



**THE CHALLENGES FACING SMALL, MEDIUM AND MICROSIZE
ENTERPRISE IN PUBLIC PROCUREMENT: A CASE OF SUNDAYS
RIVER VALLEY MUNICIPALITY**

BY

MAKHAYA NELSON MKELE

SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE
DEGREE OF

MASTER IN PUBLIC ADMINISTRATION

AT THE NELSON MANDELA UNIVERSITY

SUPERVISOR: DR P.N. MFENE

APRIL 2019

DECLARATION BY CANDIDATE

NAME: MAKHAYA NELSON MKELE

STUDENT NUMBER: 212311069

QUALIFICATION: MASTER IN PUBLIC ADMINISTRATION

**TITLE OF PROJECT: THE CHALLENGES FACING SMALL, MEDIUM AND
MICROSIZE ENTERPRISES IN PUBLIC PROCUREMENT: A CASE OF SUNDAYS
RIVER VALLEY MUNICIPALITY**

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SIGNATURE: _____



DATE: December 2018

DEDICATION

I dedicate this study to my late father, Pensile Gladwell Mkele, for his passion for education and constant encouragement to never give up.

ACKNOWLEDGEMENTS

First of all, I would like to thank God for all the courage, strength and patience that He has granted me to complete this project.

Secondly, Dr Mfene, thank you for the advisory support, insight and guidance during this study. Your contribution towards this research project is highly appreciated.

A hearty and sincere appreciation to my mother, Masediti Mkele, for all the support and unconditional love during the writing and compilation of this research study.

Heartfelt thanks to Research Capacity Development (RCD) and South African National Parks (SANParks) for the funds provided towards the study.

My son, Luyolo and his mother Yolanda Mseleni, thank you for the time and space you afforded me when I was absent during family retreats and outings to complete this study.

My brothers Mzwamadoda and Dumisani Mkele, thank you for your continuous support during this study.

My nephews, Morena and Gontse Segoneco, thank you guys for always checking up on my progress during the study that countered a desire to throw in the towel when the study was tough.

Bandisiwe Mda and Sive Mpapa – a sincere thank you for the inspiration and good work ethics you have showcased in carrying out the supply chain management tasks as well as the public procurement legislative interpretations you assisted with. A great deal of this study is attributed to your inspiration.

ABSTRACT

The purpose of this study is to investigate challenges facing Small, Medium and Micro Enterprises (SMMEs) in order to improve the participation of SMMEs in public procurement processes within category B municipalities. A Total Quality Management approach was used to interpret the manner in which to install change within a selection of supplier procedures.

The study employed desktop analysis to explain and describe the challenges SMMEs are facing in public procurement in the Sundays River Valley Municipality. Based on the discussions of the participation of SMMEs in public procurement, the challenges which exist within a centralised approach of public procurement were discovered.

The findings of the study revealed that SMMEs are challenged by the lack of entrepreneurial coaching by local government, low demand for the commodities, lack of experience, skills and knowledge, limited access to debt finance, poor marketing skills, poor managerial and lack of planning skills, gaps in implementation of preference point system, poor management of core strategies of the preferential system, gaps in implementation of preference point system, poor management of the tender system, improper integration of central supplier database, globalisation and the impact of e-procurement on local government level. Subsequently, the study made recommendations in this regard.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

Eyaa and Oluka (2011:43) claim that the history of separate development in South Africa has influenced public procurement to be used as a policy tool. Bolton (2006:193) assesses the shift on public procurement as to gear procurement towards employing large and established contractors. Gildenhuys (2004:54) defines this shift on public procurement as centralised procurement; which in practice makes it difficult for new contractors to participate in government procurement procedures. Cane (2004:59) regards the centralised procurement arrangement as contradictory, because the procurement aspect in South Africa is set to recognise the means of addressing past discriminatory policies but the implementation procedures exclude the participation of new and small contractors.

In order to move forward, there was an illustration to programme such actions through affirmative procurement to facilitate a fair engagement of informal Small, Medium and Micro Enterprises (SMMEs) owned by Previously Disadvantaged Groups (PDGs) and Previous Disadvantaged Individuals (PDIs) in order to make job creation possible. According to the Financial Scope South Africa Small Business Survey(2008), there were 5.9 million informal small businesses in 2010, of which only 8.3% were registered. The survey revealed that small businesses are responsible for about 11.6 million employment opportunities. The White Paper on Reconstruction and Development Programme (RDP) (1994:21) articulates the persuasion of affirmative procurement and full engagement of informal SMMEs owned by PDGs and PDIs as to decisively align the macro-economic effects to have a desirable and structured fiscal policy framework that will support the objectives of the economic policy and enhance the creation of employment through the primary support of informal small and medium-sized enterprises. The RDP lured and led a functional plan as a gesture of accelerating the motion of the programme. In terms of Section 3.10 of the White Paper on RDP, the programme is aimed at providing support to SMMEs and includes

- access to marketing and procurement;
- access to training;
- access to finance; and
- access to appropriate technology.

According to the Green Paper on Public Sector Procurement (1997), the strategies of affirmative procurement are twofold. The first aim is to achieve good governance through the practice of public accountability, transparency and fair equitable distribution of commercial activities. The second strategy aims at achieving socio-economic goals through the engagement of informal SMMEs. However, increased assistance for government infiltrated rapidly from a collective consultation formed by non-governmental organisations, the private sector and civil societies in realising the recurring failure of the RDP programme implementation in terms of meeting its objective in addressing informal SMMEs through affirmative procurement.

1.2 BACKGROUND OF THE STUDY

The background of this study culminates from the definition and the role of local government in procurement in the South African Republic. According to De Visser (2008:13) local government was simply an administrative arm of the provincial and national government. However, with the new development model, local government is bestowed some authority emanating from the constitution and that makes local government a government of proper. Section 155 (1) of the Constitution of the Republic of South Africa, 1996 establishes for three categories of municipalities namely:

- **Category A municipality.** These municipalities are bestowed an authority to build their own legislation in the form of by-laws. They consist of an executive authority within their area. They are regarded as a metropolitan type municipality.
- **Category B municipality.** These municipalities are regarded as shared legislative authoritative municipalities within their area with the category C municipality and are known as local type municipalities.
- **Category C municipality.** These municipalities have municipal legislative and executive in the proximity that they are in. These municipalities are in co-

existence with a multi number of category B municipalities and are known as district municipalities.

To administer the role of local government, Ngxubaza (2010:45) explains the role of local government as mandated to provide basic services direct to the communities. Section 1 (19) of the Municipal Systems Act declares that municipalities are compelled to undertake development-oriented planning in order to ensure that they achieve their constitutional mandates and retain sustainability. Therefore, it makes it possible to exert local government as a community development organisation as the welfare of the community is their mandate. Furthermore, Bel and Mur (2009:24) state that rural municipalities are on limited financial budgets and it is ideal for them to benchmark on sustaining community development. Adam and Moodley (1994:58) interpret that particular arrangement, such as intermunicipal cooperation, whereby the government encourages communities to provide business services to government to save costs for the municipality. However, Molver and Gwala (2015:25) believe that the re-centralisation of government tenders discourages the will for the communities to be developed as all the powers, functions and supply chain policies are centrally managed by the Chief Procurement Officer. Moreover, Regulation 32 (1) of the Municipal Supply Chain Management Regulations of 2005 declares that municipalities may choose to provide municipal services by entering into a service delivery agreement with a municipal entity, another municipality or a national or provincial organ of state. Pollit (2007:54) maintains that the practice of Private Public Partnerships (PPPs) limits the complexity of deals for government and the ability to steer choice amongst business actors in implementing a strategic behaviour amongst private sector. Martin, Davis and Walsh (2008:87) outline centralised procurement as existing through intra-governmental arrangement which affects entrepreneurial government based on fair and participative marketisation. The accountability and the transparency in consideration of people who were previously disadvantaged by unfair discrimination in public procurement will be in a primitive existence or none at all, because the process will be steered by a single office or official (Gildenhuys, 2004:87).

Molver and Gwala (2015:19) express that with economic growth being relatively slow, a noticeable demand for government contracts by the public will be realised as

public procurement expenditure accounts for a particularly high portion of South Africa's Gross Domestic Product (GDP). In addition, Hunja (2003:457) contends that developing states are ideal to adopt a strong and well-functioning procurement system that is governed by a clear legal framework that will be accustomed to commit for transparency, efficiency and mechanisms of social development, embedded with an institutional arrangement that ensures consistency in overall policy formulation and implementation.

1.3 PROBLEM STATEMENT

According to Regulation 16A6.4 of the Treasury Regulations of 2005, a preference system has been introduced as a reform method that will guide procurement systems to address social economic objectives. The fundamental illustration of such has been displayed by the draft of the Affirmative Procurement in order to facilitate a fair engagement of informal SMMEs owned by PDGs and PDIs in an aim to benchmark the possibilities of job creation.

In further support of the above statement, the former Minister of Finance, Trevor Manuel, on 14 April 1997 articulated that "the government, as the largest buyer in the country, has the responsibility to ensure that its procurement policy supports its overall economic objectives, and serves as an instrument for attaining those objectives" (Sunday Times newspaper article, 2008). Small Business Connect (SBC) (2014:14-15) recognises that this strategy outlines government's strategy to invest in employment creation and income generation through the promotion of SMMEs.

However, National Treasury Practice Note No. 8 of 2007/2008 administers that a municipality may procure goods or services under a contract secured by another organ of state. To fully establish the Office of the Chief Procurement Officer, whose role it is to ensure and oversee the South African public-sector procurement system. Aspeling (2011:54) interprets the analogy from an angle of entrepreneurship; this author heralds the encouragement of entrepreneurship within a region being fundamentally made possible by government as a buyer engaging local suppliers in commercial transactions through a system that will serve as a development within the communal proximity.

The Centre for Scientific and Industrial Research (1999:87) addresses the lack of access to markets as the challenge which hampers the participation of SMMEs in both public and private sector procurement transactions. The Accelerated Shared Growth Initiative for South Africa (2006) defines SMMEs as challenged by a need to facilitate access to information and advice for small business in an aim to improve access to request quotations from established business enterprises.

The problem in this study therefore, is that the Sundays River Valley Municipality created a “Frankenstein” to ring-fence certain projects for big established businesses (National African Federated Chamber of Commerce (Nafcoc), 2014). Public sector procurement reform in South Africa (1997:7) reports such behavior as influenced by the municipality’s policy of getting established contractors to subcontract 25% of the work awarded to small businesses. Subsequently, the oversight in policymaking empowers a potential challenge within the public procurement system because the aims and the actual practice of policies are not linked to the common objective of promoting SMMEs.

1.4 PRIMARY RESEARCH QUESTIONS

This study comprises of research questions. The primary research questions that the study posits are of the following:

- What are the challenges of the SMMEs in category B municipalities?
- How do these challenges affect participation of SMME in public procurement?
- What are the selection processes applied in a category B municipality to accommodate small scale suppliers?

1.5 AIMS OF THE STUDY

The primary aim of this study is to investigate challenges within public procurement that disempowers the development of SMME in local government, with specific reference to Sundays River Valley Municipality. To align the achievement of this aim, the study will examine the participation of SMMEs within the public procurement system in category B municipalities.

1.6 OBJECTIVES OF THE STUDY

The objective of the study is directed on the following:

- To explain and describe the concept and theory of public procurement.
- To establish the processes that SMMEs must adhere to when they are engaged in public procurement processes.
- To investigate challenges that SMMEs are facing in public procurement.
- To make recommendations on the participation of SMMEs in public procurement.

1.7 THEORETICAL AND CONCEPTUAL FRAMEWORK

1.7.1 Theoretical Framework

The application of the Total Quality Management (TQM) approach in this study is explained by Juran (1983:82) as an integrated organisational effort designed to improve quality at every level. Jurow and Barnard (1993:38) define TQM as a system of continuous improvement employing participative management and centered on the needs of customers. Kanaji (1990:65) interprets TQM as an integrated, corporately led programme of organisational change designed to produce and sustain a culture of continuous improvement based on customer-oriented definitions of quality. In relation to the comprehensive definitions provided by Juran (1993:82), Ahmed (2000:52) defines quality as “the degree of excellence in a competitive sense, such as reliability, serviceability, maintainability or even individual characteristics”. Furthermore, Drucker (1993:45) defines management as a continuous process that supplies knowledge to find out how existing knowledge can best be applied to produce results.

The supply of the right material and services by SMMEs to local municipalities can be analysed using the TQM approach which Cali (1993:6) believes will instill change within a selection of supplier procedures and will correct deficiencies and non-conformity, to one of establishing processes and procedures that will prevent deficiencies.

1.7.2 Conceptual Framework

This section will provide the definition of the key terms to the study.

1.7.2.1 Procurement

Bailey (1994:17) defines procurement as the process of purchasing the right quality of materials, at the right time, in the right quantity from the right source. Van Rooyen and Hugo (1986:28) outline procurement as a practical process of acquisition that includes the logistical aspects of goods, services and construction projects. Gershon (1999:87) understands procurement as the process that consists of the entire product life cycle, from the business need to the end of the functional life of a product. Lastly, Bowersox and Closs (1996:281) regard procurement as the buying, storing and issuing of stock.

1.7.2.2 Small Medium Micro Enterprises (SMMEs)

The Department of Trade and Industry (2008) defines SMMEs from a very broad range of firms, some of which includes formally registered, informal and non-VAT registered organisations. The Small Business Act defines SMMEs as having been the engine for economic growth and to some relevance, a job creation technique. Neumark, Wall and Zhang (2011) contribute the similar sentiment that SMMEs emerged as a tool for fighting poverty because the SMMEs were more labour intensive than large firms and accordingly the expansion of this sector would boost employment and reduce poverty.

1.7.2.3 Public Procurement

In defining public procurement, it would be ideal to fundamentally define procurement as a single unit to establish a holistic understanding of the “term”. Van Rooyen and Hugo (1986:4) understand procurement as an activity that has to be carried out to establish the guarantee that an organisation is supplied with the right materials and services in the right quantities, at the right time and place, and at the best competitive price. To convert the aforementioned definition to the subject matter, public procurement subscribes to the same definition with the inclusion of effectiveness and efficiency. Xhala (2014:01) maintains an idea that public procurement forms an integral part of public operations as it is not merely the

acquisition of goods and services but includes a holistic transferring of traditional processes that serve to render basic infrastructure to the general public. It further connotes the Supply Chain Management (SCM) to enforce the guidelines of the Public Financial Management Act (PFMA) and develop an internal control measure to provide information that will ensure the effective operation of the institution as a whole (Baily, 1994:17).

1.8 PRELIMINARY LITERATURE REVIEW

1.8.1 The evolvement of public procurement

Public procurement has been gradually intensified by the evolvement of public administration discipline over the years which has shaped the supply of goods and services to be a collective decision-making and a responsibility of government and the public (Bason, 2010:54). Wilson (1887) interprets such enactment as caused by the movement towards an alternative system that will consider the government from a commercial perspective. Jurcik (2009:1) understands the shift as to accommodate public procurement in an angle of transparency, because public procurement is accelerated through efficiency and therefore there is a clear will for the public administrators to execute a steady balance between transparency and transaction costs. This purpose is realised by Choi (2010:205) as he declares that public procurement accounts for making society better. In addition, it is an instrument used to develop society and nations.

1.8.2 Public procurement as an operational guideline

Khala (2013:01) sustains that it is imperative to adjust public procurement as a system that comprises of core principles that will enhance the transferring of traditional processes into rendering basic infrastructure. Watt (1995:28) details the value for money as a foundational core principle that should be learnt and normalised in public procurement to achieve total quality management. Behan (2008:31) establishes that the financial governmental policies should be channelled to the alignment of procurement in realisation of continuous improvement of total quality management. However, that is not yet practical as the introduction of New Public Management (NPM) gave shift in public decision-making and in public policy-

making because the private sector has been bestowed upon an authority to implement the public policies and create results in the form of Public Private Partnership (PPP) (Bovaird 2008:54). The National Small Business Amendment Act of 2003 defines SMME as a separate and distinct business entity that includes co-operative enterprises and nongovernmental organisations, managed by one owner in an aim to keep abreast of a sector of the economy. The Global Entrepreneurship Monitor (GEM) Report (2010) defines SMME as a structure that retails and correlates the wholesale sector to support new business start-ups for long-term growth and sustainability of businesses. Thornsten, Beck, Asli and Levine (2003:2) understand the reasons as being based on the view that SMMEs are more labour intensive than large firms and thus the growth of the SMMEs would result in higher levels of employment. It is of significance to view Behan (1994:54) and Menon (1995:56) as they believe that the value for money in public procurement is achievable through PPP within a practice of NPM and NPG. They declare that PPP allows the expertise that exists solely in the private sector to be democratically employed to aid the weakness in the public sector in order to benchmark a comprehensive scale that will ensure effective operation, good quality product or service and reputable delivery.

1.8.3 Public procurement promoting competition

The second principle of public procurement is a commitment towards competition. Watt (1995:127) affirms that government must initiate policies that will allow the adoption of the business sector to incorporate competitiveness and strengthen supplier markets through procurement systems. For that purpose, United Kingdom, (2001) realises that the development of a partnership between government and the business sector will grow firmly and affect the quality of products and services to be produced. Assessing the statements enrolled above, it can be witnessed that the view of Martin, Davis and Walsh (2008) on entrepreneurial government will allow a fair and participative marketisation that can improve the competition between service providers.

1.9 POLICY FRAMEWORK FOR PUBLIC PROCUREMENT IN SOUTH AFRICA

This section will discuss the policy framework that is related to the study

1.9.1 The Constitution of the Republic of South Africa, 1996

Section 217 (3) of the Constitution of the Republic of South Africa, 1996 enables the provisions of public procurement to be administered. The effect of section 123 (4) of the Constitution on public procurement is distinctive in two ways. It firstly recommends that a culture of professionalism and good governance be applied on the public procurement system. Moreover, section 125 (6) of the Constitution of South Africa makes provision for the consideration of people who were previously disadvantaged by unfair discrimination. Section 217 (3) proclaims that it has passed this act in a plan to administer the preference system when awarding tenders, to ensure that the previously disadvantaged individuals and groups receive preferential treatment when tenders are awarded.

1.9.2 The Green Paper on Public Sector Procurement Reform

The Green Paper on Public Sector Procurement Reform is in place in a notion to replace the interim strategy called the Ten Point Plan which is aimed to improve the access SMMEs have to the state tender system (Republic of South Africa, 1997:107-123). Furthermore, the practice of this strategy gave a sharp introduction towards the public sector procurement reform which allowed a fair practice of affirmative procurement policy, life cycle costing, and value for money and risk management strategies that were put in place to safeguard the macro economy of South African society (Republic of South Africa, 1998).

1.9.3 State Tender Board Circulars (STB36)

According to the Republic of South Africa (1998:10) the State Tender Board (STB) circulars are constructed with a view to provide the governmental departments and parastatal organisations with informative up-to-date knowledge of procurement policies.

1.9.4 Public Financial Management Act, 1996 (Act 1 of 1996)

As per ascended by National Treasury, section 217 (1) of the Public Financial Management Act, 1999 (Act No 1 of 1999) is in place to promote efficiency, effectiveness and transparency in the use of state resources and to maintain a credible Supply Chain Management System. Considering the expression provided above, it can be deducted that the PFMA is a regulatory framework erected to combat abuse that may take place within the existence of the Supply Chain Management System.

1.9.5 National Treasury Regulations

In terms of section 6(2) (a), (b), (f) and section 18(2) (a), (b), (g) and (i) of the PFMA, the National treasury and provincial treasuries have an obligation to ensure that proper norms and standards are set to prevent abuse of the procurement management system and enforce prescribed measures.

1.9.6 Preferential Procurement Policy Framework Act 5 of 2000

According to Government Gazette (No. 17928) the preferential procurement policy framework was initially aimed at implementing participatory programmes that were linked to engage SMMEs that are owned by previously disadvantaged individuals or groups.

1.9.7 Ten-point Plan for Public Sector Procurement Reform

The Ten-Point Plan as expounded by the Department of Public Works (1996:03-18) regards the planned mission for the ten-point plan to be developed on an interim basis to improve the tender access of SMME. This interim plan was implemented in an already existing legislation which affirms the following:

- A formula which awards preference to SMMEs and previously disadvantaged individuals for contracts worth less than R2 million;
- Simplifies tender documents;
- Unbundles large contracts into smaller managerial contracts;
- Reforms the tender bulletin to make it easily understandable;

- Scraps surety requirements for construction projects with a maximum value of R100 000.

1.9.8 Municipal Financial Management Act, 56 of 2003

Section 112 of the Municipal Financial Management Act 56 of 2003, (MFMA) fully authenticates that public procurement in South Africa had to be reformed to modernise the management of the public sector and to make it more people friendly and sensitive to meet the needs of the communities it serves.

1.10 RESEARCH METHODOLOGY AND DESIGN

1.10.1 Research methodology

In the context of research methodology, Babbie and Mouton (2005:75) hold a direct observation that research methodology focuses on the entire research procedure and instruments to be used to undertake the study. Similarly, Babbie and Mouton (2005:75) and Welman and Kruger (1999:21) bring an identical expression that research methodology is in line with logical interpretation and analysis which is used to study the socio-political world. The main reason that influences the study to employ a descriptive approach, is that qualitative studies are on an interpretivist paradigm. (Leedy & Ormrod, 2001:101). illustrates the interpretivist paradigm as to understand the social phenomena as dependent on different realities. In conclusion, the study will employ the literature study to identify the key aspects and factors that impact on the challenges of SMMEs on public procurement. The planned data will be acquired from sources such as textbooks, articles, journals and the internet.

1.10.1.1 Quantitative methods

Creswell (1994:1-2) defines quantitative research as an inquiry into the social or human problems, based on testing a theory composed of variables, measured with numbers and analysed with statistical procedures in order to determine whether the predictive generalisations of the theory hold true. Quantitative research is more focused and aims to test assumptions, whilst qualitative research is more exploratory in nature (Leedy & Ormrod, 2001:101). The quantitative methodology is based on a post-positivist paradigm background, which is defined as discovering and explaining

human interaction to predict social phenomena (Babbie and Mouton (2005:75). White (2000:24) describes a quantitative research design as research where results are given numerical values and the researcher uses a mathematical and statistical method to evaluate the results.

1.10.1.2 Qualitative methods

The qualitative research paradigm refers to research that elicits participants' accounts of meaning, experience or perceptions and produces descriptive data in the participants' own written or spoken words (De Vos, Strydom, Fouché and Delport, 2011:65). Creswell (2007:37-39) further states that qualitative research is a form of inquiry in which researchers make an interpretation of what they see, hear and understand. According to Babbie and Mouton (2001:53) the qualitative researcher is concerned with naturalistic observation rather than controlled measurement; and the subjective exploration of reality from the perspective of an insider, as opposed to the outsider perspective that is predominant in the quantitative paradigm. Furthermore, the qualitative methodology equips Bless and Higson-Smith (1995:56) to highlight the implication that the study is rooted on action research as a qualitative approach. This research project will use a qualitative methodology because it is used to identify and obtain information on the characteristics of a particular problem or issue (Collis & Hussey, 2003:11). The implication is that the study is rooted on action research. Action research as a qualitative approach aims to place an input to the practical issues of people in an emergent problematic situation and furthermore to the objectives of social sciences by joint participation within an agreed acceptable ethical framework (Bless & Higson-Smith, 1995:56). Moreover, Mouton and Marais (1996:43-44) understand the qualitative research method as it informs the study to be driven on a descriptive approach in data collection which realises qualitative research to give the ability for the collection of accurate data. De Vos et al. (2011:109) detail the advantage of employing a qualitative methodology to be descriptive as to present a picture of a specific detail of a situation and focus on the 'how' and 'why' of the questions.

1.10.2 Desktop analysis

This study has employed a desktop analysis methodology. According to Collis and Hussey (2003:11) desktop analysis is firmly entrenched in qualitative research which is descriptive in nature and provides an in-depth understanding of phenomena examined. Bryman (1988) defines qualitative research as the social setting of the participants so that the participants' views are not isolated from their contexts. McCaston (2003:547) describes desktop analysis as documents and reports that are generally not prepared by the same people or institutions that do the primary data collection. The reason why desktop analysis was chosen for this study is because of Riely's (2002:54) claims that a desktop study is a method that saves time and resources directed toward primary data on the origins that information is gathered at the lowest possible level of disaggregation to ensure comparability after primary data collection.

1.10.3 Population and sampling

Brink, Van der Waldt and Rensburg (2012:131) define population as the whole group of people or participants in which the researcher has an interest. Population is further regarded as it affords the social scientist to draw a sample that will describe a larger portion of a particular population (Wagenaar, 1995:114).

In terms of accessible population, Babbie (1999:89) describes the accessible population as people that the scholar will use as a sample in order to draw a conclusion for a study. Manheim and Rich (1995:107) explain a sample as being a group of people that the researcher selects to take part in an empirical research. Based on the nature of the literature study method employed, there was no sample for the study.

1.11 DELIMITATION OF THE STUDY

The focus of this research project will be on the challenges SMMEs are facing with regard to public procurement in a category B municipality. This research will primarily focus on the challenges facing SMMEs in public procurement in Sundays River Valley Municipality.

1.12 SIGNIFICANCE OF THE STUDY

The findings of this study will provide the municipality with a system that will provide a firm inclusion of the SMMEs in terms of bidding. Thereby the municipality will be able to rebuild local trade and industry which will comprehend local economic development and ease unemployment through the involvement of SMMEs in procurement processes.

1.13 LIMITATION OF THE STUDY

This study employed the desktop analysis approach. A challenge arising from this data collection method was the difficulty to access relevant online textbooks and journal articles as many required permission from the publishers and authors. Another limitation was the scarcity of local literature relating to public procurement and SMMEs in the South African context. Predominantly international literature was used which was not always relevant in the South African context and in particular to Sundays River Valley Local Municipality. As a result not much reference is made to this local municipality but the findings of this study will assist this local municipality to address its public procurement challenges.

1.14 CHAPTER OUTLINE

This research proposal has discussed and displayed the rationale of the study.

CHAPTER 1

INTRODUCTION AND BACKGROUND OF THE STUDY

This chapter will provide the background and introduction in drawing the purpose of the study. The objectives of the research project will be provided in terms of detailing the motivation and the problem statement.

CHAPTER 2

CONCEPTUAL AND THEORETICAL ON PUBLIC PROCUREMENT

In this chapter, existing literature relating to the research study will be reviewed. The policy overview related to public procurement will be discussed and will provide a discussion on the legislative framework in public procurement.

CHAPTER 3

PARTICIPATION OF SMALL, MEDIUM AND MICRO ENTERPRISES IN PUBLIC PROCUREMENT

This chapter will discuss the participation of Small, Medium and Micro Enterprise in public procurement. It will look at public procurement arrangements within a sphere of local government with specific reference to intergovernmental arrangement, central purchasing and outsourcing purchasing in local government. The processes followed when a potential supplier is to be registered on a government institution database with specific reference to the implementation and utilisation of a supplier database and implementation of a central supplier database will be discussed.

CHAPTER 4

CHALLENGES OF SMALL, MEDIUM AND MICRO ENTERPRISES IN PUBLIC PROCUREMENT

This chapter will focus on the challenges facing SMME in public procurement.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

This chapter focuses on the findings of the research objectives, conclusions and recommendations of the study.

CHAPTER TWO

CONCEPTUAL AND THEORETICAL ON PUBLIC PROCUREMENT

2.1 INTRODUCTION

According to Abeillé (2003:54) a country should be in possession of a well-functioning procurement system that will harness an essential requirement in declaring a mechanism that will influence the effective usage of funds to promote development. Hunja, (2003:87) interprets such reasons as possibly made by establishing a strong and well-functioning procurement system that is governed by a clear legal framework establishing rules for transparency, efficiency and mechanisms of enforcement, coupled with an institutional arrangement that ensures consistency in overall policy formulation and implementation.

This chapter covers the conceptual and theoretical framework. It provides an understanding of public procurement. In addition the chapter will focus on the public procurement principles with specific reference to fairness, equitableness, transparency, competitiveness and cost effectiveness. This will be followed by procurement practice within public administration and deliberate outsourcing, privatisation, public private partnerships and e-procurement. Centralised and decentralised procurement systems as well as the mechanisms of public procurement will be discussed inclusively along with national and regional purchasing groups, joint ventures and partnerships and cross-border procurement agreements. Lastly, this chapter will cover mechanisms of procurement in relation to affirmative procurement, targeted procurement and green procurement.

2.2 TOTAL QUALITY MANAGEMENT

According to Gilbert (1992:871) Total Quality Management (TQM) is a method by which management and employees can become involved in the continuous improvement of the production of goods and services. Juran (1983:82) explains TQM as an integrated organisational effort designed to improve quality at every level. Dam (2010:02) describes TQM as a management style that attempts to incorporate all of an organisation's functions to meet the client's needs as well as the organisations objectives and to deliver a quality product to the consumer.

Deac (2013:21) address total quality management within procurement as a process of material management resource that is planted on interdependence, logic and linked to value. Furthermore, Deac (2013:21) aligns TQM in procurement as driven to fulfill the following situation:

- ensure all material resources according to specified supply requirements
- purchase the material resources in the necessary quantities and at the right time
- purchasing costs to be at a minimum level

Baily, Farmer, Jassop and Jones (2004:541) concur that TQM within public procurement is achievable when the procurement process is strategically and proactively oriented and must effectively participate in developing the general strategies of the organisation. Kotler (2008:25) supports TQM as supplier selection on the basis that, TQM should enforce a system that will identify, evaluate and select suppliers based on their capability to supply material resources in compliance with organisational requirements. Fredendal and Hill (2001:56) outlines the indication of supplier quality as it relates to TQM to continuously improve procurement processes, products and services to increase customer satisfaction in service delivery. Cali (1993:5) characterises TQM in terms of the following:

- It is a basis for continuous improvement.
- It focuses on the client.
- It emphasises a new philosophy of managing institutions.
- It implies that every employee in the institution is empowered, involved and committed to improving the quality process.

Fredendal and Hill (2001:56) highlight that the TQM approach is aimed at improving the public procurement process for government to increase customer satisfaction in service delivery.

2.3 UNDERSTANDING PUBLIC PROCUREMENT

Van Rooyen and Hugo (1986:4) define procurement as an activity that must be carried out to establish the guarantee that an organisation is supplied with the right

materials and services in the right quantities, at the right time and place, and at the best competitive price. Thai (2001:154) explains public procurement as being a channel that is used by government agencies and organisations to acquire services and supplies by using outside businesses. In addition, Xhala (2014:01) maintains that public procurement forms an integral part of public operations as it is not merely the acquisition of goods and services but includes a holistic transferring of traditional processes that serve to render basic infrastructure to the general public. Baily (1994:17) further connotes Supply Chain Management (SCM) to enforce the guidelines of PFMA and develop an internal control measure to provide information that will ensure the effective operation of the institution.

Cane (2000:47) describes public procurement essentially central to a government service delivery system, which promotes objectives which aim at using procurement to promote social, industrial and environmental policies. Public procurement is central to a government service delivery system as it has been granted constitutional status and is recognised by means of addressing past discriminatory policies and practices (Bolton, 2006:193).

Public procurement is a tool that can be used to promote social responsibility (Edler & Georghiou, 2007:85). Carrol (1979:45) illustrates the method of applying public procurement social responsibility as to facilitate public sector agencies to stimulate companies and engage with the development of small and medium business agendas. Craig (2000:21) concurs that it is a government's responsibility to assist small and medium size business to develop, grow and ensure their long-term success. Government must continually foster an environment where they can compete successfully for a fair share of government procurements on their own merits.

Public procurement is referred to as an innovation policy instrument (Fox, Ward & Howard, 2002:54). Craig (2000:54) details innovation within government policy firmly because, when government wants to purchase a specific commodity, the specifications of that product are given to manufacturers to produce. Edler and Georghiou (2007:20) indicate that innovation within public procurement is primitive as the purchase of a new commodity by government is normally contracted in a notion to curb consignment risks that may be suffered by the manufacturer.

According to Thai (2008:40) public procurement consists of a trait to save public expenditure by implementing cost saving mechanism to realise economic development and capital infrastructure. Craig (2000:24) relates the cost saving as the economic contribution that the public procurement engages in a form of cost structure, cost behaviour and the supply of market. The Korean Public Procurement Service Report (2008:67) imply consolidation of requirements, long-term contracts, forecasting and buying consortium as methods that are valid when economic contribution is to be realised. Carrol (1979:104) affirms consolidation of requirements, long-term contracts, forecasting and buying consortium as famous tools that are traditionally used to reduce cost of procurement and realise national economic contribution. Choi (2010:4) understands public procurement as a major role player in economic contribution. In addition Choi (2010) highlights the significance of public procurement through the reflection of economic stabilisation. Economic stabilisation is commonly realised when a purchasing unit is applied within a Joint Purchase Service (JPS) in the arrangement with small size business manufacturers to retain large volume purchasing.

2.4 PUBLIC PROCUREMENT PRINCIPLES

The South African Constitution of 1996, section 217 (1) deliberates the public procurement system as comprising of principles which are to be addressed clearly when SCM processes are being applied. These public procurement principles include fairness, equitableness, transparency, competitiveness, and cost effectiveness. A brief overview of these principles will be given in the following paragraphs.

2.4.1 Fairness

The Green Paper on Public Procurement (1997) stipulates the inculcation on fairness in procurement as intensified by the realisation of government that the past legislations excluded the participation of SMMEs in the tendering system and favoured well established businesses.

Gildenhuis (1993:12) highlights fairness in procurement as challenged by the rapid development of capitalism through the industrialisation which recognises less privileged inhabitant's needs. Ranney (1975:504) perceived industrialisation as one

mechanism which drove fairness and created awareness for government to create an environment that will promote citizens, security and their social welfare. Gildenhuys (1993:13) further highlights that the birth of fairness in public procurement emerged through the neglecting of socialism. Fairness in public procurement has been championed through the realisation of economic prosperity (Todaro, 1994:41-42).

2.4.2 Equitableness

The Ten Point Plan (1999:9) reflects equity in the public sector procurement by the application of encouragement to equal opportunities for men and women and increased opportunities for people with disabilities. It further outlines equity in procurement to be done by broadening the participation base for contracts of less than R7 500 and unbundling of larger projects into smaller contracts.

Kroukamp (2009:18) assesses the objectives of the Broad Based Black Economic Empowerment as to

- facilitate access to finance for black economic empowerment;
- promote economic participation of black people;
- change racial constitution of management and ownership structures; and
- increase access to economic activities, infrastructure and skills development.

Mtshakaza (2011:17) regards the application of equity in public procurement as to redress the past imbalances that were in practice. He further states that “Blacks, other than those who worked and resided in the urban areas, were confined to homeland areas, which lacked a dynamic business environment and were poor in terms of living standards and business opportunities”. According to the Green Paper on Public Sector Procurement Reform (1997) equity in public procurement addresses the gap that the Influx Control Act and Group Areas Act created. Mtshakaza (2011:17) explains that the Influx Control Act and Group Areas Act not only uprooted millions of people from their places of residence, but also from their places of business in white areas which ultimately led to large capital losses that endangered the fabric of small black enterprises.

2.4.3 Transparency

According to Klingner (1980:20) transparency is one value that exists within a public resource management which advocates democracy. Normanton (1972) saw transparency as the extent to which the operation of government and public managers are open to public scrutiny. According to Stahl (1983:52) transparency is highly directed to public resource managers and to how they execute the delivery of services. Gildenhuis (1993:87) advocates that the processes of transparency do not accommodate secrecy.

The Principles and Practices of Public Procurement (PPPP) (2012:13) indicate that transparency in public procurement encourages public good and establishes trust with citizens. Section 217 (3) of the Constitution of 1996 displays transparency as it requires an open and public procurement system, in which information is public and readily available, and the procurement process is conducted in an open manner.

Gildenhuis (1993:602) cautions that centralised warehousing is one system in procurement that discourages transparency. The existence of centralised warehousing is in existence through collaborative acquisition. Todaro (1994:574) explains collaborative acquisition as an agreement between two or more institutions that agree to collaborate in purchasing stock. According to Mikesell (1986:467) centralised warehousing increases bulk purchasing and cuts the costs for the buyer but it also carries the disadvantage of holding large amounts of stock that may become obsolete if held for extended periods.

2.4.4 Competitiveness

Nano (2008:1) argues that the lack of competitiveness in procurement has been entrenched by the Separate Development Policy. Nano (2008) further alludes that the separate development policies were comprised of limited accountability, transparency and unfair equitable distribution of economic resources because it had a legislative framework that improvised the focus to be on one particular race.

The lack of competitiveness in public procurement was introduced by macroeconomic instability and non-optimal income distribution (Black, Calitz and Steenkamp, 2003:548). Shirley (1999:54) describes macroeconomic instability as

insufficient management to ensure economic growth, full employment, price stability and a sound balance of payments. Black et al. (2003:547) claim that in situations where macroeconomic instability is visible, monopoly easily phases in. It therefore disallows a majority of industries to trade where economies of scale are high. Thus, only one firm can cost-effectively serve the market when it is not economically viable to duplicate core infrastructure. Burt (1996:111) labels competitiveness within public procurement as a tool that is used to attract the vendors who may offer attractive prices. McNair and Leibfried (2010:18-20) regard decentralised procurement as introduced electronic procurement which is one route that enhances competitiveness within public procurement as it allows the low-level procurement a space to contribute an input to be collaborated and considered among the professional personnel.

2.4.5 Cost-effectiveness

According to Schwella (1991:18) cost effectiveness refers to economic value which is within the auspice of public resource management. According to Gildenhuys (1993:14) cost effectiveness is based on the production of goods and services offset by the resources consumed in the process. Schwella (1991:18) aligns the cost effectiveness implementation as possibly done through the application of total quality management (TQM). In addition Vabaza (2015:17) defines cost effectiveness as a requirement that imposes a duty on officials involved with procurement to conduct an analysis of the value chain during the procurement of goods and services in the public procurement sphere.

2.5 PROCUREMENT PRACTICE WITHIN PUBLIC ADMINISTRATION

Rosenbloom, Kravchuk and Clerkin (2008:87) explain public procurement as an umbrella approach that influenced the existence of contract management within the discipline of public administration. In drawing a reference on a practice of public administration, Van Riper (1989:481) cites classic theory of public administration as a concept influenced by separation of powers among the legislative, executive and judiciary to provide checks and balances in the exercise of authority and protect society from the concentration of power. However, the practice of public administration has evolved and focuses on managerial techniques which are

inculcated by the developments in public financial management (Walsh, 1995:75). Provan and Milward (2009:54) believe the mandate of public administration as positioned on service contracting in realisation of efficient and effective service delivery. Du Toit and Van der Waldt (1999:299) describe the practice of public administration as to maintain a responsive public service through policy formulation to deliver the services that a society requires to maintain and improve its welfare.

Brooks (2016:8) identifies outsourcing, privatisation, public-private partnership and e-procurement as components of public procurement. These components will be discussed in the following paragraphs:

2.5.1 Outsourcing

According to Gildenhuis (2004:362) outsourcing is one route of attracting the supply of goods and services from the private bodies. Lysons and Farrington (2006:87) imply outsourcing as a process of transferring a business activity, including the relevant assets, to a third party. The nature of such is further explained by Heywood (2007:54) as a method that is realised by New Public Management's strategy in installing responsive governance. The Organisation for Economic Cooperation and Development (OECD) (2012:52) clarifies outsourcing as one mechanism from the NPM theory that is subjective to Local Economic Development (LED) because it involves the private counterpart on the procurement process with the government.

According to Henderson (1975:21) public procurement function gained increased importance in corporate management as the practice evolved on to proactive, strategic and boundary-spanning function. Bhote (1989:52) explains that outsourcing had to be infused in public procurement to lead transformation of the purchasing and procurement function from a passive, administrative, and reactive system. The shift in public procurement has allowed outsourcing to link the organisation's procurement strategy with its corporate competitive strategy by developing integration of supply, marketing, finance, and conversion strategies (Burt, 2003:54) .

The aim of outsourcing is to achieve large amounts of sustainable cost reductions, long-term supply stability and manageability of supply risk within public sector procurement (Callender & Mathews, 2000:45). Gabbard (2004:87) is of the view that

government as a buyer is incurring financial loss due to lack of accountability as the supply chain processes are easily manipulated because the processes are done internally. Mamiro (2010) argues that unrealistic budgets and inadequacy of skills of procurement staff as the main predicaments that are at the forefront of effective service delivery. Arrowsmith and Trybus (2003:54) suggest the use of outsourcing in an aim to install efficient cost cutting and transparency. According to Reeds, Bowman and Knipper (2005:54) outsourcing comprises purchasing system techniques that are used to identify and select a supplier whose costs, quality, technology, timelines, dependability, and service, best meet the organisation's needs.

Porter (1998:54) in advocating outsourcing, postulates that outsourcing as a mechanism rescued the public sector as the preliminary regard was on procurement officers who were challenged by implementing prequalification procurement such as cost implication, time constraint and evaluation standard setting, due to lack of technical expertise to evaluate. Kotabe, Mol, and Murray (2008:87) are of the view that, the adoption of outsourcing by public sector was profoundly to measure public performance in terms of service delivery. Arrowsmith and Trybus (2003:54) explain the practice of outsourcing as a definite and proven method that is absorbent for managing large-scale, medium to long term procurement activities.

2.5.2 Privatisation

Privatisation was forged within a spectrum of an aim to meet the requirements for economic freedom. Therefore, it is necessary to comprehend Gildenhuys's notion (2000:103) that there can be no economic freedom without privatisation. Knipe (2001:54) shed some light on privatisation as a suspension of government economic activities and deregulation of private activities. Cloete (1999:87) contributes his version on privatisation as a source that enhances small businesses an opportunity to contract government activities. Visser and Erasmus (2012:25) defend the existence of privatisation has inculcated the formation of targeted procurement as the policy advocates for achieving social goals by employing project designs that are to increase business participation of small businesses. Moreover, Seija (1990:82) views the practice of privatisation as to recognise public procurement as arranged

according to the decision-making power that the South African government is structured on.

Thai (2001:10) defines the existence of privatisation as formed to eliminate bureaucratic obstacles, to program accomplishment, improve inter-departmental coordination and empower service delivery managers to procure what they need without being delayed by a centralised compliance procedure. Arrowsmith (1998:21) contends that privatisation revives indigenous contractors and manufacturers by allowing local buyers to build in a margin of preference for local contractors and manufacturers. Ramesh (2001:4) explains the adoption of privatisation as to accelerate the provision of more responsive support to end users, in terms of service delivery. Varner (2006:5) defines privatisation as a programme where private sector assumes the role of government operations in turning over managerial and operational responsibilities of publicly owned facilities to private sector firms. Tucker (1998:87) is of a different view, arguing that with privatisation, government as an end user, still needs to construct regulations and standards of performance towards the supervision and management of the supplier. Thai (2001:54) agrees that the role of government in privatisation is to manage a budget, provide leadership in the establishment of services to be procured whilst the private sector counterpart upholds the acquisitions submitted.

In the South African context, the government policies are extendedly implemented by State-owned Enterprises (SOE) (Shirley, 1999:241). Section 53 (1) of the Public Financial Management Act, (Act 1 of 199) outlines the SOEs as entities intended to generate profits and declare dividends. Black et al. (2003:547) detail SOEs as entities that enjoy the most autonomy of all the public entities and are alleged to operate in a competitive market with full application of general business principles to realise corporatisation. These entities are in existence to help the government to ensure that private sector competitors face a level playing field when engaged in public tenders (Mokwena, 2012:25). However, these entities do not achieve the intended objective of competing with the private sector with the aim to implant public choice onto end users because the SOEs still enjoy soft budget constraints from the government (Business Unity South Africa, 2015). The World Bank (2016) suggested that the practice of privatisation would be a superior outcome, particularly in

situations where there is not a clear economic rationale for government ownership. Shirley (1999:213) recommends that the SOEs be privatised to have effective reform mechanisms to improve their performance.

The White Paper on Municipal Partnerships (2008:25) and the Strategic Framework for Delivering Public Services (1995:40) describes privatisation as one route that suggested inclination of growth and swift public service distribution. The African National Congress (ANC) (1992:48) supported the adoption to privatise solely on the basis to document economic policy that will spur growth and satisfy the basic needs of the public. However, Chirwa (2000:184) finds that the South African government is still in practice of public private partnership not privatisation as he concurs that the state still retains some degree of control over services. Gildenhuys (2004:301) disagrees with Chirwa and states that privatisation is in practice in South Africa; water being one commodity that is privatised. In reflection of the above statements, section 27(l) (c) of the Constitution states that “everyone has the right to have access to sufficient food and water”. This statement makes it apparent that the provisions of the Constitution are not being honoured on the basis that the public can only have access to water in exchange for monetary value because the services are provided by the private sector that are profit driven. Water privatisation started with three Eastern Cape municipalities namely, Queenstown, Stutterheim and Fort Beaufort, which influenced Lyonnaisse Water Southern South Africa to restructure in 1996 and which became the private actor that won the relevant management contracts and trades known as Water and Sanitation Services Association (WSSA)(Chirwa, 2000:183).

2.5.3 Public-private partnerships

The National Development Plan (2015) defines Public Private Partnership as a contract between a public-sector institution and a private party, where the private party performs a function that is usually provided by the public sector by means of using state property and resources. Politt and Bouckaert (2004:57) understand the existence of PPPs as thoroughly influenced by the ‘new public management’ theory which allows public and non-profit organisations to disregard their bureaucratic features and adopt businesslike management tools in the aim to become more effective and accountable. The OECD (2012) indicates the generation of PPPs as

informed by the governance shift theory to allow the political leadership to ensure public awareness of the relative costs and benefits of conventional procurement. Enteman (1993:897) contributes the cause of a swift shift of theory as *managerialism*. Pollit (2003:87) posits therefore that managerialism is conducive to a neoliberal climate which caters for the ideological awareness that managerial and market logics produce low-cost and high-quality services.

Beste (2008:27) claims that PPPs were previously incurring experiences that were limited to basic infrastructures and services such as hospitals, rail roads, and construction infrastructure. The workmanship of the PPPs were applied to the areas of defence utilities and high-tech industry. Bourgon (2008:54) claims that the practice of PPPs within the public sector offers a different procurement process in the role for innovation, in terms of contractual arrangements between government as a buyer and public as a supplier. Moreover, Wootton (2014:450) advocates that PPPs as one practice out of many represents a way to introduce and accommodate innovative small and medium sized businesses into the procurement process through sub-contracting procedures.

2.5.4 E-procurement

The internet-based procurement functions differently in comparison with the traditional procurement system where a supplier is initially screened and assessed for the need to select the best company that can deliver the required goods or services at the required time and place at a competitive price, (Fredendall & Hill, 2001:201). Internet-based procurement however, utilises a function programmed as an electronic purchasing agent which, according to Hadikusumo (2005:57) is set to provide regulated electronic information that is transparent for the selection process. All the important aspects for selection are provided such as specifications, the supplier's past performance score, quoted price, payment terms, and additional conditions. The past performance evaluation process is one of the vital processes for any business transaction right from the start of existence of any supplier in the database. This electronic artwork is defined by Kasturi (2011:158) as having been developed to assist the procurement process and to eliminate the communication

barrier that is commonly experienced when traditional procurement processes are executed.

In practical application of e-procurement, Waslawick (2008:587) interprets the adoption of e-procurement in Brazil as an information multiplier towards what was introduced as e-governance. Waslawick (2008) further highlights e-procurement as a gradual process which aims to maximise existing services. E-procurement is currently seen as the best method to promote excellence in public enterprise. Moreira (2011:5) is of the view that the swift adoption of e-procurement in Brazil generated the information system model that allowed the government of the day to simultaneously increase transparency and enhance competition amongst bidders, in terms of more substantial prices and adequate social control.

The adoption of the e-procurement system in Russia contracted a series of laws around the financial viability of the state. Brineva (2007:457) heralds the transformation of procurement in Russia as a revolution, as the state was becoming less democratic due to the corruption activities that were traced in many regions. On the other hand, Podkolzina and Balsevich (2009:547) determine that the inadequacy of information transparency in the Russian federation and regions maximised the hindering of competitiveness amongst suppliers and procurers. The introduction of e-procurement therefore, encompassed a list of laws which were aimed at promoting anti-corruption. According to Brineva (2007:457) Law No 44-FZ, influenced the procurement system as a unified process, from supplier registration to the portal that guides contract management, covering all stages of purchasing to the audit stage. Pivovarova (2010:87) maintains that the implementation of e-procurement in the Russian Federation simplifies the placing of bid specifications online and equitably allows online open bids to take place in order to create a unified Russian market for some of the goods, works and services procured by the government. Podkolzina (2012:54) believes e-procurement in Russia has induced a comprehensive normality and sound financial information in public procurement procedures which enhances strategic decision-making which is further initiated on accountable governance and transparency.

E-procurement in the Indian community is described by Kumar (2010:57) as a tool that the public sector is using to allow a wide range of suppliers to bid, facilitate the

speed of the purchasing process within a buying department and eventually mirrors the reflections of administrative costs and improved service delivery. Kumar (2010:58) projects that the lack of Information Technology (IT) infrastructure and the lack of security and limited broad band facilities in rural areas as the independent variable that hampers the total operation of the e-procurement system. Moreover, Sundar (2009:874) associates the e-procurement system as having the potential to reclaim job opportunities for many. Panda (2012:54) affiliates the adoption of e-procurement from the supplier perspective as increased flexibility in production and cost reduction which enhances customer satisfaction. For that reason, Gupta (2012:76) agrees with Allahabad on the notion of supplier flexibility in production because he proclaims that the situation was a predetermined outcome for the Indian organisations to increase their benefit because it is a mandatory government regulation to eradicate the irregular and unethical practices in procurement.

Based on the tendering law of China that lacked many features of modern public procurement legislation such as a clear definition of public procurement and procurement methods, other than coordination tendering procedures, (Perkins, 1994:82), Neef (2001) regards the adoption of e-procurement in China as having been applied successfully on the basis of the geographical shape of the country. Perkins (1994:82) outlines the geographical advantage of China as one route that fuelled the e-procurement system to enhance the empowerment of individual employees and shift management's focus towards horizontal processes. Meier and Stormer (2009:25) portray the benefits of China in employing e-procurement as a system that has reduced organisations' costs, permitting wider choices of buyers and suppliers, enabling volume purchases, leading to better quality, improved delivery, reduced paperwork, and lower administrative costs.

E-procurement in South Africa projects an image of developing an information society that harnesses the economic power and social development for the benefit of the country and its citizens through information technology infrastructure that supports paperless supplier registration by emerging firms and those in remote areas of the country (Laryea & Ibem, 2014:85). Farelo and Morris (2008:8) associate the practice of e-procurement as in existence through the roll-out of e-governance which is aimed at moving the country to be a major player in the production and innovation

of information technology products and services. However, Ruiker (2015:374) discovered that the roll-out of e-procurement in South Africa consists of various issues which hamper the predetermined objective of economic power and social development. Ruiker (2015:374) highlights these challenges as follows:

- Difficulty in getting original documents, especially signed contractual documents.
- No response of receipt of your mail and the need to follow up.
- Lack of understanding of the benefits by all parties.
- Government agencies always want the original copies of documents and not electronic copies.
- Previously disadvantaged contractors are mostly computer illiterate.
- Lack of confidentiality.
- Lack of surety about the security of information during transmission.
- Viruses in the network can comprise the integrity of data and information.
- Limited understanding of how the e-procurement systems work by people in the industry.
- Lack of aggressive legal control systems to report and handle fraud in electronic communication systems.
- Lack of authenticity of documents submitted.

2.6 THE CENTRALISED AND DECENTRALISED PROCUREMENT

This section will discuss centralised and decentralised procurement.

2.6.1 Centralised procurement

OECD (2002:45) defines centralised procurement as an approach where one government organisation represents a collective need of ministries, and other state bodies carry out procurement functions. However, Trionfetti (2003: 224) believes centralised procurement had been intensified onto African regions by the colonisation. Abeillé (2003:52) understands that centralised procurement was forcefully intensified by a framework of international obligations, such as the World Trade Organisation's Agreement on Government Procurement and the Procurement

Directives made under regional agreements such as the European Union and the North America Free Trade Agreement.

Gildenhuis (2004:323) regards centralised procurement as a model that allows government to enforce regulations that will produce sufficient information that will aid in monitoring compliance of procurement transactions. Erasmus (2008:87) suggests the procurement transaction as supposed to be exerted on some form of channels that will model a role to gauge compliance and conformity within centralised procurement. The OECD (2002:54) outlines the centralised procurement channels as national agencies that are concentrating on areas where they can deliver value for money and implant operational compliance. These centralised procurement channels include national and regional purchasing groups, joint ventures and partnerships and cross-border procurement. These channels are discussed in the following paragraphs.

2.6.1.1 *National and regional purchasing groups*

The OECD (2002:54) explains that the national and regional purchasing groups were developed to organise a purchasing unit for public office for common and essential services. Gildenhuis (2004:5) views the national and regional purchasing group advantage as buyers having the ability to negotiate price as they are commonly making bulk purchases. According to Visser and Erasmus (2002:152) the national and regional purchasing group is influenced by the Just-In-Time (JIT) system that public provisioning administration has implemented. Visser (2002:152) define JIT as an analytical technique that is used to plan inventory according to economic order and quantity. Hugo and Van Rooyen (1992:271) describe the commodities that are commonly procured on national and regional purchasing groups as class D items. Visser and Erasmus (2002:153) describe class D items as items that reflect a consumption period of six months but which are to be available on demand due to their essentiality.

2.6.1.2 *Joint ventures and partnership*

The European Commission on Green Public Procurement (ECGPP) (2008:8) defines joint procurement as more than two contracting authorities being combined to attract offers from suppliers by leading economy scale. Section 12 (2) (a) of the Municipal

Supply Chain Management Regulations of 2005 define the application process of joint venture as the award of a job-specific contract under a framework agreement does not, by law, require an additional competitive procedure. In aligning the practice of joint procurement. Kettl (1993:999) regards joint procurement as purely a tunnel that propels the existence of the PPP solely because the practice of the joint procurement is based on an institutional form, which has inclusive use of private finances and creates a long-term contract for public infrastructure projects.

2.6.1.3 Cross-border procurement agreements

The OECD (2002:31) defines that cross-border procurement occurs when a foreign contractor is awarded a public contract to supply goods and services to a foreign country. According to the National Board on Trade (2011:3) cross-border procurement is an international business transaction that is attached to the supply of public services and the internationalisation of business and economic globalisation. Wettenhall (2003:4) draws a pattern of commonality between globalisation and cross-border procurement on the basis that both channels are a frontier of movement of resources, goods, services and skills over international borders. The European Centre for International Political Economy (ECIPE) (2010:8) contributed to the cross-border procurement practice primarily by the acceleration of policy liberation. This provided an aid to phase out the effects of the collapse of the global industrial output in the last quarter of 2008. Shirima (2010:22) explains cross-border procurement as a higher system in markets with a low number of competitors. Furthermore, Shirima (2010:22) argues that cross-border procurement positions challenge excessive aggregation for collaborative procurement that negatively contributes to SMME participation.

2.6.2 Decentralised procurement

The National Public Procurement Policy Unit (NPPPU) (2002:2) defines decentralised procurement as the device employed to promote open and transparent competition in an aim to achieve value for money. The State Tender Board Act, 1968 (Act 86 of 1968) administers the achievement of value for money through the empowering of accounting officers (Director Generals, Provincial Head of Departments, Municipal Managers, and Chief Executive Officers of municipal

entities) as they would be managing their own tendering process. Moeti (2014:144) posits that with decentralisation of procurement, individual managers at various government departments, municipalities and government entities are better placed to take efficient decisions regarding the appointment of service providers.

The OECD (2007) states that with a centralised system in practice, private sector has limited access to credit which inhibits its participation in tenders. Subsequently, the Zambia National Tender Board (2007) affiliates the practice of decentralisation as it allows government to put in place programmes that will enhance private and financial sector development projects. Patel (2011:54) distinguishes the application of a decentralised procurement system as it compels government to take on the challenge of investing in new areas where business and labour will collate and work with government to address inefficiencies and constraints across the economy and partner to create new work opportunities. The Local Economy Development strategy (LED) (2010) agrees that the decentralisation system enforces the use of SMMEs through the collaboration of the Expanded Public Works Programme to accelerate poverty alleviation.

The National Public Procurement Policy Unit (NPPPU) (2002:25) indicates that a decentralised system is a practice to build on existing compliance strengths and move procurement policy and practice to a more strategic level and maximise the financial benefits. Pauw (2011:54) argues that the application of decentralisation sacrifices the potential advantages of bulk buying and economies of scale. The OECD (2012) promotes procurement systems to improve efficiency through the targeted use of cost effective technologies to achieve savings on resources which can be redirected to the provision of services within organisations. Khalo (2014:229) posits that decentralised procurement systems lack proper enforcement of procurement regulations to ensure compliance of procurement transactions with the law and questions whether they are delivering value for money.

Kearney (2004:87) defines a decentralised procurement model to be conducted by regulations and legislations that primarily allow the central office to exercise oversight whilst local purchasing units share the procurement power and decision-making. Dimitri, Dini and Piga (2006:54) understand this procurement model to assume a role in re-developing progressive policies and strategies for local

purchasing units to carry over as the buyers are bilaterally involved in purchasing decision making. Hunja (2003:457) expresses the opinion that developing states are ideal to adopt a procurement system that is governed by a clear legal framework that will be accustomed to transparency, efficiency and mechanisms of social development, embedded with an institutional arrangement that ensures consistency in overall policy formulation and implementation.

2.7 MECHANISMS OF PUBLIC PROCUREMENT

This section focusses on the mechanisms of public procurement namely, affirmative procurement, targeted procurement and green procurement. These will be dealt with in the following paragraphs.

2.7.1 Affirmative Procurement

According to Taylor and Raga (2010:01) affirmative procurement is a programme initiated by the democratic government to influence the participation of formal and informal SMMEs who are owned by groups and individuals who were previously marginalised by the policies of apartheid. Highlighting the significance of the above interpretations of affirmative procurement, it makes it relevant to mention that, affirmative procurement is aimed at developing the marginalised social groups and individuals who were denied fair access to commercial activities in terms of public procurement.

The Department of Public Works (1996:136) determines the Affirmative Procurement Policy (APP) as a process that affirms the RDP and the changed environment. This makes it imperative for the Growth Economic and Redevelopment (GEAR) (1997) to associate the affirmative procurement as it was developed by the Procurement Forum. The goal was to the affirm principles of the RDP by creating opportunities and participation across the broader spectrum of all economic sectors, that would support competitiveness in an open world economy by aligning both institutional and economic structures to achieve its aims.

The acceleration of affirmative procurement has been influenced by the practical growth strategy of Broad Based Black Economic Empowerment (BBBEE) as it aimed to realise the country's full economic potential. Business Report (2005:81) maintains

that affirmative procurement made Black Economic Empowerment (BEE) a business imperative because of the trickle-down effect it has on the economy. In terms of PFMA (Act 1 of 1999) affirmative procurement serves as a guideline in ensuring that economic empowerment and transparency is maintained through the establishment of norms and standards that are set to prevent abuse of Supply Chain Management System (SCMS). The South African National Treasury (2015) determines the formulation of the preferential procurement policy framework as a device that will best enforce consideration and compliance of affirmative procurement.

To institute and gauge the application of affirmative procurement Cox and Townsend (1998:52) highlight the effects of affirmative procurement on public sector procurement through foundationally structured systems that promote economic reconciliation and competitiveness. In terms of Government Gazette No.17928 affirmative procurement has the following aims:

- To promote developmental objectives focusing on human resource development.
- To provide opportunities for skills transfer and capacity building to acquire experience.
- To encourage commitment to human resource development and social responsibility programmes within organisations to specifically redress historical imbalances.
- To facilitate growth, efficiency and effectiveness of delivery, as well as the numbers and sizes of businesses owned and controlled by previously disadvantaged individuals.
- To ensure that the emerging enterprises contribute to the tax base, encourage workers who are affiliated to labour associations, adhere to safety regulations and reflect norms and standards in their business activities associated with those of developed countries.

According to the PFMA Act 1 of 1999, affirmative procurement is visible through the application of Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA). Section 217 (2) of the Constitution of the Republic of South Africa 1996 institutes an

organ of the State to determine its Preferential Procurement Policy and implement it within the PPPFA, in which a preference point system is followed.

2.7.2 Targeted Procurement

According to the Department of Public Works (2000:81) targeted procurement is in existence to provide a policy to support the issues that have been overlooked by the Preferential Procurement Policy Framework Act (No.5 of 2000). Targeted procurement is done through a contracting process, where the aim is to achieve social goals by employing project designs that are to increase labour and participation of Affirmable Business Enterprises (ABE) (Department of Public Works, 2000:81). In terms of the policy for Local Economic Development (1999:39) the aims of the targeted procurement are to: -

- stimulate the growth and development of SMMEs and local resources;
- empower specific population groups/sectors of society;
- increase the volume of work available to the poor; and
- encourage the use of employment-intensive practices and technologies.

2.7.3 Green Public Procurement

The Sustainable Energy for Environment and Development Programme (SEED) (2012:2) defines Green Public Procurement (GPP) as the purchasing of supplies and services that have a smaller negative impact, or even a positive impact, on the environment and human health when compared with competing products or services that serve the same purpose. The enhancement of green procurement is inculcated by national action to mitigate climate change and the employment of resource-efficient procurement which supports local and smaller suppliers (International Institution for Sustainable Development, 2002). The Norwegian Agency for Development Cooperation (2008:5) regard GPP as a mechanism used by government as an intervention to host sustainable public procurement. De La Harpe (2009:45) argues that green procurement is not easily implemented on a decentralised system, the reason being that a decentralised system is unable to include environmental and social standards and criteria in the procurement and

furthermore a decentralised system requires increased technical expertise and awareness. Kakwambi (2012:26) disagrees with the above statement and further, affiliates GPP as directly immersed in decentralised systems because it aims to develop the local economy and the growth of small and medium-sized enterprises (SMEs) by enhancing locally procured goods and services.

2.8 CONCLUSION

This chapter reviewed public procurement with specific reference to the domain of public procurement practice. It displayed the difference between centralised and decentralized procurement. In addition, the sustainable procurement mechanisms which are aligned to SMME engagements were discussed. In conclusion the regulatory framework that necessitates the mechanisms and functions of public procurement to eligibility and compliance was reviewed.

Chapter 3 will discuss the challenges encountered by SMMEs within local government level in order to understand the aim of SMME status quo within the context of a category B municipality.

CHAPTER THREE

PARTICIPATION OF SMALL, MEDIUM, MICRO ENTERPRISES IN PUBLIC PROCUREMENT

3.1 INTRODUCTION

The previous chapter dealt with the conceptualisation and theoretical framework of public procurement. Xhala (2014:54) heralds the traditional processes of public procurement as formalising the legislative steps taken to procure the acquired goods and services into documentation. In South Africa, an effective system on public procurement is facilitated by the Green Paper on Public Sector Reform (1997) which aligns competency and professionalism within the institutions.

This chapter will firstly discuss the participation of Small, Medium and Micro Enterprise in public procurement. It will look at public procurement arrangements within a sphere of local government with specific reference to intergovernmental arrangements, centralised purchasing and outsourced purchasing in local government. Secondly, the processes followed when a potential supplier is to be registered on a government institution database will be reviewed. Specific reference will be made to the creating of a supplier database, role of the supplier database and implementation of a central supplier database. Thirdly, the chapter will discuss the processes followed when a supplier is to be appointed for procurement of goods or services from R2 000 to R30 000 Value Added Tax (VAT) inclusive, outlining the supplier qualification process, reference check, financial status check, surge for capacity availability, indication of supplier quality and ability to meet specifications. The chapter will then further discuss the processes followed when a supplier is to be appointed for procurement of goods or services from R30 000 to R500 000 VAT inclusive, highlighting specifications, request for invitation of tenders, invitation of tenders submission and consideration of tenders. Lastly the mechanisms applied in public procurement to appoint suppliers will be discussed in the light of the implementation of preference point system.

3.2 SMMES PARTICIPATION IN PUBLIC PROCUREMENT

The Swedish Institute for Growth Policy Studies (ITPS) argues that SMMEs' access to public procurement is low because of large corporations being at the helm of the distribution of resources in creating and submitting bids, as opposed to smaller companies. Smaller companies submitting a bid require a relatively larger investment than bigger corporations. The EU Commission (2008) regards the process of public procurement as hindering SMMEs due to their capacity constraints because when public services and goods are procured, the amount and value procured is often high as the need is drawn on to satisfy the demand of a municipality or government authority. Jong and Vermuelen (2006:51) are of the opinion that the preferential procurement treatment that is used in countries like India, USA, Canada and South Africa is the only promotion of SMME participation which also comprises a discriminatory measure which is discriminatory price adjustment. According to Tervahauta and Zackrisson (2004:547) low SMME participation in public procurement is concluded as underrepresented due to the procurement procedures which are complicated and contracts being too large for SMMEs.

The following section in this chapter will focus on the public procurement arrangements within a sphere of local government.

3.3 INTERGOVERNMENTAL ARRANGEMENTS AND CENTRAL PURCHASING

According to Visser and Erasmus (2012:156) an intergovernmental purchasing arrangement is enhanced by the uniformity and quantity needed by government departments of particular services or goods, which allow the government as a buyer to encroach a transversal contract. Regulation 12 (2) (a) of the Municipal Supply Chain Management Regulations of 2005 initiates the existence of an intergovernmental purchasing arrangement through framework agreements that permit to provide public tender processes. Successful bidders with whom a framework agreement is concluded, are selected. The award of a job-specific contract under a framework agreement does not, by law, require an additional competitive procedure. According to Regulation 32 (1) of the Municipal Supply Chain Management Regulations of 2005, municipalities may choose to provide municipal

services by entering into a service delivery agreement with a municipal entity, another municipality or a national or provincial organ of state. Bel and Mur (2009:24) criticise the practice of intergovernmental purchasing arrangements because it disapproves that contracting authorities use a rotation system which suits rural municipalities perfectly as they have limited financial reserves and it is ideal for them to benchmark on sustaining community development.

Section 80 (1) of the Municipal Systems Act 32 of 2000 administers that a municipality may procure goods or services under a contract secured by another organ of state. Molver and Gwala (2005:54) sketch the declaration of the Municipality Systems Act as a public-public arrangement which resembles a partnership. Regulation 16A 6.3 (d) of the Treasury Regulations of 2005 declares municipalities are not required to comply with the usual procurement rules once engaged in a public-public partnership.

Hattingh (1998:10) cites the practice of intergovernmental arrangements as influenced firmly by the intergovernmental approaches. According to Van Dyke (1960:4) an approach is the criteria employed in formulating the questions asked in any political enquiry. These approaches are identified as constitutional/legal; democratic; financial and normative-operational approaches. Section 181 of the Constitution of the Republic of South Africa, 1996 administers the establishment of state institutions as responsible for the strengthening of a constitutional democracy in the Republic. However, Hattingh (1998:14) posits the autonomous exercise of control that central government exerts as a prominent challenge because the government structure determines the spending of public funds. Subsequently, local government faces a challenge on redefining a project where funds have been earmarked by central government to accomplish a particular objective.

Hattingh (1998:11) introduces the institutional approach to accept the information covered in the legislation as correct and not due for any changes, until it can be amended by a new legislation. Moreover, this approach emphasises structural and hierarchic analysis which promotes centralisation of decision-making.

3.4 OUTSOURCING PURCHASING IN LOCAL GOVERNMENT

According to Gildenhuis (2004:362) outsourcing is a manner of attracting the supply of goods and services from private organisations. Lysons and Farrington (2006:87) define outsourcing as a process of transferring a business activity, including the relevant assets, to a third party. The nature of such is further explained by Heywood (2007:54) as a method that is realised by the New Public Management's strategy in installing responsive governance. According to Handfield, Monczka, Guinpero and Patterson (2011:40) category B municipalities are the core where there is a small supplier base providing non-strategic, non-critical, low cost items. The preliminary predicament against the SMME in outsourcing originates on having the following:

- specialist purchasing and supplier organisations
- buying consortia

Moreover, Lysons and Farrington (2006:88) describe the rationale of such action as to help the government as a buyer to benefit from the advantage of bulk purchasing which provides them with stronger negotiating power.

3.5 SUPPLIER DATABASE IN LOCAL GOVERNMENT

In this section, the study will discuss the creation and role of a supplier database, and the implementation of a central supplier database in local government. It will define the role of a database and further review the processes followed to create a supplier database and view the challenges that the implementation of a supplier database has unfolded in local government.

3.5.1 Creating a supplier base

Burt (1996:114) understands the creation of supplier base as a critical activity that has to be performed by the purchasing department as to host different suppliers who the buyer can have access to in order to select the right supplier who can provide the right quality of materials or service. The Treasury Regulations 16A outlines the purpose of a supplier database as giving all prospective suppliers an equal opportunity to submit their quotation to the buyer. Beil (2009:6) provides the identical description of the existence of a supplier base as it allows the buyer to utilise the same supplier when the need for short-term procurement arises and therefore

streamlines the administrative processes. Monczka, Trent and Handfield (1998:30) support the purpose of a supplier data base as it saves time and reduces the resources to be used in selection of a qualifying supplier. Monczka *et al.* (1998) further suggest the following preliminary assessments of suppliers that are registered in a supplier base:

- supplier capability
- past performance of supplier
- commitment to quality
- management capability and commitment
- technical ability
- cost performance
- history of delivery performance
- ability to develop process
- product technology

Paragraph 14 (1) (a) of the Council's Supply Chain Management Policy, aligns the registration process for a potential provider to be an accredited prospective provider as follows:

- Full name;
- Identification number or company or other registration number; tax reference number and VAT registration number;
- Has authorised the relevant Municipality to obtain a tax clearance, if applicable, from the South African Revenue Service declaring that the provider's tax matters are in order.

In addition, prospective supplier has to indicate whether:

- He or she is in the service of the state, or has been in the service of the state in the previous twelve months.
- If the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or

- Whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.

3.5.2 The role of supplier database

Coyle, Bardi and Langley (2003:119) provide the definition of public procurement as consisting of all the activities necessary to acquire goods and services in line with the requirements of the user. Burt (1996:93) maintains that the fundamental role of the supplier database is a mechanism that allows purchasing to commence swiftly in an attempt to save time and not to damage the production process. Minkema (1995:94-101) assesses the supplier database as a tool that allows managerial functions to be implemented effectively and efficiently because it provides appropriate procurement information about the supplier's commodity and credibility that testifies for the scope of the work to be carried out. The role of a supplier database is the practice of a democratic procurement process. Suppliers are invited to participate in the form of a Request for Information (RFI) in the drawing of specifications of a particular production process and to seek market intelligence to meet the buyer's needs (Burt, 1996:104). In addition Burt (1996:87) highlights that the role of a supplier database allows the buyer to practice a screening process before the buying contract may be issued upon a supplier.

In terms of section 14 (1) (a) of the Council's Supply Chain Management Policy, the municipality must keep a list of accredited prospective providers of goods and services that must be used for its procurement requirements. According to section 14 (1) (c) and (d) of the Council's Supply Chain Management Policy, accredited suppliers are suppliers that have been verified by an accredited verification agency.

Sections (3) and (4) of the Municipal Supply Chain Management regulations of 2005 cater for the management of the supplier database as follows:

- The Accounting Officer must keep a list of accredited prospective providers of goods and services that must be used for the procurement requirements through written or verbal quotations and formal written price quotations.
- At least once a year through local newspapers, the website and any other appropriate ways, prospective providers of goods or services must be invited to apply for evaluation and listing as prospective accredited providers.
- Listing criteria for prospective accredited providers must be specified on the database registration forms.
- Listing of any prospective provider whose name appears on the National Treasury's database as a person prohibited from doing business with the public sector must be disallowed.
- The list must be updated quarterly to include any additional prospective providers and any new commodities or types of services.
- Prospective providers must be allowed to submit applications for listing at any time.
- The list must be compiled per commodity and per type of service.

3.5.3 The implementation of Central Supplier Database (CSD)

The South African National Treasury (2015) indicated that the commitment of the Central Supplier Database encourages the will to retain, complete, accurate, consolidated and verified supplier information that will initially realise the reduction in administration of effort for both supplier and government. To implement the provisions of the South African National Treasury in having effective a CSD, the prospective suppliers are encouraged to self-register.

Sections 79 and 106 of the Municipal Financial Systems Act apply to the sub-delegation of powers and duties, declares the verification of all newly registered suppliers be conducted as follows:

- A Request for Verification Form (RFV) must be attached to Provincial Treasury Circular 2 of 2014, with the details of the shortlisted or recommended vendors or shareholders or directors or members before adjudication.

- A reference number will be sent to an accounting officer for control and monitoring of the requests.
- The Provincial Treasury will conduct the verification on the PERSAL system that is linked to all National and Provincial spheres of government, and respond to the relevant municipality within 24 hours upon receipt of the request indicating whether the directors of the vendors are employees of the state or not.

The following section will discuss the processes followed when a supplier is to be appointed for procurement of goods or services from R2 000 to R30 000 VAT inclusive.

3.6 SUPPLIER SELECTION PROCESS

This section will discuss the supplier selection process. The supplier qualification process as well as reference checks, financial status checks, surge capacity availability, indication of supplier quality and ability to meet specifications as per the aspects of the screening process will be reviewed.

3.6.1 Supplier qualification screening process

Supplier qualification is an initial stage in which suppliers are assessed in the attempt to select suppliers that can deliver the required goods or services at the required time and place at a competitive price (Fredendall & Hill, 2001:201). Beil (2009:4) believes that supplier qualification screening is a mechanism that is used to avoid non-performing suppliers, which grant buyers a pro-active verification of suppliers before they may award a purchasing contract. Kloppenborg (2009:322-324) provides an identical expression as he articulates that, the supplier screening process offers buyers a review to choose potential sellers and negotiate a written contract with sellers. Beil (2009:56) affirms the supplier screening aspects as outlined below.

3.6.1.1 Reference check

The prospective buyer is in a position to conduct a reference check to assess and view the delivery stages of goods and services provided to the previous customer of

a supplier. Burt (1996:111) claims that the effectiveness of a reference check done through the National Association of Purchasing Management (NAPM) comprises the master list of correspondence in foreign nations who provide information about all suppliers that exist in a particular country. Monczka *et al.* (1998:30) agree that a second nature of supplier reference checks be conducted on secondary sources such as market representatives, information databases and trade journals. The reliability of a reference check also entails the problems that a particular supplier has been involved in and how it was resolved.

3.6.1.2 Financial status checks

The Office of Government Commerce (OGC) (2008) states that the preliminary objective of a status check on financial standing is considered part of risk assessment. Burt (1996:108) assesses the role of financial status as to screen the prospective supplier's financial position in order to establish the current supplier's liabilities against profit generated. As the preliminary objectives of the financial status checks are outlined, the OGC (2008) highlights the secondary objective of financial reference checks as it equips the buyer with all the relevant information to select the candidate with minimum standards for the particular procurement. Furthermore, Beil (2009:04) views an advanced objective of the financial status check is to provide a performance indicator in the form of raising a red flag for bankruptcy. If a supplier recently obtained a significant loan before production output to meet obligations of the buyer a red flag situation occurs. It must be noted that, such measures are in practice because of the analysis of the King Report III (2009) which affirms that the financial stability of South Africa is under threat due to the resulting crisis among leading financial institutions. The King Report III (2009) highlights the critical need for policymakers to direct their interest and focus on the crisis and source of the relevant financial regulation framework in order to relieve the depreciation pressure.

3.6.1.3 Surge capacity availability

Surge capacity is used to minimise problems with the quality of materials before delivery. Dobler and Burt (1996:457) argue that the minimising of problems with the quality of materials are intensified by selecting a competent and cooperative supplier by employing and using the following criteria:

- product testing
- proposal analysis
- capability survey
- defect detection system

A supporting view arises from Beil (2009:04) as he stands firm on his point that, capacity availability from the supplier interprets the grounds that the supplier increases quantities of delivery within a short space of time as requested by the buyer in the form of contract documentation. The question may arise as to how a supplier can manifest to a buyer that delivery will be on time, presenting the required quality. Dobler and Burt (1996:457- 460) in deconstructing product testing and defecting detection systems approve those techniques as the preliminary criteria that will enable adequate satisfaction to the buyer's discretion. Product testing in this context allows a practical exercise to be performed by the supplier in the presence of the buyer to ensure the quality of the product. Dobler and Burt (1996:457-460) understand the rationale behind this exercise as to establish the quality level of the product and censurability of the seller in accordance with the buyer's quality needs. The defect detection system advises the buyer of the turnaround time of the product or service required.

3.6.1.4 *Indication of supplier quality*

According to Beil (2009:5) supplier quality is ensured by proof of a certificate that outlines the policies, procedures, documents and training that the supplier has acquired to ensure progressive adherence to quality standards. Burt (1996:173), in his first publication, analyses the indication of supplier quality as a value analysis activity that is performed by the procurement unit. Value analysis activity is the development of a checklist that includes information of specifications attached to quotations and purchase orders required by a buyer in execution of a transaction.

3.6.1.5 *Ability to meet specifications*

According to Beil (2009:8) the buyer is compelled to examine the list of prospective suppliers and their ability to deliver the required goods or services to ensure conformance. Burt (1996:111) is of the opinion that the specifications of the item to

be ordered by the buyer must be specified clearly and adequately to enable suppliers to plot precise projections to be able to submit a bid. Dobler (1996:97) instructs that the clarity and adequacy of specifications is enhanced and propelled by RFQ in terms of using a competitive bidding technique. He eludes the process as it entails and requires a supplier to issue a RFQ that will be sent to a number of suppliers. For that reason, Burt (2009:87) affirms that the RFQ submitted by the buyer must specify quality and quantity specifications in order for the purchase order to become a legal contract document.

The following section will discuss the processes followed when a supplier is to be appointed for procurement of goods or services from R30 0000 to R500 000 VAT inclusive.

3.7 ACCESS TO TENDERING INFORMATION AND PROCESSES

In this section, the study will discuss access to tendering information and processes. It will provide the legislation of tendering procedures. The determination of requirements, specifications, request for invitation of tenders, submission and consideration of tenders and acceptance of tenders will be discussed as steps of tendering processes.

3.7.1 Tendering process and procedures

Section (13) of the State Tender Board Act 86 of 1968, provides for the regulation of procurement of supplies and services, disposal of movable property, the hiring or letting of anything or acquisition or granting to be procured through the board. Gildenhuis (2004:325) defines tender calling as a standard system used by government to purchase goods and services that will promote the general welfare of the public. Visser and Erasmus (2012:158) are of the view that, calling for tender is a formal process which is used to secure adequate supplies of goods and services that is enforced by the legislation. Moreover, Gildenhuis (2004:325) evaluates the objectives of tender calling as to avoid irregularities in the purchasing of goods and services, and to implement competition amongst suppliers. As per definitions and objectives provided above, Visser and Erasmus (2012:159) proclaim that before action can be executed, it is important that a thorough knowledge analysis be done

in terms of acknowledging different phases of the tendering process and the attached procedures. The phases of the tendering process are discussed below.

3.7.1.1 *Determination of requirements*

According to State Tender Board Act 86 of 1968 departments are expected to submit their supply items to the State Tender Board (STB) to determine the type of contract to be initiated in sourcing the supplier. Gildenhuis (2004:325) outlines the determination of requirements as a stage in calling for tender that deals with determining the type of contract that is to be employed when purchasing particular goods or services. Beil (2009:7) is of the opinion that a contractual agreement is indirectly portrayed by the issuing of Request for Quotation (RFQ) as the specification outlined by the buyer provides an impression upon a supplier about the scope of work to be done and the time required for delivering of goods or services. Visser and Erasmus (2012:159) regard the determination of requirement phase as an activity that can be executed effectively within a departmental arrangement in order to save time and avoid duplication of effort.

3.7.1.2 *Specifications*

Visser and Erasmus (2012:159) define specifications as a collaborative activity set to be performed by each department upon particular goods or service that is needed in order to accelerate the functionality of a department. Furthermore, mentioned authors initiate that the drafting of specification process acknowledges the establishment of the selection of a supplier and influences the contractual relationship between the buyer and supplier. Beil (2009:8) believes that the drafting of specifications intensifies the relation with the supplier surge capacity which is intended to examine a minimisation of material quality problems before delivery may take place by selecting a competent and cooperative supplier. Burt (1996:111) instructs that the specifications for the services acquired are to be kept clear and adequate to influence prospective suppliers to illustrate their project costs promptly, accurately and competitively.

3.7.1.3 Request for invitation of tenders

The initial instruction of request for invitation of tenders is to execute an action that, after the specifications have been drafted by departments, is to be submitted to the Office of State Tender Board to facilitate the invitation of tenders. Burt (1996:111) describes this action as a competitive bidding procedure which is aimed at advertising procurement to attract vendors who may offer attractive prices. Beil (2009:8) is of the opinion that the RFQ is another route that a buyer can use to structure a competitive tendering system because the RFQ is developed and issued by the buyer outlining the specifications of goods and services needed. Burt (1996:111) proclaims the nature to employ a successful bidding procedure is by ensuring a full compliance on specifications of items or services to be rendered. Coyle *et al* (2003:121) interpret the rationale behind the invitation of tenders as to draw possible suppliers from the supplier pool who can best meet the buyer's requirements.

3.7.1.4 Invitation of tenders

According to the State Tender Board Act 1968 (Act 86 of 1998), tenders are to be invited within the proximity of the Republic of South Africa and are to be advertised in the Government Tender Bulletin or any media that a prospective department may choose to use. The Public Financial Management Act, 1998 (Act 1 of 1998) supports section (12) (A) of the State Tender Board Act, 1968 (Act 86 of 1998) to determine a procurement framework that is fair, equitable, transparent, competitive and cost-effective. The Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) further supports the STB Act as it facilitates the initial aim of the Act which was to implement participatory programmes that were linked to engage Small, Medium and Macro Enterprises that are owned by previously disadvantaged individuals or groups. However, Visser and Erasmus (2012:161) highlight that the invitation of tenders should reflect information that will specify the closing dates, time of closure, validity of period and the address where tender documents are to be submitted.

3.7.1.5 Submission and consideration of tenders

According to the State Tender Committee, a tender invitation is expected to be closed at a particular time on a particular day to ensure the consideration of the bids.

The State Tender Board Act, 1986 (Act 86 of 1968) instructs that tenders must be opened in public in the presence of two officials. In terms of tender consideration, it is imperative to acknowledge Beil (2009:4) when he drew his belief on supplier qualification screening as a mechanism that is used to avoid non-performing suppliers, which grant buyers a pro-active verification of suppliers before they may award a purchasing contract. The primary rationale that enforces the action in this particular stage of tendering is to be firm on supplier surge capacity which is intended to examine a minimisation of material quality problems before delivery takes place by selecting a competent and cooperative supplier. For the reason demonstrated above, Visser and Erasmus (2012:161) improvise that Beil's discretion on submission and consideration of tenders can be further achievable through the adequate practice of communication with tenderers to sustain clarification of what is initially required of them.

3.7.1.6 *Acceptance of tenders*

According to the State Tender Board Act, 1968 (Act 86 of 1998) the acceptance of tenders are done by approving tender proposals that meet the specifications. Visser and Erasmus (2012:161) therefore inform that a successful tenderer is to be notified by means of an acceptance of tender document, which will outline the entire criteria used to evaluate and further document the contractual information in terms of the scope of work. Gildenhuis (2004:327) establishes a similar interrelation in understanding an acceptance of tender, as he believes that the tender documents and official letter of acceptance remain the documents that are to be regarded accountable for auditing purposes. An acceptance of tender allows both the buyer and the supplier an opportunity to explore the type of contract to be employed when a service is to be rendered (Gildenhuis 2004:327). Beil (2009:9) heralds the acceptance of a purchase order by a supplier as another way that relates to acceptance of tender as is common practice in the private sector.

The following section will discuss the mechanisms used when a supplier is to be appointed for the procurement of goods and services in local government.

3.8 THE IMPLEMENTATION OF PREFERENCE POINT SYSTEM

In terms of section 3 (1) of the Draft Preferential Procurement Regulations (2009) the preference point system outlines the implementation as has been adopted to be in practice, incorporating the formula to be used when calculating points for price of competitive bids. In terms of section 5 (1) of the DPPR of 2009 the formula is $P_s = 90(1 - P_t - P_{min})$ which includes VAT. Raga and Taylor (2010) encroach this formula to be practically applied by the organs of the state with the value not less than R30 000. The Government Gazette of 9 February 2007 sustains that the DPPR of 2009 promulgates prospective bidders to be awarded 20 points for having a B-BBEE status level that is engraved in the B-BBEE Codes of Good Practice. Schultz (2010:05) explains that a bidder that has attained B-BBEE criteria stands a good ground to be awarded a tender as the points earned will be added to the price points scored and only the bid with the highest points may be selected. The challenge of the preference point system is the inclusion of the Draft B-BBEE strategy of 2003 which regards the sole success of the DPPR of 2009 as possibly done through the process of establishing a B-BBEE verification Professional Regulator in a notion to strengthen monitoring, evaluation and reporting across all spheres of government and sectors.

In further discussion of the implementation of the preference point system, the study will discuss the national accreditation system and the exempted micro enterprises and qualifying small enterprises in the light of the challenges that the implementation of the preference point system posits on SMME.

3.8.1 South African National Accreditation System

According to section (25) of the South African Government Act, 2006 (Act 19 of 2006) the South African National Accreditation System (SANAS) is an approved national verification body that gives formal recognition to proficiency. In terms of the B-BBEE verification, SANAS has been bestowed an authority to descend verification agencies that will execute verification programmes, which will play an integral part in government's national objectives. The Department of Trade and Industry (2009) determines the verification agency, National Laboratory Accreditation service (NLA) as the body responsible for measure and classification of the Exempted Micro

Enterprises (EME) and Qualifying Small Enterprises (QSE). However, SANAS emphasises that once the verification agency has established the classification, it will be the responsibility of the agency to exert the methodology applicable as detailed in the verification manual.

3.8.2 Exempted Micro Enterprises and Qualifying Small Enterprises

Section (10) of the Broad-Based Black Economic Empowerment Act, 2003 (Act 53 of 2003) interprets the Exempted Micro Enterprises (EME) as business units that qualify for BEE compliance exemption by nature of the fact that the Enterprise has an annual turnover of less than the VAT registration limit as per the Value Added Tax Act of 1991. Draft statement 005 of 2017 of the Broad Based Black Economic Empowerment Act, 2003 (Act 53 of 2003) registers Qualifying Small Enterprises (QSE) as business units that qualify for measurement under the Qualifying Small Enterprise scorecard, as determined by the percentage of BEE Procurement Recognition Level which is ownership, management control, employment equity, skills development, preferential procurement, enterprise development and residual. The Department of Trade and Industry (2005) further confirms the compliance of these aforementioned enterprise segments to be measured by evaluating the BEE statuses based on overall performance in terms of the Qualifying Small Enterprises scorecard which is on the weighting and primary codes reference. With reference to the current practice of the preference point, the Ministry of State Owned Enterprises (2017) highlights that the suppliers who fall within the proximity of EME and QSE are eligible to be enrolled on the CSD before they can be considered as prospective bidders on government tenders.

3.9 CONCLUSION

In conclusion, this chapter discussed the participation of SMMEs in public procurement within a local government. The chapter discussed the participation of small, medium and micro enterprise in public procurement. It looked at public procurement arrangements within a sphere of local government with specific reference to intergovernmental arrangement, central purchasing and outsourcing purchasing in local government. Secondly this chapter reviewed the processes followed when a potential supplier is to be registered on a government institution

database with specific reference to creating supplier databases, the role of a supplier database and the implementation of a central supplier database. Thirdly The chapter discussed the processes followed when a supplier is to be appointed for the procurement of goods or services from R2 000 to R30 000 VAT inclusive, outlining the supplier qualification process, reference check, financial status check, surge for capacity availability, indication of supplier quality and ability to meet specifications. The chapter then further discussed the processes followed when a supplier is to be appointed for a procurement of goods or services from R30 0000 to R500 000 VAT inclusive, highlighting specifications, request for invitations of tenders, invitation of tenders, submission and consideration of tenders. Lastly the mechanisms applied in public procurement to appoint suppliers have been discussed in light of the implementation of preference point system.

The next chapter will discuss the challenges that SMMEs are faced with in public procurement within a local government level.

CHAPTER FOUR

CHALLENGES OF SMALL, MEDIUM AND MICRO ENTERPRISES ON A LOCAL GOVERNMENT LEVEL

4.1 INTRODUCTION

The previous chapter dealt with the participation of small, medium and micro sized enterprises in public procurement. This chapter will focus on the challenges facing SMMEs in local government. It will discuss the existence of Small, Medium and Micro Enterprises in South Africa with specific reference to Growth Employment and Redistribution Plan (GEAR) and New Growth Path (NGP). This chapter will also discuss the challenges facing the SMMEs in local government.

4.2 THE EXISTENCE OF SMALL MEDIUM AND MICRO ENTERPRISES IN SOUTH AFRICA

Seija (1990:82) describes the existence of SMME as it saves the government enormous amounts of financial resources by creating employment for the local dwellers and passing the savings on to consumers as they will be buying local products. The Constitution of the Republic of South Africa, 1993 advocated for full support of small and medium enterprises for purposes of employment creation, income distribution and growth.

The development of the SMMEs was addressed by the Growth Employment and Redistribution plan (1998) as it calibrates the performance of the SMME and promotes employment creation and economic development in which it must illustrate a recurring policy emphasis in the country's succeeding general economic strategies. Natrass (1998:02) states that almost two million jobs have been lost over the past two decades as a result of investments being channelled increasingly into capital-intensive sectors and technologies. Klasen and Woolard (1999:201) assert that the invention of the GEAR policy suggests that employment in manufacturing and services must be the heart of any sustainable and significant antipoverty programme. The National Economic Development and Labour Council (NEDLAC) (2000) defines GEAR as a process that focuses on productivity growth to eliminate low-productivity and prevent job losses.

However, the employment of the SMMEs was not regarded as successful by the Accelerated Shared Growth Initiative for South Africa (ASGISA) (2006) as it gave the impression that the government was in need to facilitate access to information, advice for small business and boost procurement in an aim to improve access to finance and affordable physical infrastructure. NEDLAC (2000) concurs that GEAR improved the private investment climate and produced better resources and institutional conditions for government to play a more active role in creating future development. However, Streak (2010:03) perceives GEAR as a fundamental failure as the policy had gloomy prospects. Government reverted back to the strategy of relying largely on the private sector to reduce poverty and failed to do more itself via effective income support programmes for the poor.

Most recently, the New Growth Path (2010:10) emphasises the advanced operation of SMMEs in South Africa as committedly endorsed by the Community Public Private Partnership Programme (CPPP) and the National Manufacturing Advice Centre (NAMAC) to promote SMMEs. New Growth Path Framework (2010:27) assures that it will strengthen and consolidate initiatives to support small and micro enterprise by integrating small and micro enterprise support systematically into all sector strategies. Furthermore, New Growth Path Framework (2010:27) aligns the critics on ensuring a space for smaller enterprise in the value chains of major industries and to support the development of clusters and sectoral regulations and market institutions that meet the needs of smaller producers.

4.3 CHALLENGES FACING SMME IN LOCAL GOVERNMENT

In this section, the challenges that the SMMEs face in local government will be discussed. These challenges include the lack of entrepreneurial coaching by the local government, low demand for the commodities, lack of experience, skills and knowledge, limited access to debt finance, poor marketing skills, poor managerial and lack of planning skills, gaps in implementation of preference point system, poor management of core strategies of the preferential system, gaps in implementation of preference point system, poor management of the tender system, improper

integration of central supplier database, globalisation and the impact of e-procurement in local government level.

4.3.1 Lack of entrepreneurial coaching by the local government

Rwigema and Venter (2004:6) define entrepreneurship as the process of conceptualising, organising, launching through innovation and nurturing a business opportunity into a potential high growth venture in a complex, unstable environment. Dempsy (2009:3) acknowledges entrepreneurship as it creates new, competitive markets and businesses which provide a solid foundation of job creation and has a multiplying effect on the economy. Gore (2010: 87) agrees with Dempsy (2005:23), as he acknowledges that entrepreneurship empowers citizens who are required for any emerging market to move forward and successfully integrate into the global economy.

According to Fumo and Jabbour (2011:457) lack of entrepreneurial education for SMME owners is a challenge within local government. Martinsons (2008:24) and Okpara (2011:62) address the main challenge in SMME entrepreneurship as caused by the regulatory and legal issues. Urban and Naidoo (2012:25) describe lack of macro-economic policies and control systems of regulatory policies in developing countries as fundamental elements that hamper the success of entrepreneurial education within local municipalities.

Groh (2012:77) details another challenge as emanating from what he capacitates as bureaucracy red tape, which equips the existence of large and well-established state-owned enterprises to prevent private sector enterprises from entering key sectors as new entrants and small businesses, likely to contribute to failure due to the lack of resources.

4.3.2 Low demand for the commodities

According to Bingham and Mier (1993:3) the challenge of local SMMEs in not having their products and services purchased, is caused by the lack of development of municipal infrastructure. Thekiso (2016:20) describes the development of municipal infrastructure as a public choice for SMMEs to choose to operate in a certain locality within boundaries of certain local governments where development in transportation

will be visible, access to markets will be viable, access to material inputs and the availability and cost of labour would be affordable as the cost would be a subversion of the government.

Wakeford (2002:31) believes that the low demand for commodities of SMMEs is caused by the lack of an expansionary monetary policy which results in a high unemployment rate. Wooldridge (2006:54) defines expansionary monetary policy as a process of increasing the money supply in order to lower unemployment, boost private-sector borrowing, consumer spending and stimulate economic growth.

4.3.3 Lack of experience, skills and knowledge

Tushabomwe-Kazooba (2006:871) highlight that most SMMEs are challenged by technical skills to manage operations and management functional areas of the business. Omerzel and Antonic (2008:23) noticed that most SMME businesses are characterised by poor bookkeeping practices which ultimately make the SMMEs to fall short of their success in being sustainable.

Tushabomwe-Kazooba (2006:870) regards poor bookkeeping practices as a reason why SMMEs are disallowed access to the main stream economy. The successful bidder will often have the challenge of having a non-compliant tax status on their registration report which will result in the Bid Evaluation Committee (BEC) reviewing their decision and executing the following:

- awarding the tender to a second highest point scorer; or
- re-advertising the bid as quotations may no longer be valid.

4.3.4 Limited access to debt finance

Bolton (1971:11) highlights that the SMMEs are not benefitting any financial aid from the government but instead they are generating business capital by means of personal savings, friends and family members. Kim (2011:52) states SMMEs have challenges in honouring loan requirements from external financial providers as external financial institutes mostly do not have divisions that cater for the entrepreneur and small business ventures.

Booyens (2011:524) explains that the lack of funding and lack of access to finance is caused by a weak entrepreneurial culture, poor management skills and high barriers to market entry. Mago and Toro, (2013:4) claim that the lack of provincial offices, the high cost of searching for support services, lack of well-trained accredited service providers, cumbersome administrative requirements and insufficient knowledge transfer between consultants and small businesses as challenges towards access to finance for SMMEs.

4.3.5 Poor marketing skills

According to Cook (1994:87) the marketing element in SMMEs is critical because it verifies whether the establishment will prosper or fail. Bjerke and Hultman (2002:53) regard marketing in business as one system that allows potential consumers to become aware of the products and services the establishment may be selling. However, Smit (1999:21) believes that the lack of marketing in SMMEs is caused by the lack of financial viability because marketing is costly when one SMME continuously plans on growing the market niche. Murphy (2006:13-14) outlines the deteriorating marketing skills within the proximity of SMMEs as critically produced by the low product demand of consumers which defuels and shifts the projections of the enterprise. The Department of Trade and Industry (2007:48) determines SMMEs as not having much marketing knowledge and platforms to advertise their commodities. The Council of Scientific and Industrial Research (CSIR) (1999:13) interprets the poor marketing skills as triggered by the diverse lack of businesses linkages between small and big companies.

4.3.6 Poor managerial and lack of planning skills

According to Business Environment Specialists (BES) (2014:61) SMMEs are experiencing challenges regarding workforce management. BES (2014:61) attest the challenges in association with the labour system which hampers the SMMEs' willingness to hire. Furthermore, Rogerson (2008:81) describes the red tape as noticeable where small firms can spend up to eleven days per case at the CCMA to resolve a dispute.

Nkwe and Rampai (2017:17) associate poor managerial skills and lack of planning to emanate from a financial function which is caused by the payment terms of invoices

of government institutes. Nkwe and Rampai (2017:17) argue that the previously disadvantaged SMME owners do not have sufficient cash flow resulting in business operations stagnating as a result of suppliers being registered on a 30-day payment period by government institutions.

4.3.7 Gaps in implementation of preference point system

According to Magoro (2010:14) the preference point system has been faced by obstacles that deprives rightful contractors a rightful opportunity to be involved in a mainstream economy. Hlakudi (2012:258) identifies the prevailing challenges within the preference point system as discussed below.

4.3.7.1 Poor management of core strategies of the preferential system

Section 217 (1) of the Constitution of the Republic of South Africa, 1996 in conjunction with the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) stipulates that an organ of state must determine its preferential procurement policy and implement it in accordance with the preferential points system. The achievement of the objectives of the Preferential Procurement Policy therefore lies mainly in the commitment of top management and the empowerment of the people tasked with the implementation of the policy (Hlakudi, 2012:258). However, De La Harpe (2009:87) assesses the occupation of top management in municipalities as ill-trained and not supported by qualified accounting officers that ultimately hinders the importance of the policy to create economic opportunities for PDIs and PDGs.

4.3.7.2 Inadequate security measures when selecting contractors

The selection committee is, according to the tendering process, tasked to evaluate each company's submitted proposal on the database and conduct the adjudication process based on the proposal and the procurement compliance of the company (Rampedi, 2008:4). Magoro and Brynard (2010:14) maintain that the preference point system is lacking a method to prevent the awarding of contracts to physically non-existent companies. Hlakudi (2012:259) indicates that the preference point system accepts the credential status of companies submitting their proposals only at face value.

4.3.7.3 *Lack of follow up routine when tenders have been awarded*

Bamberger (2004:122) highlights monitoring of the implementation of projects as a continuous process which is crucial right from the start of any project. Magoro and Brynard (2010:15) state that government pays for the finished product. The challenge of the preferential policy is, therefore, not having any follow up procedures to detect payments for goods never received and services not rendered. The preferential point system process should institute a mechanism that will enable a follow up routine as a control measure, because government is not the service provider but the facilitator (Hlakudi, 2012:258).

4.3.7.4 *Lack to curb corruption within procurement*

According to Halchin (2006:24) corruption in procurement takes place when government encourages bidding companies to interact with government agencies prior to the agency putting out its Request for Proposal (RFP). The exercise of government interacting with agencies allows connected companies to help shape the RFP and further increase their chances of winning the contract (Vishny, 1993:457). Bolton (2006:2) explains corruption within government as propelled by extensive use of contracts to obtain goods and services from external suppliers. Hlakudi (2012:257) maintains that the preference point system does not make provision to curb the prevalence of corruption in the procurement process. Corruption undermines the government value system to fund contractors as a procurement policy function and tool to achieve socio-economic objectives.

4.3.8 *Poor management of the tendering system*

Koppelman (2000:1-8) addresses the challenge within the tendering system as emanating from methods of procurement used during the tendering process, The author believes that most of the government departments employ framework contracting. Onafowote (2010:3) regards framework contracting as a long-term agreement with suppliers, contractors and service providers of non-consulting services which sets out terms and conditions under which specific procurements can be made throughout the term of the agreement. Koppelman (2000:9) understands the usage of framework contracting by the government departments, as to avoid a bureaucracy in contract formation.

Onafowote (2010:3) believes that the challenge in the tendering process come into effect on a tender evaluation phase. The author addresses the lack of competence as a challenge to be addressed. According to Pauw, Woods and Van Der Lande (2002:231) the non-adherence to evaluation schedules and rules, delay the evaluation report and thus results in the tender publication being discredited. Koppelman (2000:8) agrees with the aforementioned authors and further states that the lack of competence of officials results in lack of strategy. Tendering processes are often hosted in non-conducive evaluation venues that traditionally results in poor quality evaluation reports because of the tender committee's loss of concentration.

The lack of trust in the Bid Adjudication Committee (BAC) implants a challenge on the tendering processes (Gildenhuis, 2004:151). Onafowote (2010:3) posits that the lack of trust is created by accounting officers having personal interest in a particular platform for bids solicitation. Koppelman (2000:8) describes evading the use of the right platform for bids solicitation as another contributing factor in a lack of trust which results in a having fewer bidders and limited competition.

4.3.9 Improper integration of Central Supplier Database in Local government

A CSD challenge includes not corresponding directly with the implementation process, as the prospective suppliers are allegedly registering their services or commodities incorrectly and subsequently results in government (as a buyer) to deviate from the Supply Chain Management (SCM) normal bidding process due to evidence that one supplier possesses the unique and singular available capacity to meet the requirements of the institution (Nkwe & Rampai, 2017:30).

Ruiker (2015:374) associates the CSD roll-out challenges as identical to that of e-procurement. Ruiker (2015) additionally cites the lack of access to IT infrastructure as one link that discourages support of the CSD technology by emerging firms and those in remote areas in the country. The lack of trained, skilled and experienced staff to operate the CSD systems is a second challenge noted on CSD roll-out. As a result of the lack of efficient of communication lines in terms of internet connections, and the registration that needs to be completed electronically, informal SMME owners are not always able to complete the registration process successfully. It must, therefore be borne in mind that the registration deficit discourages the aims of

the Green Paper on Public Procurement Reform in terms of promoting economic reconciliation and competitiveness. The implication of value for money is not based on cost alone but includes a maximum criterion that will define socio-economy, quality, transparency and SMME partnership as stipulated in the paper (National Treasury Regulations, 112:2017).

According to the Institute of Municipal Finance Officers (IMFO) (2015:09) the CSD system does not have the capacity to verify supplier information, especially the Construction Development Board (CIDB), due to downtime of databases experienced when updating company details, The body of IMFO (2015:09) further states the responsiveness of the system fails to have consequences on local government in awarding of contracts.

Section 38 (1) (c) of the Municipal Supply Chain Management Regulation, 2017 requires a supply chain management policy to provide measures for combating abuse of the supply chain management system, and must enable the accounting officer to check the National Treasury's database prior to awarding any contract. The consultation of IMFO (2015:10) regards the information captured on CSD as supplier information which is not credible for financial audit due to the non-verification mechanism implemented on the system. Furthermore, SCM Regulation 14 requires municipalities to maintain a list of accredited prospective service providers. The municipalities are bound by this clause. The CSD system does not provide a timeframe to amend the Regulations as well as the framework of delegation to state the personnel who will take accountability for the accreditation of suppliers.

4.3.10 Globalisation

According to Hough, Neuland and Bothma (2003:4) globalisation is the movement of resources, goods, services and skills over international borders. Dlungwana, Noyana, Rwelamila, Nxumalo and Huyssteen (2002:54) define globalisation as introducing situations to the SMEs of developing countries which need to be addressed equitably and swiftly. Ofori (2000:87) demonstrates that there is a growing realisation by small enterprises of many developing countries that globalisation is real, irreversible and has the potential to destroy non-competitive

contractors. However, Mashamba (2001:97) disagrees with Ofori (2000) who stresses that globalisation brings opportunities for SMEs to subcontract work from large, multinational enterprises and, in limited cases, to form joint ventures and partnerships. In addition, Ofori (2000:14) maintains that local SMEs have no funds or expertise to participate in the sponsorship of privatised projects, but if their expertise and capacity could be enhanced, they could be in a good strategic position to be part of joint ventures with international firms. The fact that local SMEs lack the technical and managerial capability to undertake most of the foreign-funded projects deprives them an opportunity to be considered for possible sound partnership arrangements with international/foreign firms. The assessment of small and medium sized contractors in the developing countries due to globalisation contributed to the declining market share because of stringent competition from foreign contractors invading their previously safe territories (Ofori, 2000:16).

4.3.11 The impact of e-procurement in local government level

According to Majadi, Jahan and Hoque (2012:24) e-procurement is a business-to-business or business-to-consumer or business-to-government purchase and sale of supplies, work and services through the internet as well as other information and networking systems, such as electronic data interchange and enterprise resource planning. Somasundaram (2008:3) interprets the existence of e-procurement in government to perform the following:

- Workflow system administering administrative and technical approval processes;
- E-tendering;
- E-auctions (forward and reverse);
- Contract management (preparation and verification of bills in respect of works and services contracts);
- Order management (for utilisation of goods and service rate contracts);
- Supplier enrollment.

However, Angeles and Nath (2007:44) describe the challenges of e-procurement as the implementation stage within municipalities. Angeles and Nath (2007:44) believe that the rollout of e-procurement survived a lack of system integration and

standardisation, immaturity of e-procurement-based market services and end user resistance, as well as difficulty in buying and integrating e-procurement with other systems. The immaturity of tenderers in terms of generating catalogues, processing electronic purchase orders, and the usage of invoicing mechanisms also display a challenge for many local municipalities because the success of e-procurement solutions relies on the network effect that will be more effective if enough players are adopting the same technology.

4.4 CONCLUSION

In conclusion, the study has mentioned and discussed the challenges that SMMEs are facing in local government. It has discussed the lack of entrepreneurial coaching by local government, low demand for commodities, lack of experience, skills and knowledge, limited access to debt finance, poor marketing skills, poor managerial and lack of planning skills, gaps in implementation of preference point system, poor management of core strategies of the preferential system, inadequate security measures when selecting contractors, lack of follow up routine when tenders have been awarded, lack to curb corruption within procurement, globalisation and the impact of e-procurement in local government level.

The next chapter will present the conclusion and the recommendations on the challenges faced by the SMMEs in public procurement.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The aim of the study was based on investigating the challenges within public procurement that disempowers the development of SMMEs in local government, with specific reference to Sundays River Valley Municipality. The study established that there are a number of challenges that SMMEs are facing within the practice of public procurement. These challenges range from poor management of core strategies of the preferential system, lack of follow up routine when tenders have been awarded, poor management of the tendering system and limited access to debt finance.

In drawing a reference to what this research has established on the application of Total Quality Management (TQM), it is that TQM enforces progressive approach in supplier selection. Substantiating to that, Kotler (2008:25) reflected in section 2.2 regarding the selection of suppliers that TQM should enforce a system that will identify, evaluate and select suppliers based on their capability to supply material resources in compliance with organisational requirements.

The objectives as outlined in section 1.6 were analysed to achieve the aim of the study. These objectives were dealt with as follows:

- **Objective one** which is to explain and describe the concept and theory of public procurement is depicted in Chapter two of the study.
- **Objective two** which is set to establish the processes that SMMEs adhere to when they are engaged in public procurement processes, is addressed in Chapter three of the study.
- **Objective three** which is to investigate challenges that SMMEs are facing in public procurement, is outlined in Chapter four.

- **Objective four** proposes recommendations on the participation of SMMEs in public procurement.

5.2 SUMMARY OF THE STUDY

Chapter one presents the rationale and background of the study. The chapter outlines the research problem, research questions, aims of the study, theoretical and conceptual framework, preliminary literature review, policy framework for public procurement in South Africa, research methodology and design, delimitation of the study, significance of the study, limitation of the study and chapter outline.

Chapter two discussed a conceptual and theoretical view on public procurement. It encompassed an in-depth discussion of concepts and theories of public procurement relevant to the study. These include public procurement principles, procurement practice in public administration, a distinction between centralised and decentralised procurement, mechanisms of public procurement and Total Quality Management.

In Chapter three an exposition of the participation of Small, Medium and Micro Enterprises in public procurement was given. This was done in the context of intergovernmental arrangements, central purchasing, supplier database in local government and supplier selection processes.

Chapter four discussed the challenges that SMMEs are facing in local government. Firstly, it discusses the existence of SMMEs in South Africa. This was followed by the challenges facing SMMEs in local government.

Chapter five summarises the findings and provides recommendations on the challenges discussed in Chapter 4 with the aim of increasing participation of SMMEs in public procurement processes.

5.3 SUMMARY OF FINDINGS OF THE RESEARCH OBJECTIVES

Chapter one dealt with the general background of the study, problem statement, theoretical and conceptual framework, preliminary literature review and policy

framework for public procurement in South Africa. This section will attempt to establish whether the research objectives have been achieved.

5.3.1 Research objective one: To explain and describe a concept and theory of public procurement.

Chapter two explains (cf. section 2.3) the concept of public procurement as essentially central to the government service delivery system and promotes objectives which aim at using procurement to promote social, industrial and environmental policies. The principles (cf. section 2.4) that should be considered during the process of public procurement are discussed and the argument on public procurement as an activity (cf. section 2.5) that must be carried out to establish the guarantee that an organisation is supplied with the right materials and services in the right quantities, at the right time and place, and at the best competitive price.

This chapter also explains the Total Quality Management approach (cf. section 2.2). This approach requires efficiency in public procurement and participation of suppliers in developing the general strategies of the organisation. Chapter two further provides a distinction between centralised and decentralised public procurement (cf. sections 2.6-2.7) by noting that centralised procurement is an approach where one government organisation represents a collective need of ministries and other state bodies carries out procurement functions. On the other hand, decentralised procurement is the device employed to promote open and transparent competition in an aim to achieve value for money. It further outlined the characteristics of centralised and decentralised procurements.

5.3.2 Research objective two: to establish the processes that SMME's adhere to when they are engaged in public procurement processes.

Chapter three (cf. section 3.8) found that the preference point system has been faced by obstacles that deprives rightful contractors a rightful opportunity to be involved in a mainstream economy. It was outlined that SMMEs are supposed to receive specifications on a Request for invitation of tenders. Before or on the closing date, the SMMEs are expected to submit the invitation of tender. The bid evaluation committee upon the close of invitation of tenders, is subjected to select the best suitable supplier using the preference point system. The employment of the

preference point system should be implemented with the inclusion of exemption of micro enterprises and qualifying small enterprises to provide a fair bidding chance to previously disadvantaged SMMEs.

5.3.3 Research objective three: To investigate challenges that SMME's are facing in public procurement

In chapter four an in-depth discussion of the challenges that SMMEs are facing was given and the following findings and shortcomings were identified:

- **Lack of entrepreneurial coaching by the local government** – it was indicated (cf. section 4.3.1) that SMMEs are challenged by lack of entrepreneurial coaching by the local government. This is caused by regulatory and legal issues as well as the lack of macro-economic policies and control systems of regulatory policies in developing countries.
- **Low demand for commodities** – it was highlighted (cf. section 4.3.2) that SMMEs are challenged with a low demand for commodities. This challenge is caused by the lack of development of municipal infrastructure and by the lack of expansionary monetary policy which results in a high unemployment rate.
- **Lack of experience, skills and knowledge** – it was outlined (cf. section 4.3.3) that lack of experience, skills and knowledge is another challenge that SMMEs are faced with. The cause of lack of experience, skills and knowledge based on poor bookkeeping practices and technical skills to manage operations and management.
- **Limited access to financial assistance** - it was drawn (cf. section 4.3.4) that limited access to financial assistance is a challenge that hampers the success of SMMEs. The cause of this challenge is in existence through weak entrepreneurial culture, poor management skills and high barriers to market entry.
- **Poor marketing skills** - it was summarised (cf. section 4.3.5) that poor marketing skills is one element that contributes to SMMEs being sustainable. The effect of the cause is low product demand by consumers that defuels and shifts the projections of the enterprise, lack of financial viability and lack of businesses linkages between small and big companies.

5.3.4 Research objective four: To make recommendations on the participation of SMMEs in public procurement

In chapter five (cf. section 51-5.3) the summary of findings and recommendations were discussed.

5.3 RECOMMENDATIONS

The SMMEs play a role in procurement as an activity to supply the municipality with the right materials and services in the right quantities, at the right time and place, and at the best competitive price (Van Rooyen & Hugo, 1986:4). However, this may not be the case in local municipalities such as the Sundays River Valley Municipality. In some instances, the municipality created a “Frankenstein” to ring-fence certain projects for big established businesses. This practice is a disadvantage for the SMMEs hence the municipality needs to devise mechanisms and strategies that will benefit the SMMEs in procurement.

This section will focus on the recommendations for the study.

5.3.1 Recommendation 1: improving participation of SMME through decentralised procurement approach

Section 1 (19) of the Municipal Systems Act, 32 (32 of 2000) declares that municipalities are compelled to undertake development-oriented planning to ensure that they achieve their constitutional mandates and retain sustainability. The Local Government Transition Act, 209 of 1999 determines local government as mandated to be a key arena for the democratic participation of ordinary citizens (cf. section 3.3). Based on the statement above, the practice of intergovernmental purchasing arrangements defeats the aim of democratic participation of ordinary citizens. It is therefore recommended that a decentralised approach be employed. The benefits of the recommended procurement system will realise the following:

- The procurement function will function closer to the needs of the final user which will result in having more economical efficiency;

- There will be a better promotion of the development of the private sector, including small and medium sized enterprises;
- Greater possibilities for SMEs to compete successfully for contracts;
- Opportunities for local purchasers to obtain lower prices for locally manufactured goods.

5.3.2 Recommendation 2: selection of contractors

The top management's role in selecting the supplier is to approve the selected supplier motivation as they are the cost centre owners. In many cases delays in the process are common and caused by top management not being available to authorise the selected supplier motivation. It is therefore recommended that the function be descended to the heads of department. In this way effective supplier selection will be achieved which will allow the service or goods required to be supplied timeously, with less bureaucracy as a result of shorter time frames and fewer forms for both purchasers and suppliers. Ultimately full participation and commitment of the SMMEs on procurement transactions will be achieved.

5.3.3 Recommendation 3: continuous monitoring and evaluation on invitation of suppliers

The Preference point system is in place to promote previously disadvantaged SMMEs to be involved in main stream economy. Implementing a follow up method in a preferential process when tenders are awarded will realise a supplier rotation. It is therefore recommended that monitoring and evaluation be implemented as it will propel a supplier rotation. Most of disadvantaged SMMEs in category B municipalities do not receive the Request for Quotation (RFQ) as the municipal officials will only invite the same suppliers whenever the need to procure is apparent.

5.3.4 Recommendation 4: Discouraging fronting

Hlakudi (2012:25) claims that fronting is a fraudulent activity that benefits the bidding companies to claim preferential procurement points that they do not deserve. Fronting activity discourages the previously disadvantaged SMMEs as the awarding of tenders relies on the preference points earned. Kotler (2008:25) supports the selection process of TQM because the system identifies, evaluates and selects

suppliers based on their capability to supply material resources in compliance with organisational requirements. It is recommended that all role-players in supply chain processes are to ensure:

- that a reference check is conducted on suppliers' profiles prior to the awarding of tenders;
- a fair and equal opportunity be accorded to all bidders and no barriers are created to deter competition;
- there is be a rotation of different suppliers on a successive short list to ensure quality suppliers; and
- bidders are not be included unless they fully comply with the eligibility requirements of competence capacity resources and experience required for the execution of the procurement required.

5.3.5 Recommendation 5: Partnership between small and established businesses

Chapter 4 (cf. section 4.3.3) highlights that most SMMEs are challenged by technical skills to manage operations and management functional areas of the business. SMMEs are experiencing challenges regarding the workforce management (cf. section 4.3.6). Based on the challenges outlined above, it is recommended that the small businesses be coached by established businesses with the aim of equipping them with managerial and operational technical skills.

5.3.6 Recommendation 6: Training centres and personnel to assist SMME owners with a registration process of central supplier database.

SMME owners in category B municipalities do not have the capacity to enroll their registration (cf. section 4.3.9) because of the inefficiency of communication lines in terms of internet connections to complete the registration as the registration is required to be completed electronically. The prospective suppliers are allegedly registering their services or commodities incorrectly and subsequently this results in government (as a buyer) to deviate from the Supply Chain Management (SCM) normal bidding process due to evidence that one supplier possesses the unique and singular available capacity to meet the requirements of the institution. In conjunction

with the challenges discovered within the use of CSD, allows this study to make the following recommendations:

- Category B municipalities must register on the CSD registration programme that will educate and coach SMMEs on the registration process;
- The registration process should focus on the commodity registration;
- The municipalities must provide venues and the necessary Information Technology (IT) equipment where the registration may be done to overcome the incomplete registration by SMMEs.
- Municipalities must appoint designated officials to facilitate the CSD registration programmes in order to avoid and eliminate already existing coalition.
- The National Treasury must invest in the upgrading of a CSD system to be able to verify the CIDB certificates.

5.4 FURTHER RESEARCH ON THIS TOPIC

This study focused on challenges facing SMMEs in public procurement within Sundays River Valley Municipality. Future studies could examine the role of local government in SMME development.

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ANNEXURE A: LANGUAGE LETTER



One Stop Solution
24 Firenze Gardens
Warbler Road
Cotswold Ext
Port Elizabeth
6045

www.onestopsolution.co.za

TO WHOM IT MAY CONCERN

I, Marina Els, declare that I have done the language editing for the dissertation of:

Name: **MAKHAYA NELSON MKELE**

Student Number: **212311069**

Entitled: **THE CHALLENGES FACING SMALL, MEDIUM AND MICROSIZE ENTERPRISE IN PUBLIC PROCUREMENT: A CASE OF SUNDAYS RIVER VALLEY MUNICIPALITY**

Submitted in partial fulfilment of the requirements for the degree of Masters In Public Administration in the Faculty of Arts at the Nelson Mandela university.

I cannot guarantee that the changes that I have suggested have been implemented nor do I take responsibility for any other changes or additions that may have been made subsequently.

Any other queries related to the language and technical editing of this treatise may be directed to me at 076 481 8341.

Signed at Port Elizabeth on 27 November 2018

.....
Marina Els

ANNEXURE B: TECHNICAL EDITORS LETTER



18 Woltemade Street
Kabega Park
6235

TO WHOM IT MAY CONCERN

I, Redène Steenberg, declare that I have done the technical editing of **MAKHAYA NELSON MKELE (s212311069)** research paper entitled: **TITLE OF PROJECT: SYSTEMATIC REVIEW OF RURAL HEALTH DEVELOPMENT RESEARCH IN SOUTH AFRICA**

submitted in partial fulfilment of the requirements for the Degree of Masters in Public Administration in the Faculty of Arts at the Nelson Mandela University.

Any other queries related to the technical editing of this treatise can be directed to me at 076 481 8341

Signed at Port Elizabeth on 15 November 2018.

Mrs R.N. Steenberg

Facebook: <https://www.facebook.com/One-Stop-Solution-1532906317029355/>

Website: www.onestopsolution.co.za