and risk on the emerging contractors and also extract information for literature on the subject. After collecting literature, it was then decided to interview building contractors in selected parts of Kwa-Zulu Natal region.

For this study, data is gathered through semi-structured interviews. This allows the interviewer an opportunity to probe answers where the interviewer wants the interviewee to explain or build up on their responses. According to Moodley (2003), semi- structured interviews have been found to be more effective for collecting data from managers of emerging contractors.

Managers are more likely agreeing for interviews, rather than completing a questionnaire, especially if the interview topic is seen to be interesting and relevant to their own work. An interview also provides the managers with an opportunity to reflect on events without the need to write anything down. Furthermore, many respondents feel more confident of their speaking ability rather than filling out questionnaires based on the assumption that some of these managers did not have formal education. People who worked for the large construction firms, prior to 1994, are owners of the emerging contractors. When they were retrenched, due to lack of obtaining jobs, they decided to open their own construction firms, using all the skills they had learnt over the years.

Secondly, a subset of building contractors, including well established firms and emerging contractors were selected from across KwaZulu-Natal. The mix chosen is not proportional to the overall population of each group. The intention was to interview more of the smaller contractors as it was learnt from the pilot study that it was within this group that performance created the greatest problem.

3.3 Selecting Interview Sample

A pilot study was undertaken to determine the effectiveness of the Government procurement policies, with regards to the small-scale sector.

A pilot study of thirty-eight building contractors were selected on stratified basis as part of this research study. The majority of whom were considered emerging contractors. The

stratification sought to balance urban and rural contractors as indicated in Table 1 and the balance were the established firms.

Table 1 Categories Of Contractors Used In The Pilot Study

Category	Emerging Contractors	Established Firms
Durban	14	2
Empangeni	4	0
Port Shepstone	2	1
Ulundi	4	0
Pietermaritzburg	3	2
Hammarisdale	2	0
Richards Bay	4	0
Total	33	5

Source: Author

The interviewer interviewed more of the smaller contractors as it was learnt from the pilot study that it was within this group that they experienced greater problems. Also the intention was to test the emerging contractors' understanding of the Government procurement policies.

The large construction firms were interviewed in order to be able to contrast their opinion with the construction on the other end of the scale.

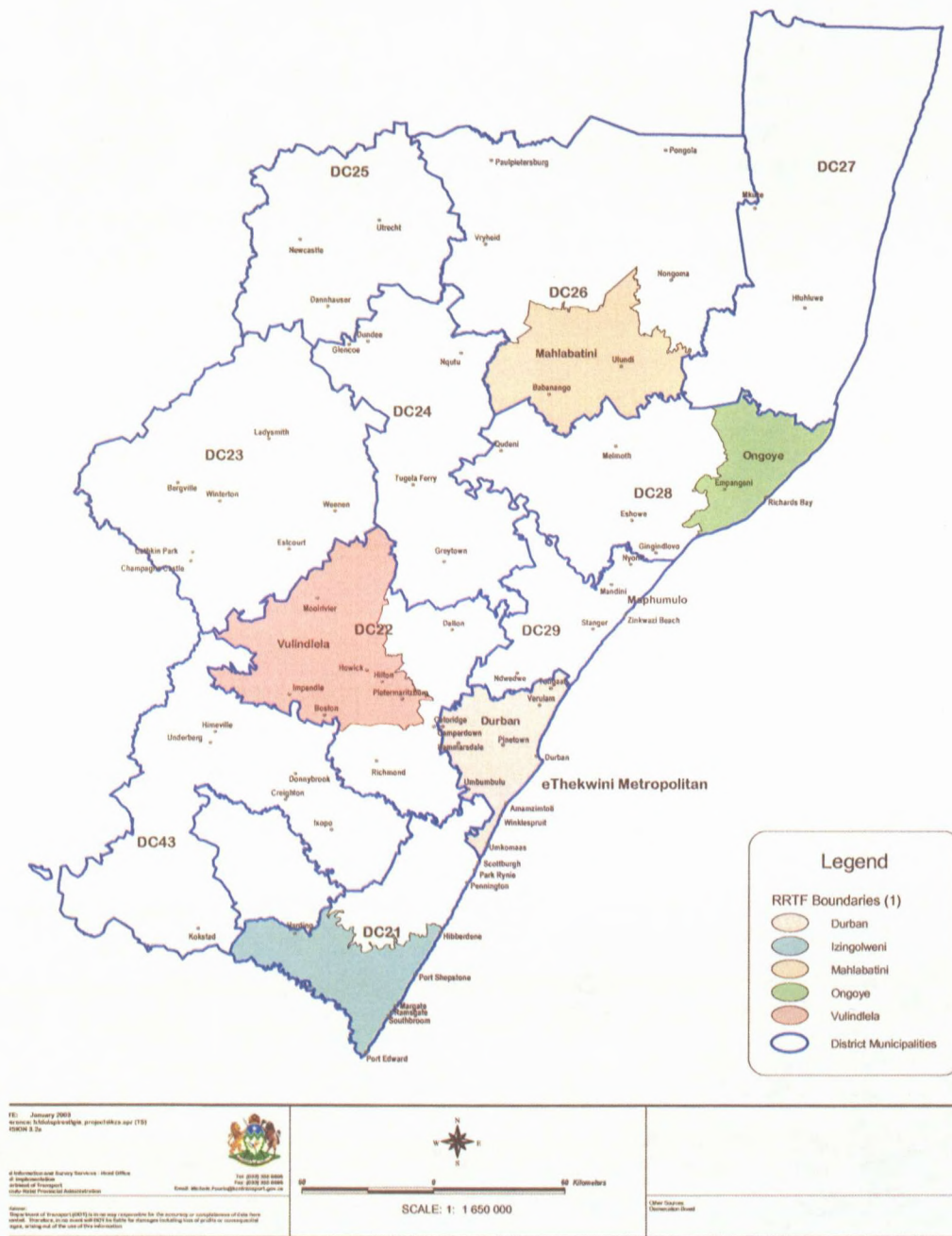


Figure 7 shows the geographical dispersion of KwaZulu-Natal.

Source: Road Safety and Survey Services: KwaZulu-Natal Department of Transport

KWAZULU-NATAL ETHEKWINI METROPOLITAN

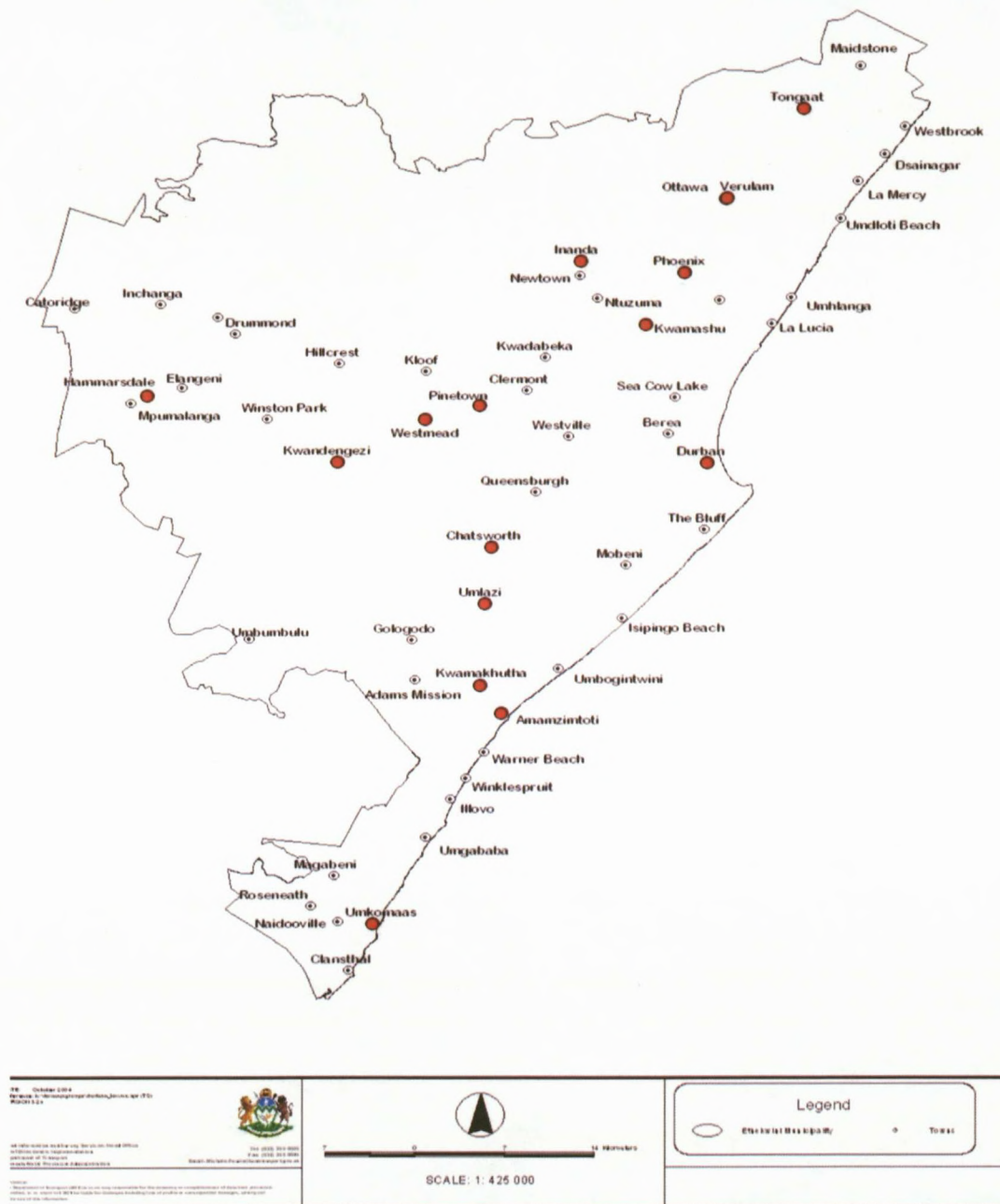


Figure 8 Map location of respondents in eThekweni

Source: Road Safety and Survey Services: KwaZulu-Natal Department of Transport

3.4 Pre-testing the Questionnaire

In order to test the structure and questions, the proposed emerging contractors questionnaire was distributed to five staff members at the Durban Institute of Technology. The questionnaire was completed in the presence of the researcher and immediate feedback with regard to:

- (i) Ambiguity.
- (ii) Clarity of questions.
- (iii) Identification of semantic difficulties encountered when completing the question.
- (iv) Identification of other queries and confusing aspects.

The questionnaire was adjusted accordingly and the final questionnaire is shown in Appendix B.

3.5 Validity and Reliability of the data

A number of data quality issues have been identified in relation to the use of semi-structured interviews relating to:

- (i) Reliability
- (ii) Forms of bias
- (iii) Validity

To overcome reliability and validity, the questions were standardized and a standardized interview guide was prepared (See Appedix B).

The questions were made clear to the respondents and where responses were insufficient, answers were probed further. To overcome interview bias, the researcher used the same tone throughout the interview process. The interviewees answered the questions while the interviewer recorded the answers in the interview schedule.

3.6 How The Interviews Were Carried Out

Appendix B includes the questions put to contractors in the semi-structured interviews. The questionnaires were distributed to various emerging contractors, all taken randomly, from a list given by the African Builders Association, located in Smith Street, Durban. The research was carried out in various parts of KwaZulu- Natal, with two students and a friend assisting the author in carrying out the semi-structured interviews. However, it was not possible to conduct semi-structured interviews with all the contractors as some were very busy and stated that they did not have time for interviews, but were willing to fill-in the questionnaires.

In order to do the analysis of questionnaires on time, the researcher selected other contractors, from the list given by Khuphuka, a non-governmental organization involved in the development of emerging contractor, based in Umbilo, Durban. The two students assisting the researcher were given a covering letter, with a Durban Institute of Technology logo, which provided details for the purpose of the study. The covering letter also provided guaranteed confidentiality.

3.7 Data Collection Plan

A questionnaire guide for the semi-structured interview was used to collect data. The interview guides were structured in such a way that “Yes/No” answers would be recorded (See Appendix B).

Printed questionnaires were used and were considered appropriate for the study, as they comprised a series of questions designed to elicit on a given topic, in this instance, to determine the effectiveness of the Government procurement policies and the impact these policies have, in the attainment of socio-economic goals, in KwaZulu-Natal. According to Moodley (2003), this type is frequently used in obtaining primary data from respondents.

The nature of the questions in the questionnaire were as follows:

3.3.1 Structured questions

3.3.2 Screening questions

Structured questions were used to offer a list of acceptable answers from which respondents may choose. The following types of structured questions were used in the questionnaire:

3.3.1.1 Dichotomous questions generally “yes or no” answer.

3.3.1.2 Multiple choice questions in which more than one alternative was offered.

3.3.1.3 Screening questions used where relevancy depended on the respondents answer to a previous question, for example, "if you answered yes to question 11, then.....".

Space was provided to record comments and opinions as questions were asked. The questionnaire consisted of questions developed from a review of relevant literature on the area of research. The list of questions was designed to gain the most pertinent facts and at the same time, to prompt the respondent on responses that are insufficient to the questions asked.

3.8 Problems Faced in the Distribution of Questionnaires

The main problem that the author faced in the distribution of questionnaires was the unavailability of Owners/Directors of the construction firms in their offices. With some, it was even difficult for them to keep the appointments the researcher had made with them. Some owners were not willing to express their views, because of political clashes within their areas.

3.9 Limitations of the Research

This study was limited to a sample of thirty-eight building contractors in KwaZulu-Natal. Since the target population was based in certain towns of KwaZulu-Natal, it would be improper to generalize the findings to the total population of the emerging contractors.

However, there are many areas in South Africa like the one in which the research study was carried, where emerging contractors operate. Therefore, this study is of importance to an understanding of the characteristics of and the sustainability of the emerging contractors.

CHAPTER 4

AN ANALYSIS OF EMERGING CONTRACTORS IN KWAZULU-NATAL

4.1 Introduction

In this chapter, the result of the questionnaires and the analysis of the responses to the questions are discussed. A summary of the research finding is then presented. A sample of thirty eight contractors took part in this research study, majority of whom were considered small companies, the balance were medium to large contractors, just to hear their views, especially with regards to the transfer of skills in the workplace. The large construction firms were also included in this study in order to be able to contrast their opinions with the contractors and on the other end of the scale. As was expected some interesting variations in thought exist between these two groups.

Analysis on emerging contractors was undertaken of the following 15 clusters of inquiry listed below. Under each heading the statistical outcome are provided mainly as percentages and as pie chart or histograms. Each of the following subsection also has a short conclusion on specific observed trends.

1. The availability of Public Sector work
2. Ease of accessing work

-
3. Obstacles to Procuring Work
 4. Strategic management issues
 5. Issues of Payment.
 6. Access to finance and funding agencies
 7. Technical and managerial assistance
 8. Government/ Private sector ratio of work being done
 9. Procurement of work
 10. Tendering administrative procedures
 11. Discrimination in tendering Government work
 12. Methods of procuring work/marketing
 13. Post tender award administrative procedures
 14. Discrimination in tendering public work
 15. Transfer of skills

4.2 The Availability of Public Sector work

When questioned about the availability of Public Sector work, the responses received were favourable. 87% stated that Public Sector work was available and 11% felt it was not. The rest of the questionnaires were spoilt counts. Refer to Figure 9.

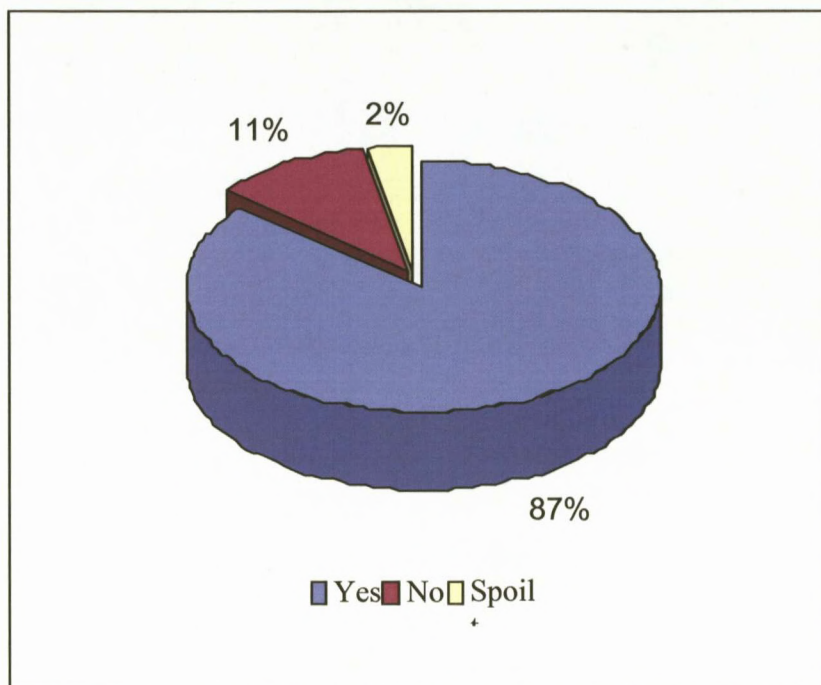


Figure 9 Availability of Public Sector Work

Source: Author

With regards to the ease of obtaining Public Sector work the majority view at 76% felt that it was not easy to obtain such work. None felt that it was easy. Refer to Figure 10.

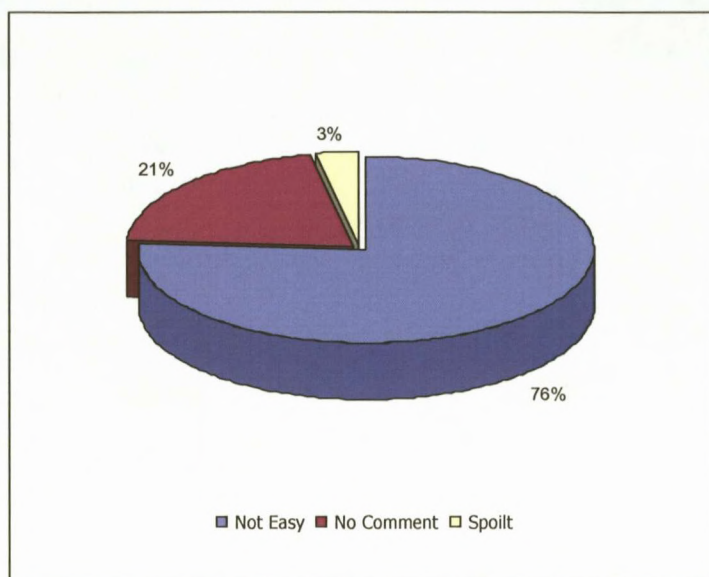


Figure 10 Ease of Obtaining Public Sector Work

Source: Author

When asked to elaborate on the difficulty of obtaining Public Sector work the majority – 69% of the respondents felt that work was awarded on a race basis. These categories of their own making were depicted in a variety of descriptions such as 'Whites', 'Whites and Coloureds', 'Whites and Indians', 'New Blacks' etc. Figure 11 combines these categories to show how the race factor is significant in the perceptions of the award of Public Work.

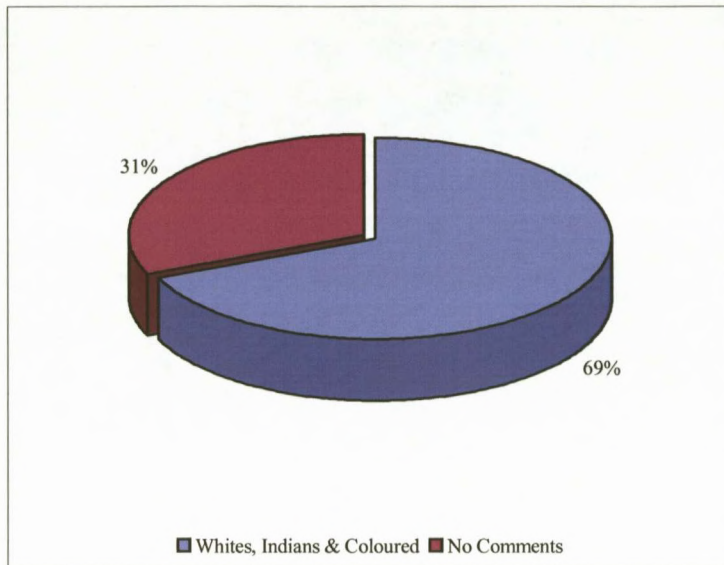


Figure 11 Perception of Race as a factor in the Award of Public Work

Source: Author

Besides the race specific views, Figure 11 shows that 31% of the respondents either did not comment or held other views such as:

- 4.2.1. Black African contractors who obtained work did it through 'bribes' or "connections" with the awarding authority.
- 4.2.2. Black African firms that were awarded tenders were fronting for White, Indian or Coloured Firms.
- 4.2.3. A few respondents had no track record in construction and thus felt they could not win any public sector contracts.

When asked if the 38 interviewees were managers of their construction business, there was a 100% affirmation to this question. However, it is significant that they did not elaborate on the issue of being in charge of their businesses.

With regards to formal construction management training the results were as follows:

4.2.4 The majority at 77% had no formal training.

4.2.5 18% had some formal training.

4.2.6 5% did not comment.

Of the 7 interviewees who had some training, 2 had had a three-year Technikon training in Construction Management, a further 2 had unspecified 'college training', one had a 3-week, another six week short course and one did not specify the length of his/her training. Refer to Figure 12 for the graphical representation on formal management training.

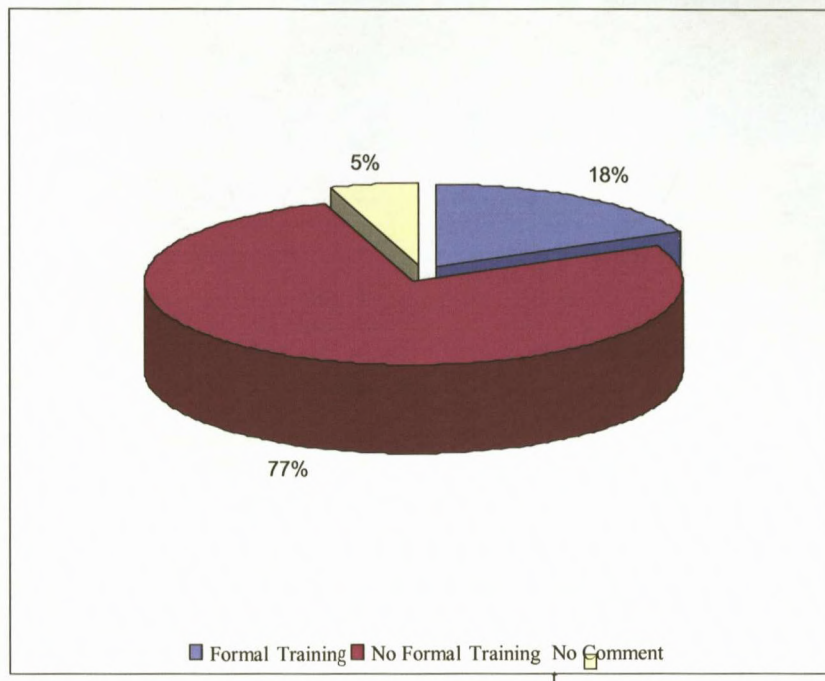


Figure 12 Formal Construction Management Training

Source: Author

On enquiry if the contractors had any formal training in marketing, the response was 100% in the negative.

4.3 The Ease of Accessing Work.

Asked what motivated the entrepreneur to enter the construction industry the responses varied. These responses have been re-grouped into five major areas of responses. These are illustrated in Figure 13.

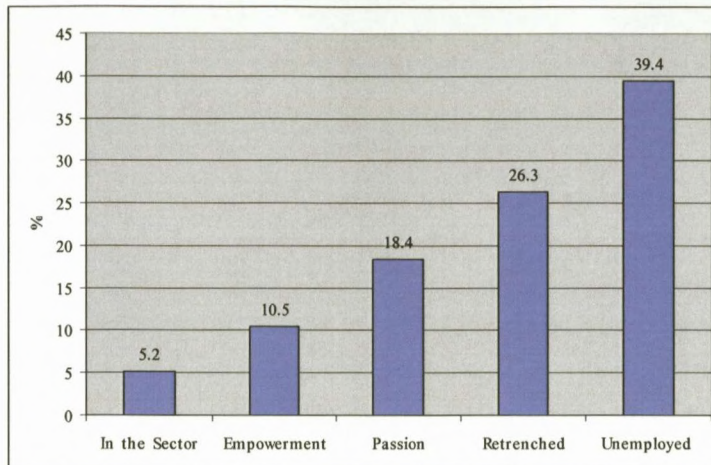


Figure 13 Motivation to enter the Construction Sector

Source: Author

In detail the motivating factors were as follows:

- 4.3.1 Being previously in the sector at 5.2%.
- 4.3.2 A view of the construction sector as an empowerment opportunity 10.5%.
- 4.3.3 Having a passion for the construction industry, especially after some training 18.4%.
- 4.3.4 Starting on their own as a result of retrenchment often in the same sector 26.3%.
- 4.3.5 Simply being unemployed and doing something about it – 39.4%. Refer to Figure 13.

Having made the decision to enter the industry, the participants found that it was not easy to access work. The difficulties of sourcing work had a 100% response in the affirmative. The research then sought to unravel the reasons behind the difficulties contractors faced.

The results of the problems encountered were as follows:

4.3.6 The perception that there were too many contractors – 2.6%.

4.3.7 That they did not get jobs – 5.2%

4.3.8 There was “discrimination” – 5.6%

4.3.9 The lack of skills for the industry – 13.1%

4.3.10 The lack of experience – 31.5%

4.3.11 The lack of finances – 31.5%

4.3.12 10.5% made no comments

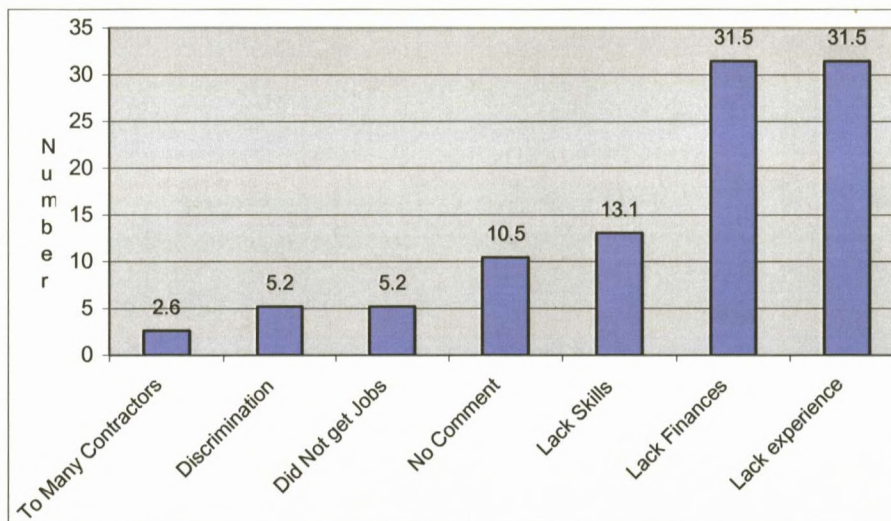


Figure 14 Difficulties of Sourcing Work

Source: Author

4.4 Obstacles to Procuring Work

97% of the respondents stated that they encountered obstacles in the procuring of work.

3% did not comment with regards to this issue.

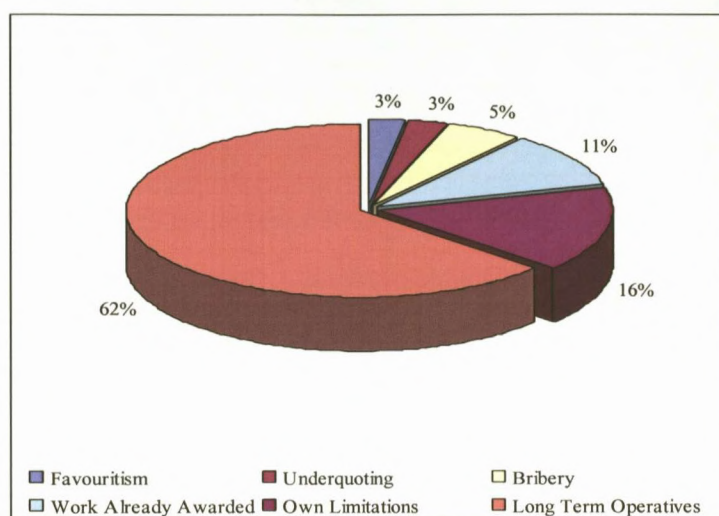


Figure 15 Obstacles to Procuring Work

Source: Author

Further analysis illustrates a more or less strong conclusion at:

- 4.4.1 62% of the respondents that public sector work was and tended to be awarded to long time operatives.
- 4.4.2 A significant 16% conceded that their own limitations were obstacles to procuring work. Issues highlighted included: not understanding the tendering system, inability to make guarantees, inadequacy or the lack of tools.

4.4.3 11% complained that they ended up tendering for work that had already been awarded.

4.4.4 The rest included allegations of under quoting, bribery and favouritism.

Refer to Figure 15.

4.5 Strategic Management Issues

Several questions were asked alluding to the strategic management issues of the contractors. When solicited if they had long-term plans, the majority at 87% affirmed that they had long term plans in place. 11% had no plans whatsoever and there was a 3% spoilt. Refer to Figure 16.

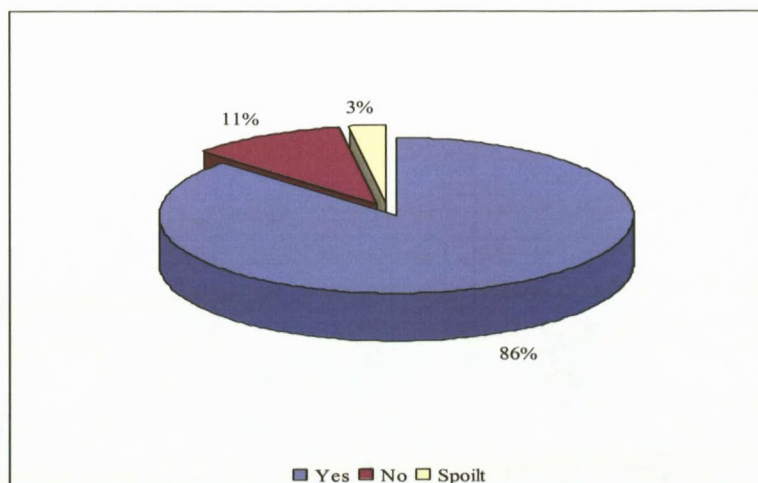


Figure 16 Managers with Long Term Plans

Source: Author

When asked what would constitute their long-term plans the following was the outcome.

- 4.5.1 Expansion of their businesses on several fronts was at 52.6%.
- 4.5.2 13.1% felt the need to save more money for their operations.
- 4.5.3 10.5% was to raise the standards of their operations.
- 4.5.4 5.2% considered joining established construction companies as partners.
- 4.5.5 2.6% wished to develop in order to enable their offspring attend university.
- 4.5.6 13.1% had no comments and
- 4.5.7 2.6% were spoilt returns.

4.6 Issues of Payment

The study started by seeking to find out how efficient the system of payment was. When asked if contractors get paid on time the responded as follows:

- 4.6.1 84.2% stated that they were not paid on time.
- 4.6.2 13.1% reckoned that they were 'sometimes' paid on time.
- 4.6.3 2.6% were paid on time.

Refer to Figure 17.

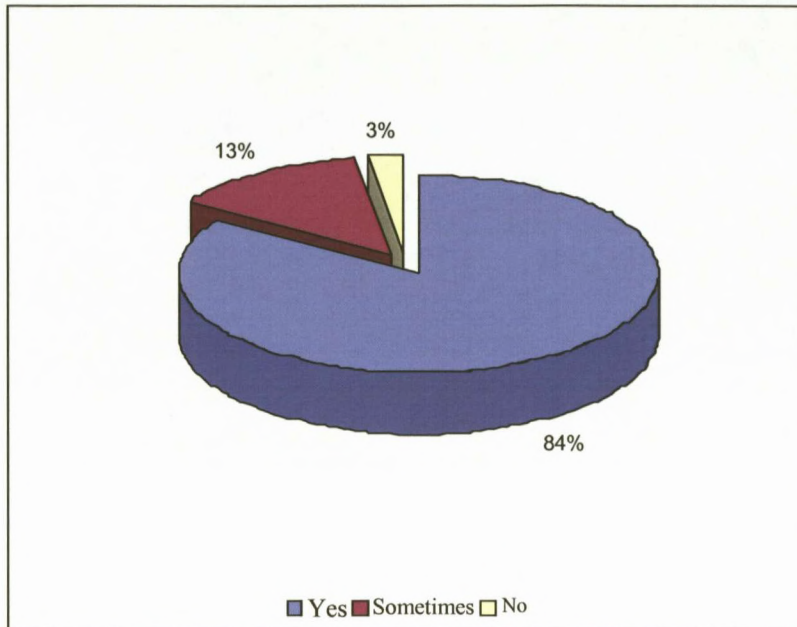


Figure 17 Payments in Time

Source: Author

When in search of the frequency of payments that are essential for a smooth running of a business the following were the responses:

- 4.6.4 39.4% were paid on a monthly basis.
- 4.6.5 36.8% were paid at the end of contract payments.
- 4.6.6 18.4% were paid in stages.
- 4.6.7 2.6% were paid through all the payment methods i.e. monthly, end of contract and in advance.
- 4.6.8 2.6% of the respondents did not state when they were paid.

The impact of the above on the contractors is the overwhelming difficulties with cash flow. Its consequences are that suppliers and labourers are let down, staying in business can be problematic and one has to borrow to meet the business commitments.

Out of the sample of the 38 contractors:

4.6.9 2.6% were positive about their payment arrangements.

4.6.10 10.5% did not comment and

4.6.11 86.8% had the above-enumerated problems associated with disrupted cash flow.

In spite of the above problems, 86.8% of the contractors reckoned that they would not compromise construction quality due to the lack of payment. Again the impact of the situation was that there were serious cash flow problems. Other problems were that the skilled workers tended to move on and sub-contractors were also negatively impacted.

Refer to Figure 18.

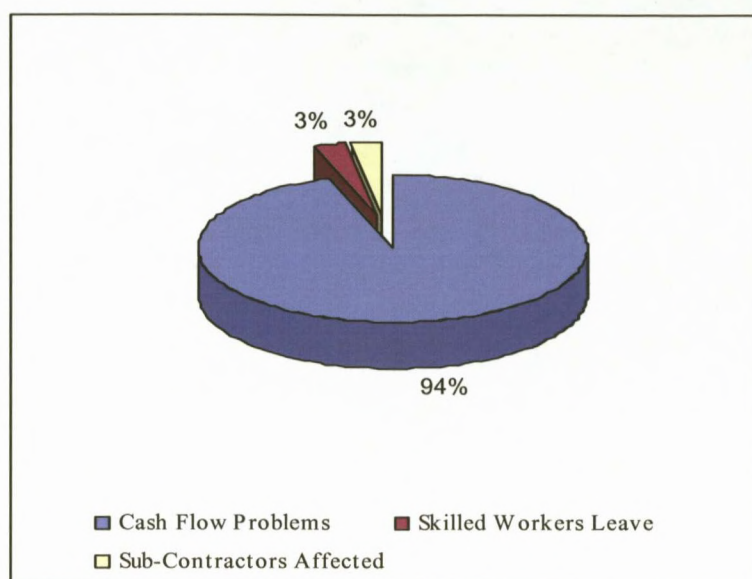


Figure 18 Impacts of Poor Payment Schedules on Businesses

Source: Author

Very strong and almost universal feelings were expressed with regards to the role of bribery in the procuring of public sector work. The belief prevails that some emerging contractors bribe government officials in order to gain government contracts. The statistics were as follows:

4.6.12 2.6% were certain that there was no bribery.

4.6.13 5.2% were not sure if bribery took place.

4.6.14 10.5% chose not to comment on the issue.

4.6.15 81.7% were certain that bribery was a fact of life in the construction industry.

The comments that were frequently mentioned are that:

4.6.16 Certain firms were always winning government contracts even when other contractors were left without the reward of any work.

4.6.17 That government officials disclosed competitors' tender bids to their friends in violation of the competitive tendering rules.

4.6.18 That certain officers operated on the basis of an award if a promise was made as part of the percentage of the tender value.

4.6.19 That some contractors were sufficiently wealthy to influence government officers.

4.6.20 That some contractors used their well connected relatives to ensure their survival in the industry.

Figure 19 shows the percentage of the interviewees who were of the opinion that the payment of bribes prevails in winning public sector work.

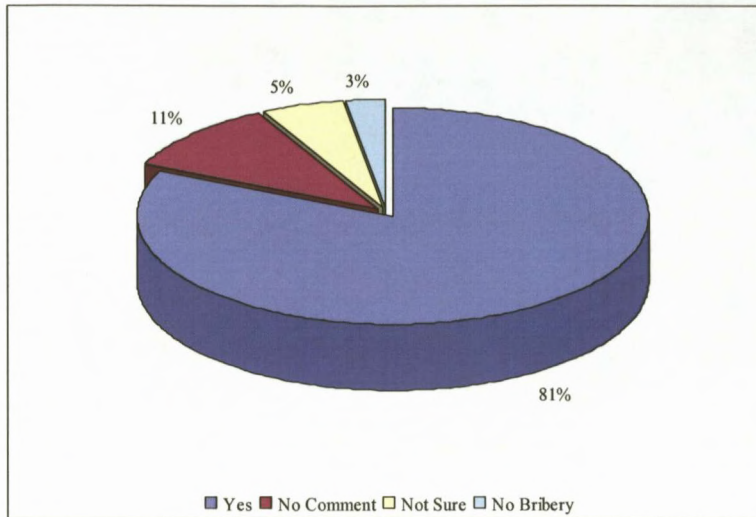


Figure 19 Bribery in Procuring Public Sector Work

Source: Author

4.7 Access to Finance and Funding Agencies

It will be recollected that entrepreneurs placed the lack of finances (See Figure 14) as a problem in the business.

When asked if they had a business plan prepared before starting the venture 97.2% were in the affirmative, whilst 2.7% conceded that they had not prepared such a plan. The latter was a labourer in the construction industry who felt that he was familiar with the industry and thus did not need to prepare a plan.

When asked if they had realised the objectives in their plans, again and a surprising 89.1% thought they had done so. However, the responses in the following sections of this issue contradicts any measure of success. The other respondents did not comment on this aspect of their plans.

When asked if they had invested their own capital in the business, 94.5% responded in the affirmative. With regards to the amounts invested Figure 20 gives a breakdown of the referred amounts involved.

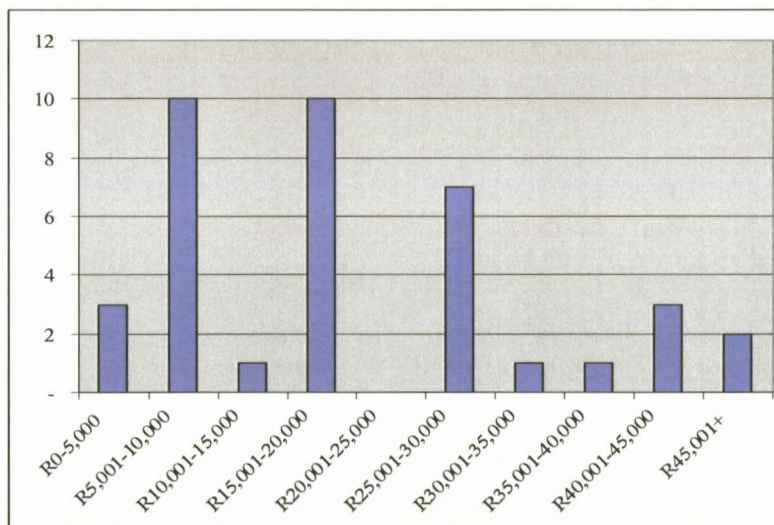


Figure 20 Own Capital Invested in Business

Source: Author

From the above we can determine the entrepreneurs' investment capacity;

- 4.7.1 34% made their own capital investments of R 10,000 or less.
- 4.7.2 60% made investments of R 20,000 or less.
- 4.7.3 18% made own investments of R 30,000 or more.

In two instances the above were in terms of material investments such as 'bakkies'.

Next the study was interested in where the entrepreneurs sourced their finances to start their construction businesses. Figure 21 illustrates their major sources of funding.

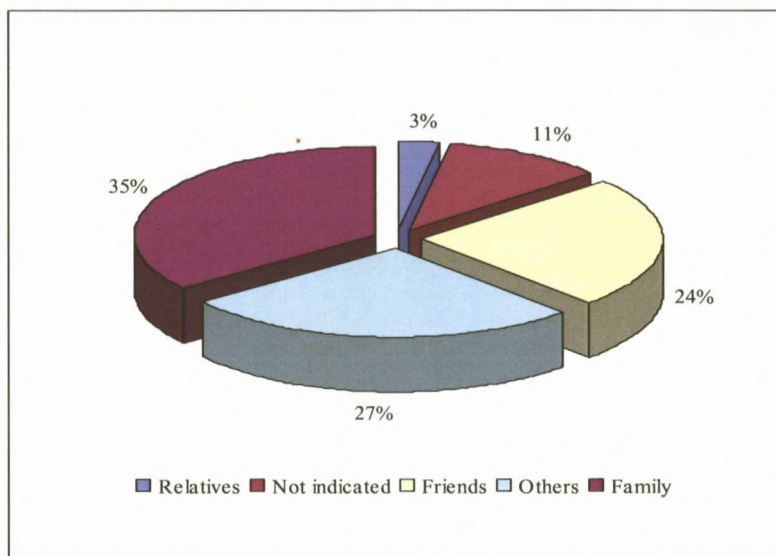


Figure 21 Sources of Financial Assistance in Starting Business

Source: Author

In the above we can take note of the importance of close relations and friends. Thus

4.7.4 Family at 35%

4.7.5 Friends at 24% and

4.7.6 Relatives at 2.7% give a combined total of 61.7% of the support in starting businesses in this sample.

A further investigation of the above results shows a 'business-like' environment of these cases of financial assistance. Figure 22 shows the kind of arrangements that were in place.

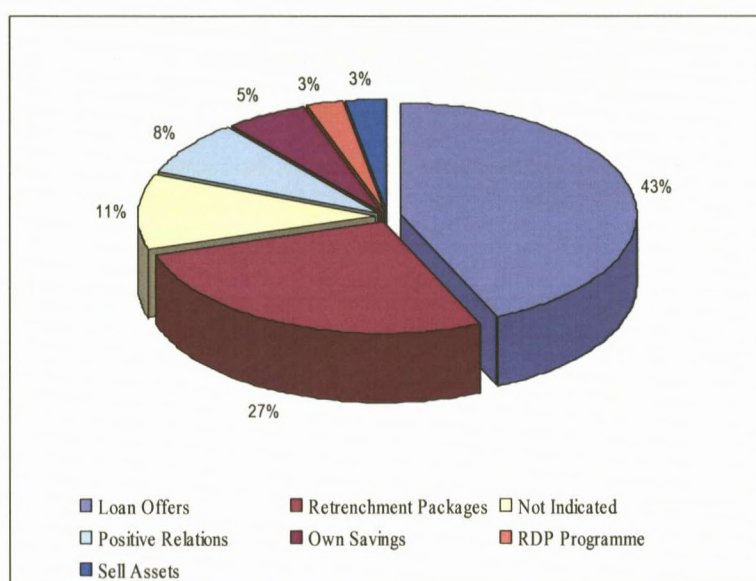


Figure 22 Financial Arrangements

Source: Author

Despite the financial arrangements 97% of the respondents required external finance to operate their businesses. The rest worked within their means. To overcome their problems banks were visited resulting in the following:

4.7.7 70% went to banks but were turned down.

4.7.8 8.1% state specifically that they had negative responses from such institutions.

4.7.9 2.7% were granted overdraft facilities.

4.7.10 2.7% felt they had no track record and so did not expect assistance.

4.7.11 16.2% of the sample did not comment on the matter.

The above results are re-enforced by the responses that were obtained when asked if it was difficult to raise external finances from a financial institution. 94.5% confirmed that it was indeed difficult to raise funds from financial institutions. The rest did not indicate either in the positive or the negative.

When asked to comment on the problems of securing financial assistance, several reasons were put forward, which the study re-grouped into the categories shown in Figure 23.

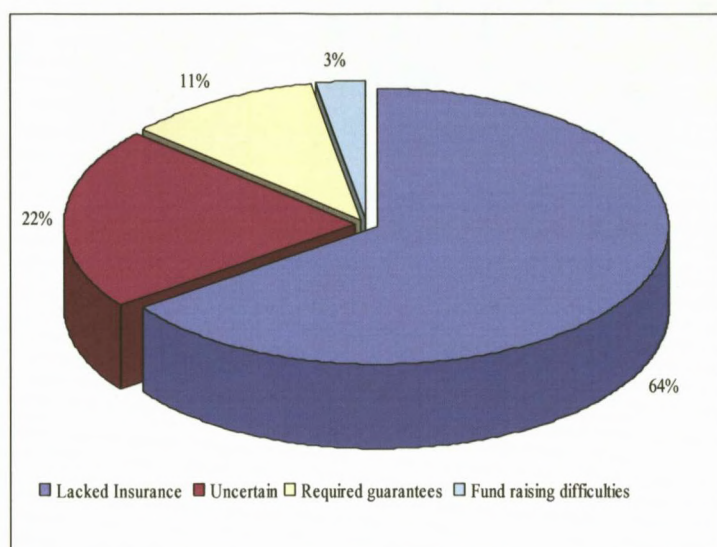


Figure 23 Reasons for Difficulties with Financial Institutions

Source: Author

The problems in order of magnitude were:

- 4.7.12 The lack of insurance (retention) at 64%.
- 4.7.13 The need for guarantees that could not be assured at 11%.
- 4.7.14 22% did not indicate their difficulties.
- 4.7.15 3% had difficulties raising finances.

When asked if they had access to finance from funding agencies, there was a 100% confirmation that the business entrepreneurs did not have such ties. There were a number of responses that were re-grouped into the following:

- 4.7.16 There were too many questions which they did not understand or did not answer correctly – 30%.

4.7.17 The entrepreneurs had no idea of the existence of financial institutions – 24%.

4.7.18 The institutions required guarantees that could not be met – 8%.

4.7.19 That there were risks attached to a firm with no track record – 5%.

4.7.20 Some had made unsuccessful multiple applications – 2.7%.

4.7.21 There was uncertainty – 2.7%.

4.7.22 That institutions made repeated promises, which were not kept – 2.7%.

4.7.23 Only 2.7% was aware of the work of financial agencies.

4.7.24 21.6% of the sample did not comment.

The last question on this section enquired how often bridging finance was required for operating their businesses. The results were as follows:

4.7.25 2.7% did not respond to the question.

4.7.26 8.1% did not require bridging finance and

4.7.27 89% required it frequently.

4.8 Technical and Managerial Assistance

The first question was directed to find out if the respondents had any technical skills.

The responses were as follows:

4.8.1 54% thought they had skills.

4.8.2 46% did not have skills.

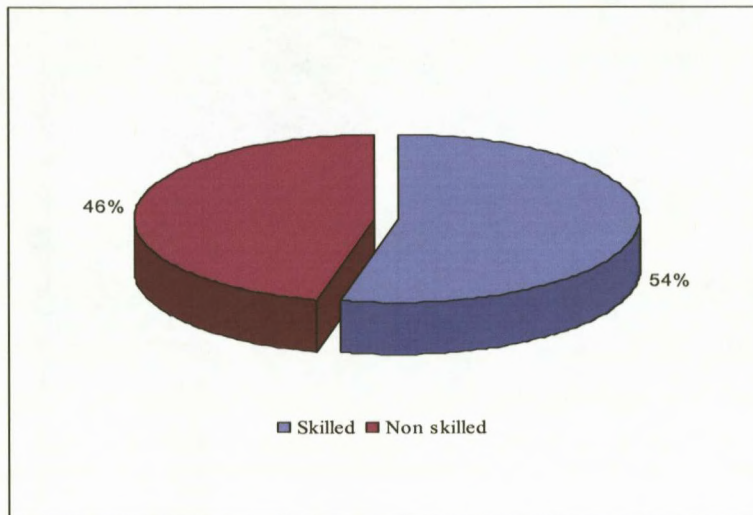


Figure 24 Skill/Non-Skill Levels

Source: Author

Those with skills were asked to comment on their specific skills. What is interesting is that over half of these claimants did not comment or point out their technical or management skills. The rest were spread as follows:

- 4.8.3 21.6% undertook Building Science courses.
- 4.8.4 8.1% had NTC Building Science training.
- 4.8.5 8.1% had Trade Tests.
- 4.8.6 5.4% had been shop stewards.
- 4.8.7 2.7% had been a builder 'by experience'.
- 4.8.8 2.7% off responses were spoilt.
- 4.8.9 51% did not comment on their technical skills.

Refer to Figure 25.

When asked what professional experience they possessed, the results were as follows:

4.8.10 The majority at 78.3% considered themselves experienced in construction management.

4.8.11 None of the respondents had any experience in quantity surveying.

4.8.12 21.6% were experienced in other fields that were neither construction management nor quantity surveying.

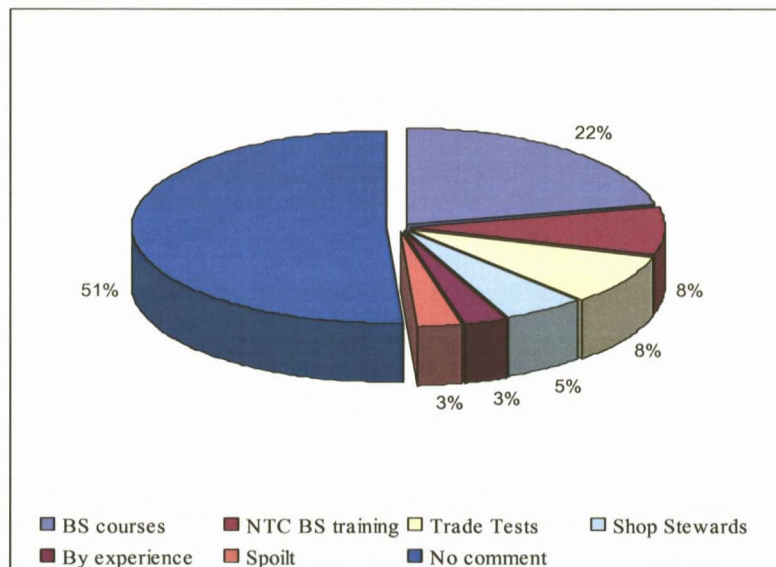


Figure 25 Spread of Skills Training

Source: Author

4.9 Government/Private Sector Ratio of Work Being Done

When asked how often the entrepreneurs got government contracts versus private sector work the breakdown of the results were as follows:

4.9.1 Rarely at 91.8%

4.9.2 Frequently at 5.4%

4.9.3 Often at 0%

4.9.4 Spoilt response at 2.7%

4.10 Procurement of Work

Unfortunately the statistical returns with regards to the question on how the construction business procures work and the split between Government and Private work was so confused that a decision has been made to omit the responses. The main problems with the answers are:

4.10.1 Many responses only indicated one source of work.

4.10.2 The total percentage of work between the two sectors did not add to 100%.

It was decided that there is sufficient alternative statistics within the study that point to the situation of work procurement for these construction businesses.

4.11 Tendering Administrative Procedures

When asked if it was easy to understand Government tender documents, the responses are statistically as follows:

4.11.1 64.8% understood Government tender documents.

4.11.2 32.4% did not understand tender documents.

4.11.3 2.7% did not indicate whether they understood government tender documents.

Refer to Figure 26.

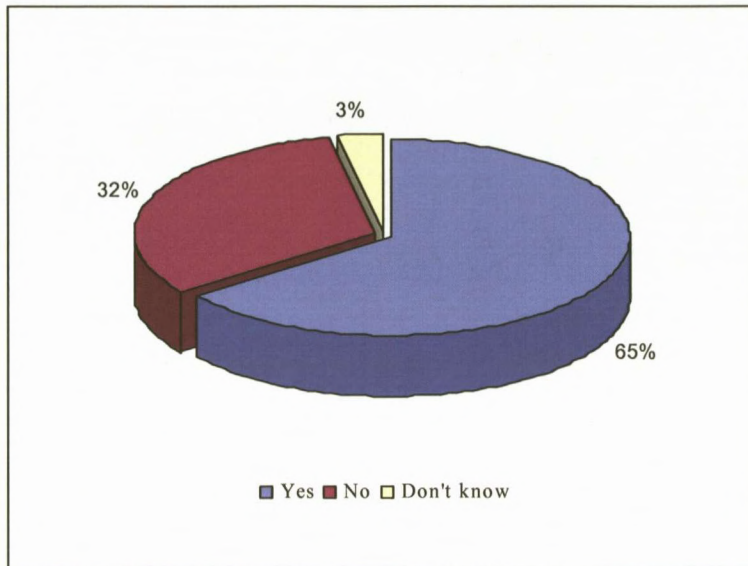


Figure 26 An Understanding of Government Tender Documents

Source: Author

Further analysis to indicate if government tender documents were simple or complicated shows that:

4.11.4 The majority of the interviewees at 64.8% found the forms simple to understand.

4.11.5 Almost a third of the interviewees, at 29.7% thought government tender forms were complicated.

4.11.6 5.4% of the entrepreneurs did not respond to the question.

The question of government tenders was further probed by giving space for the interviewees to comment on the documents and interesting results showed up:

4.11.7 29.7% felt that government tender documents should also be written in

other 'African' i.e. Official languages.

4.11.8 5.7% felt the tender's terminology was confusing.

4.11.9 5.7% were at ease as they had used these documents for a long while.

4.11.10 54% did not comment.

4.11.11 5.7% were spoilt returns.

These are illustrated in Figure 27.

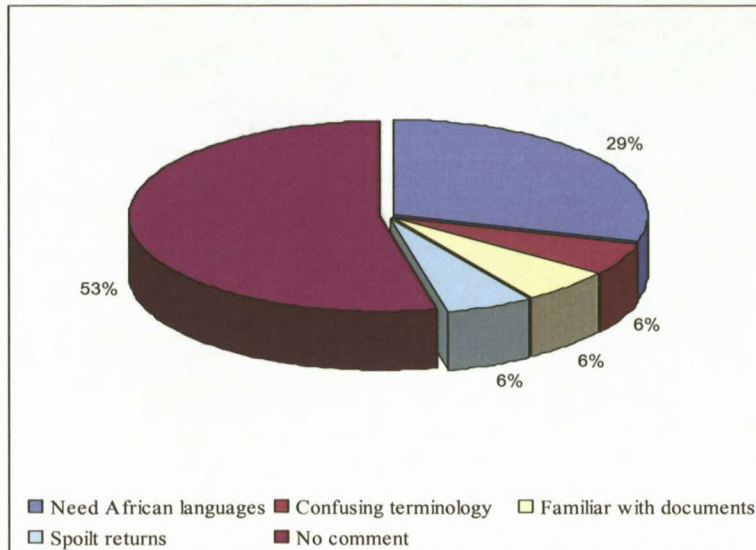


Figure 27 Comments on Administration and Tender Documents

Source: Author

4.12 Discrimination in Tendering Government Work

When asked if they felt that there were some forms of discrimination when tendering for Government work, the majority view at 91.8% was in the affirmative. Only 5.4% did not feel there were any forms of discrimination.

The interviewees were asked to elaborate and comment on the above. This was re-structured into several lines of arguments presented in the research. These were that:

- 4.12.1 32% blamed the impacts of alleged bribery. That they did not have the money to bribe government officials or that those with the resources could buy their way into tenders.

4.12.2 27% said racial discrimination was the cause of their problems.

4.12.3 10.8% also noted 'discrimination', which they did not specify.

4.12.4 2.7% preferred private sector work.

4.12.5 2.7% felt that discrimination would fall if there was a roster system of 'circulating work', so that every firm after so many times would have some work.

4.12.6 2.7% thought Black Empowerment could help bring down discrimination.

4.12.7 21.6% did not comment.

Refer to Figure 28.

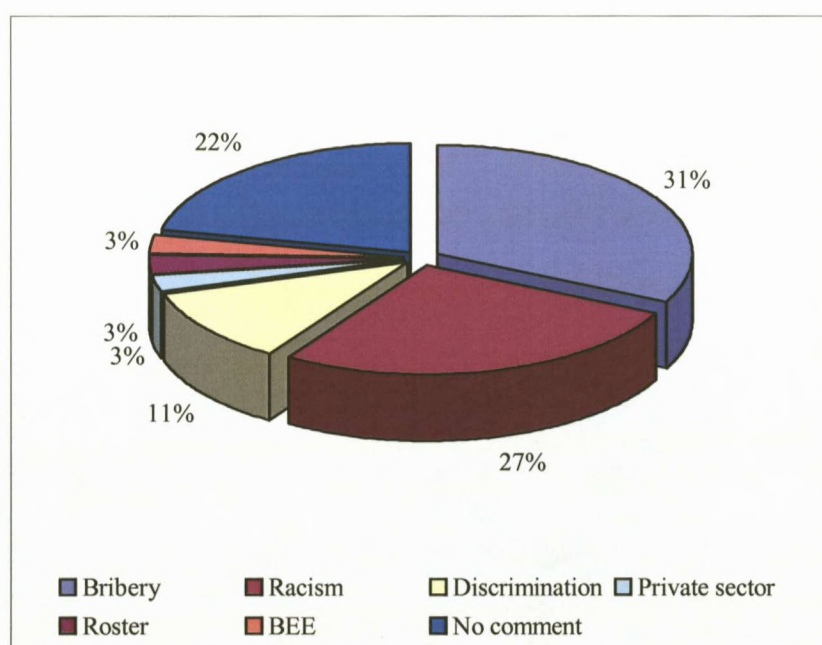


Figure 28 Sources of Discrimination

Source: Author

4.13 Methods of Procuring Work/Marketing

When asked how they procure work either through (i) tender, (ii) negotiations or (iii) other means the results are displayed in Figure 29.

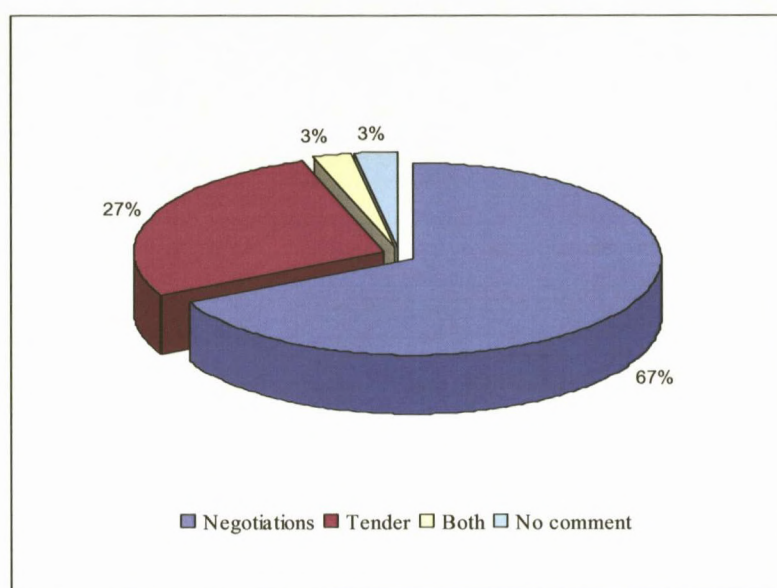


Figure 29 Methods of Tendering

Source: Author

Figure 30 shows that:

4.13.1 Negotiation was the most common mode of operation at 67%.

4.13.2 The competitive tender process was practiced by only 27% of the businesses.

Asked if it was easy to get Government contracts, the views were:

4.13.3 That it was not easy to get Government contracts – at 78.3%

4.13.4 That it was not a problem getting Government contracts – at 13.5%.

4.13.5 8.1% of the interviewees did not comment.

4.14 Post - Tender Award Administrative Procedures

The entrepreneurs were asked if the administrative procedures after a tender award were simple or complicated. The views here were unanimous. Thus:

4.14.1 97.2% felt that the processes are complicated.

4.14.2 2.7% did not give their views.

When the interviews were asked what made the administrative process complicated, they responded as follows:

4.14.3 83.7% were of the opinion that the procedures were either not properly explained or understood. There was also an accusation that officers in charge did not bother to explain the processes in a helpful way.

4.14.4 16.2% of the interviewees did not comment on this issue.

4.15 Discrimination in Tendering Public Work

The interviewees were asked if there was discrimination when tendering for public works. Again, and reinforcing earlier findings, the view at 89.1% that there was

discrimination in the tender process. Only 8.1% felt that there was no discrimination. 2.7% of the entrepreneurs did not have an opinion.

When asked to comment on the views of discrimination most interviewees pointed to the award to government sector jobs to well known or established contractors. Thus:

4.15.1 59.4% claimed that government sector work was awarded to well known contractors.

4.15.2 5.4% had not experienced discrimination.

4.15.3 2.7 felt they had limited education and

4.15.4 32.4% did not comment.

Once again their strongly held feelings of discrimination in the tendering process came through these statistics.

4.16 Transfer of Skills

Under this heading the first question was whether their company was a joint venture. Whether this question was understood considering the forgoing cannot be established now.

However, the results were as follows:

4.16.1 54% was in the affirmative.

4.16.2 46% was negative.

Next they were asked if skills were being transferred. The results were that:

4.16.3 70.2% were of the opinion that skills were being transferred.

4.16.4 27% felt that skills were not being transferred.

4.16.5 2.7% did not indicate their opinion.

Refer to Figure 30.

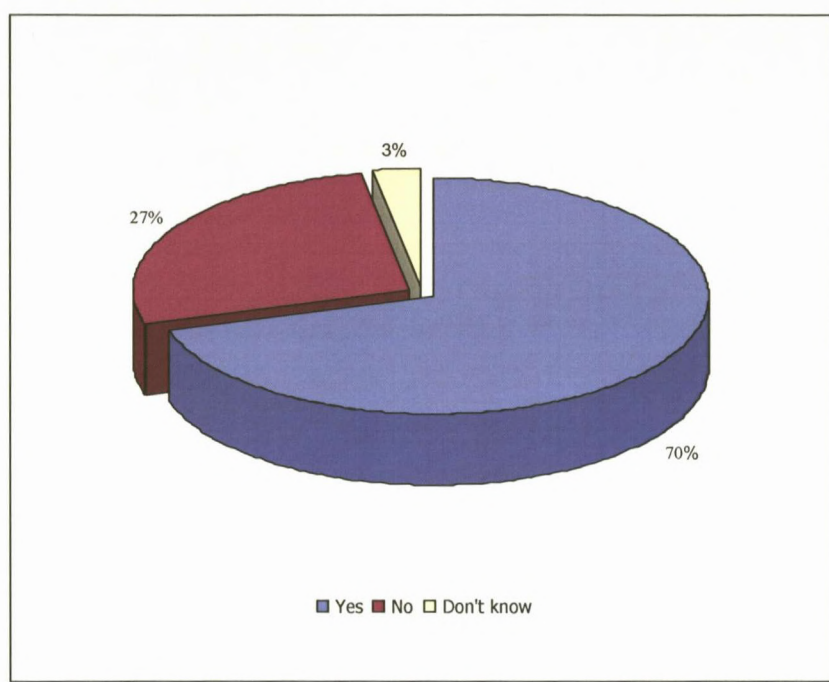


Figure 30 Opinion on the Transfer of Skills

Source: Author

When asked to comment further on the transfer of skills, 75.6% refrained from commenting, 13.5% reiterated that no skills transfers took place and 10.8% that there is need to establish support for skills transfer.

CHAPTER 5

SUMMARY OF RESEARCH FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The purpose of this study was to investigate the effectiveness of the government's procurement policies, with respect to the small-scale building sector in KwaZulu -Natal.

This chapter highlights three aspects of the study namely, (i) research findings, (ii) conclusions and (iii) makes recommendations.

5.2 Summary of the Research Findings

In the summary of the research findings more general and critical observations are reached in relationship to the statistical findings of Chapter 4.

5.2.1 Availability of Public Sector Work

In analyzing the availability of public work, it is an interesting observation in that these contractors who have very little or no training in the core business of construction and no training in marketing skills hold the view that work is unfairly awarded to white, coloured and indian owned firms. It is surprising that they do not see their skill and

marketing deficiencies as the possible contributing reasons behind not being awarded public sector work.

5.2.2 Ease of Accessing Work

If a summary may be made in relationship to the ease of accessing work the following appear to be important characteristics:

5.2.2.1 66% of the contractors entered the industry when we can only guess they were in the doldrums, i.e. with low levels of self esteem and/or finances being either unemployed or recently retrenched.

5.2.2.2 It is, however, significant that about 45% joined the industry out of passion and recognition of the positive prospects of Black empowerment for themselves.

5.2.2.3 Having made the decision to join the construction sector all the respondents "discovered" that there was nothing easy about making a living in the construction sector.

5.2.2.4 63% put their problems to a lack of finances and experience. Surprisingly, the lack of skills trailed as the third most important issue at 13.1%.

5.2.3 Obstacles to Procuring Work

94% of respondents were positive that guarantees, retention and insurance had been obstacles to procuring work. Only 6% were not hindered by these problems.

We can tentatively summarize that the obstacles to the procurement of public sector work are seen as the difficulties of competing with established firms given emerging firms own limitations in terms of an understanding of the tendering processes.

5.2.4 Strategic Management Issues

87% of the interviewees claimed to have skills development and training for their employees. 11% did not have any plans in place. Skills development and training from the analysis appears to be at the level of workshops, getting skilled workers to come and train as well as learning from the skilled employee. This contributed to 84% of the respondents. 11% made no comments with regards to examples of skills imparted to employees. This paints a curious picture in that the unskilled employers are quite happy to have their employees learn skills that they themselves are deficient in.

The strategic management plans of the construction companies are puzzling and questionable. Here, we have companies that are struggling to obtain any work, lack construction skills, marketing skills, experiences, have limited scope of work and feel that they are prejudiced in obtaining public sector work; at the same time anticipating expanding into KwaZulu-Natal and the rest of South Africa. Some speak of engaging

“hundreds of employees”. This is a mystery because of the gap between reality and fulfillment of their strategic plans or strategic visions. These people are not prioritizing their immediate needs and those in the long term.

5.2.5 Issues of Payment

The summary we can reach with regards to the issues of payment is that it is in a poor state:

5.2.5.1 Payment is not time sensitive.

5.2.5.2 Payment for work done impacts negatively on the majority of contractors, in terms of their cash flow, in relation to their day-to-day labour and material needs.

5.2.5.3 There is a strong perception that the playing field is not level with bribery and “connections” favouring some parties at the expense of others.

5.2.6 Access to Finance and Funding

With regards to accessing financial assistance we can arrive at the following conclusions:

5.2.6.1 Although 97% claimed to have prepared a ‘business plan’, and that almost 90% had achieved their objectives, this appears doubtful given the clear perception of the failure of their businesses.

5.2.6.2 The overwhelming support for financing the enterprises came from family and friends and not banks or financial institutions.

5.2.6.3 Banks and financial institutions are not geared to assist these emerging construction entrepreneurs as the latter could not provide insurance, guarantees and were a risk.

5.2.6.4 Many entrepreneurs could not understand the legal language and requirements of these institutions.

5.2.7 Technical and Managerial Assistance

Conclusions that can be reached with regards to technical and managerial assistance are:-

5.2.7.1 That this sample of construction entrepreneurs largely lack technical skills required for success in the industry.

5.2.7.2 When over half who claim to have had “technical training” cannot articulate them, then there is a problem.

5.2.7.3 That they have picked up an assortment of “training” and “tests”, some that are of questionable benefit for them, in the industry.

5.2.8 Government/Private Sector Ratio of Work Being Done

When asked to comment on the above balance between government and private sector work, the responses were re-categorized as follows:

- 5.2.8.1 Struggling on their own – 2.7%
- 5.2.8.2 Had frequent private sector work – 5.4%
- 5.2.8.3 Had rare work from both sectors – 10.8%
- 5.2.8.4 Had some government and private sector work – 13.5%
- 5.2.8.5 No comment – 67.5%

The above figures show a poor situation for this group of construction entrepreneurs in terms of the availability of government and private sector work.

5.2.9 Procurement of Work

As already pointed out due to the fact that the total percentage of work between the two sectors did not add up to 100%, it was decided that there is sufficient alternative statistics within the study that point to the situation of work procurement for these construction businesses.

5.2.10 Tendering Administrative Procedures

We can conclude that government administrative procedures and tender documents are understood by at least 2/3 of the interviewees, but that it should be more 'user friendly' by its write up, in the other official South African languages. However, the fact

that over 50% declined to comment leaves some suspicion that a considerable number of entrepreneurs have not dealt with these documents or do not understand them.

5.2.11 Discrimination in Tendering Government Work

Our conclusion here is that rightly or wrongly, there is a strong feeling that there is discrimination in the tendering of government work and that bribery and racism in the award of work play an important part in the discrimination.

5.2.12 Methods of Procuring Work/Marketing

The conclusion here is that emerging contractors negotiate contracts in an atmosphere that is not favourable.

5.2.13 Post -Tender Award Administrative Procedures

It is very clear in that the tender award administrative procedures are complicated and nobody tries to make them 'user-friendly'.

5.2.14 Discrimination in Tendering Public Work

Once again, the respondents' strongly held feelings of discrimination in the tendering process come through the statistics.

5.2.15 Transfer of Skills

In so far as skills transfer is concerned, there is an almost equal split as to whether skills transfer takes place or is effective. Those who do comment feel that there is a definite transfer of skills in the industry.

5.3 Conclusions

From the chapter 4 analysis and summaries of the emerging contractors in KwaZulu-Natal, the following conclusions can be drawn that jeopardize the sustainability of the emerging contractors:

Discrimination by institutions, conditions where banks and other financial credit outlets require some forms of guarantees or fixed assets, go against emerging contractors who do not have or cannot meet these conditions.

Secondly, complex tender documents and the high standardization requirements within the public sector are obstacles to emerging contractors.

Thirdly, emerging contractors are hindered from growing as they are confined to smaller contracts or sub-contracts.

Fourth, there is lack of plant and equipment because they cannot really afford capital requirements for such construction tools.

Fifth, the issue of suspecting corruption, in terms of bribery, nepotism etc., where some public sector workers are not committed to procurement reform.

Sixth, established firms appear to prefer to work with a sub-contractor that they know, therefore, new entrants into the construction sector are not given a chance to prove themselves.

Seventh, is the inability to raise surety and bridging finance. The large contractors who have large resources are happy with the system, as it affords them some protection from competition by smaller and possibly more efficient contractors. The people who suffer most are the emerging contractors who are in a process of stagnation. The only way these emerging contractors survive is through undertaking small private contracts, which do not require guarantees. In this way they are able to make ends meet and build up experience.

This research highlights the problems faced by the emerging contractors. The government has in place many programmes for the empowerment of previously disadvantaged individuals, but a lot of people are still disempowered and unemployed. The Government of South Africa, including all government departments that give work to emerging contractors need to make a concerted effort in ensuring that the emerging contractors do get some systematic skills and training within the building industry. This will have a positive effect in job-creation, equitable economic growth and the sustainability of the emerging contractors.

The present national government procurement policy although commendable in principle is not achieving the desired goal of economic empowerment of emerging contractor on a broad based perspective. This conclusion is derived from the fact that at present no substantial emergent contractor is a driving force with public economic presence in the private sector as only token selective empowerment is prevalent, which forms part of the prerequisite for previously franchised building construction companies new proposed construction charter. This is despite the added advantage given to emerging contractors in the tender procurement policies.

The fundamental reason for this is that no formal and meaningful mentorship has been afforded to the majority of the new entrepreneurs. The way business evolves is that people within existing organizations out grow the existing owners or once they have gained the required expertise and confidence they eventually take a calculated risk and venture into new horizons by starting their own business in competition to their previous employers. This process is not happening at present as the majority of the emerging contractors are venturing into un-chartered waters without appropriate mentorship training to maintain sustainable business enterprises.

This is perpetuated by the current reluctance of the established building construction companies to develop human resource skills at a middle management and upper management level with strong technical and financial management ability.

In recent discussions with several construction companies there always seems to be willingness to assist and develop but an innate reluctance and deep-seated resentment in what National Government is doing for the emerging contractors through the Black Economic Empowerment procurement policies, as these successful emerging contractors will eventually become their competitors.

5.4 Recommendations

After 10 years of democracy, there is a need to critically revisit the structure of the construction industry in relation to issues pertaining to finance, more pro-active, user-friendly tender systems, labour generation and skills development.

The Department of Public Works, together with the financial institutions that fund the emerging contractors, need to make a concerted effort to help the emerging sector in the building construction industry succeed and sustain themselves.

The proposed solution for accelerating the advancement of the emerging contractor development is for national policy to change with respect to training and development of young black construction professionals. The proposed modus operandi is to provide incentives for franchised building construction companies to accept change willingly so as to accelerate the overall human resource skills development within the construction industry.

Additional structured procurement incentives need to be developed for private sector companies that train and develop technically and financially competent highly skilled middle and senior managers within the building construction industry. The proposed strategy is for all private sector building and construction companies to be encouraged to reintroduce, advance and accelerate the training and development of skilled black technical graduates within the industry.

The core of the process is to simply reward preferential points to contractors on a sliding scale determined from annual turnover, to those who provide scholarships and bursaries to students, including experiential in-service training, and a minimum 5 years mentorship and training programme after graduation. This is to be monitored, assessed and evaluated so as to ensure appropriate training is being carried out and maximum benefit from Sector Education and Training Authority can be achieved.

A possible methodology of applying preferential procurement points could be based on a sliding scale relative to turnover so as to ensure that the smaller companies are not prejudiced for their efforts where points are awarded based on quantum and eventual quality of graduates trained. However, the mechanics of this process needs to be "work-shopped" with specialists to ensure fairness and equality.

5.4.1 Scope for Further Study

There is scope for further research in this area whereby the research can be expanded to cover the more successful emerging contractors nationally. Already, there is an emerging pattern of successful black contractors in the other provinces of South Africa, which appear to be very well connected on the surface. However, there is a need to find out other aspects of their performance that contribute to their success. An ideal model of emerging construction firm could possibly be the results of such a study.

**Questionnaire For Semi-Structured Interview Of The Emerging
Contractors In KwaZulu-Natal**

**[Durban, Pietermaritzburg, Port Shepstone, Empangeni, Hammarsdale, Richard's
Bay and Ulundi]**

**Questionnaire to Assess the Effectiveness of the Government's Procurement
Policies in the Building Industry**

A.1 SECTION A

GENERAL DETAILS

1. Name of Company :
2. Name of Director/Owner :
3. Year established :
4. Name of Respondent :
5. Postal address of company :
6. Telephone Number (office) :

(Fax) :

(Cell) :

A.2 SECTION C

This section of the questionnaire seeks to determine answers to the following:

- 1 Availability of public sector work (volume of work available)
- 2 Ease of accessing work
- 3 Obstacles
 - (i) Guarantees
 - (ii) Retention
 - (iii) Insurances
- 4 Payment
- 5 Risks

A. 3 SUPPORT EMPOWERMENT

- 6 Financial assistance
- 7 Technical and managerial assistance
- 8 Government/Private sector work ratio of work being done
- 9 Transfer of skills
- 10 Administrative procedures (Simple or complicated)
- 11 Discrimination? How?
- 12 Sustainability
- 13 Access to government contracts
- 14 Joint ventures

Please make a cross (X) in the appropriate block of your choice.		
Question 1: Availability of Public Sector work		
1. Is public sector work available?	Yes	
	No	
1.1 If yes, how easy is it to obtain work?		
2. Are you the manager of the business?	Yes	
	No	
2.1 If no, comment.		
3. Do you have any formal construction management training?	Yes	
	No	
3.1 If yes, please explain.		
4. Do you possess any formal training in marketing?	Yes	
	No	
4.1 If yes, please explain.		

Question 2: Ease of accessing work		
5. What motivated you to enter this sector? Please comment.		
6. Was it easy to access work?	Yes	
	No	
6.1 If yes, please comment.		
6.2 If no, what obstacles did you encounter when you entered this sector?		
Question 3: Obstacles		
7. Did you encounter any obstacles in procuring work?	Yes	
	No	
7.1 If yes, how and to whom?		
8. Are the following obstacles	Yes	
: Guarantees?	No	
: Retention?		
: Insurances?		
All of the above?		

Question 4: Strategic management issues		
9. Do you do any long term planning?	Yes	
	No	
9.1 If yes, comment. Give examples.		
10. Do you provide skills development and training for your employees?	Yes	
	No	
10.1 If yes, comment and give examples.		
Question 5: Payment		
11. Do you get paid on time?	Yes	
	No	
12. When do you normally get paid?	Monthly	
	End of contract	
	In advance	
12.1 How does the above impact on the company? Please comment		
13. With regard to Question 11 above, is there a need to compromise quality due to lack of payment??	Yes	
	No	

13.1 If yes, comment.		
13.2 How does this impact on the business?		
14. In your opinion, do some emerging contractors bribe government officials in order to gain government contracts?	Yes	
	No	
14.1 If yes, comment.		
Question 6: Access to finance and funding agencies		
15. Did you have a business plan prepared before you started the venture?	Yes	
	No	
15.1 If no, comment.		
15.2. If yes in Q15, did you realise your objectives as mentioned in the business plan?	Yes	
	No	
15.3 If no, why not?		
16. Did you invest any of your own capital into the business?	Yes	
	No	
16.1 If yes, how much did you invest?		
17. Who helped you financially to get started in your business?	Family	
	Relative	

	Friend	
	Other	
17..1 Please comment.		
18. Did you require external finance to operate your business?	Yes	
	No	
18.1 Please comment.		
18.2 If yes to Q18, was it difficult to raise the finance from a financial institution?	Yes	
	No	
18.3 Please comment.		
19. Do you have access to finance from funding agencies?	Yes	
	No	
19.1 Please comment.		
20. How often do you require bridging finance in your operating of your business?	Frequently	
	Not so frequently	
	Not at all	
Question 7: Technical and managerial assistance		
21. Do you possess any technical skills?	Yes	

	No	
21.1 If yes, please comment		
22. What professional experience do you possess?	Construction management	
	Quantity Surveying	
Question 8: Government/ Private sector ratio of work being done		
23. How often do you get government contracts vs private sector work?	often	
	Frequently	
	Rarely	
23.1 Please comment.		
Question 9: Procurement of work		
24. How do you procure building work?	Government work %	
	Private work %	
Question 10: Administrative Procedures		
25. Is it easy to understand government tender documents?	Yes	
	No	
25.1 Would you rate the above as simple or complicated?	Simple	
	Complicated	
25.2 Please comment		

Question 11: Discrimination		
26. Would you say that when tendering for government work, there is some form of discrimination in the awarding of contract	Yes	
	No	
26.1 Please comment.		
27. How effective is the ten-point plan? Please comment		
Question 12: Methods of procuring work/marketing		
28. How do you procure work?	Tender	
	Negotiation	
	Other	
28.1 If other, explain.		
29. Is it easy to access government contracts?		
Question 13: Administrative Procedures		
30. When awarded a tender, are the administrative procedures simple or complicated?	Yes	
	No	
30.1 If complicated, is it explained to you? Please comment.		

Question 14: Discrimination		
31. When tendering for public sector work, is there any discrimination?	Yes	
	No	
31.1 Please comment.		
Question 15 Tranfer of skills		
32. Is your company a joint venture?	Yes	
	No	
33. If a Joint Venture, are skills being transferred?	Yes	
	No	
33.1 If No, please comment		

Thank you very much for completing this questionnaire!

LEGISLATION RELEVANT TO PROCUREMENT

INTRODUCTION

There are four principal Acts relevant to procurement in South Africa. These are summarized as follows: -

A. The Preferential Procurement Policy Framework Act

According to Binnington, Copeland (2001), this legislation is one of the triumvirate of legislation that the constitution required to be passed by February 2000. This Act provides for a framework within which organs of state are to develop and implement their procurement policies.

B. The Promotion of Access to Information Act

This is the second legislation in the triumvirate required to be passed by February 2000.

This Act expressly state, one of its objectives as” *To foster culture of transparency and accountability in public and private bodies by giving effect to the right of access to information.* This Act attempts to strike a balance between the demands of transparency, the demands of efficiency and the demands of confidentiality.

C. The Promotion to access to Administrative Justice Act

The final in the triumvirate passed in 2000 aims at ensuring that administrative action is taken in a manner that is both substantively and procedurally fair. According to Binnington, Copeland, (2001), an important aspect of this Act, for procurement purposes is the provision for reasons to be given for administrative decisions. Section 5 of the Act, which regulates reasons for decisions, provides that any person may, with 90 days of an administrative decision which affects its rights, request reasons for the Action.

D. The Public Finance Management Act

The aims of this Act are to increase efficiency, accountability and service delivery in the public sector. It aims to achieve these objectives by putting in place budgetary and management reforms and clearly delineating the responsibilities and obligation of lag officials. The Act empowers the national treasury to determine a framework for procurement that is fair, transparent, equitable, competitive and cost effective and places the task of ensuring that trading entity or constitution maintains an *appropriate procurement and provisioning system which is fair, equitable, transparent and cost effective.*”

Furthermore, the Act provides for the reporting of improper procurement practices to the relevant Tender Board, but the end of 2002 phased out the Tender Boards.

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