

**Barriers to African black contractors in the Western
Cape Construction Industry**

By

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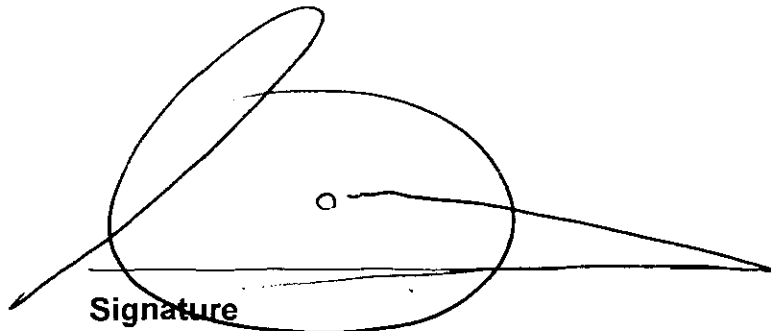

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Declaration

I, Clive Jacobus Fortuin, hereby declare that the "Barriers to African black contractors in the Western Cape construction industry" is my own original work and I have not previously in its entirety or in part submitted it at any university or other tertiary institution for a degree and that all the sources I have used or quoted have been indicated and acknowledged by means of complete references. Furthermore, it represents my own opinions and not necessarily those of the Cape Technikon.

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Abstract

The procurement of goods and services in the public sector accounts for a huge portion of domestic spending. An improvement in government procurement has a direct effect on the country's economic performance. Government procurement systems are subject to increasing scrutiny and reform due to domestic and international pressure. Procurement reform is being driven by the principles of democracy and fairness, the opening of the global market, and the small, medium and micro enterprises (SMMEs) that have been excluded from government procurement.

Research has been done on the development of SMMEs in South Africa, highlighting the barriers experienced by these enterprises. As only limited research has been done on the barriers experienced by the sub-category of African black SMMEs, this study focuses on those barriers experienced by African black SMMEs in the construction industry in the Western Cape, with specific emphasis on the Emerging Contractor Development Programme (ECDP) of the National Department of Public Works in Cape Town.

The purpose of this study was to determine the reasons why African black contractors cannot find the opportunities that they seek. The opportunities may be available, but the financial capacity of these contractors is limited. The lack of finance or the lack of access to finance causes these contractors not to be able to perform as anticipated.

The survey was done among African Black contractors to determine from them what their experiences were with the Emerging Contractor Development Programme. It also focused on the number of opportunities given to them by the National Department of Public Works and the effect of the lack of finances.

DEDICATION

I dedicate this thesis firstly to my mother, Shirley Georgina Fortuin, who has brought me into this life and has been an inspiration to me throughout my studies. Secondly to my late father, Jacobus Andrew Fortuin, who unfortunately passed away before the completion of my studies and thirdly to my aunt, Doreen Fortuin (Dolla), for investing her time in my early years by fulfilling the role of surrogate mother.

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 - my son Clayton and daughter Crystal for their understanding during my years of study

Definitions

ABE	Affirmable Business Enterprise
APP	Affirmable Procurement Policy
BCAWU	Building, Construction and Allied Workers Union
BCC	Black Construction Council
BIFSA	Building Industry Federation of South Africa
BITS	Building Industry Training Scheme
BMF	Black Management Forum
CEDF	Construction Employment Development Forum
CEITS	Civil Engineering Industry Training Scheme
CEPA	Construction Enterprise Promotion Agency
CIC	Construction Industry Confederation
CIDB	Construction Industry Development Board
DTI	Department of Trade and Industry
FABCOS	Foundation for African Businesses and Consumer Services
HDI	Historically Disadvantaged Individual
NABCAT	National Association of Black Contractors and Allied Trades
NAFCOC	National African Chamber of Commerce and Industry
NEDLAC	National Economic Development and Labour Council
NGO	Non-Governmental Organisation
NHBRC	National Home Builders Registration Council
NPWP	National Public Works Programme
PDI	Previously Disadvantaged Individual (see also HDI)
SACOB	South African Chamber of Business
SADC	Southern African Development Community
SALGA	South African Local Government Association
SMME	Small, Medium and Micro Enterprises
TPP	Targeted Procurement Policy

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CHAPTER 1

INTRODUCTION AND STRUCTURE OF THE STUDY

1.1 INTRODUCTION

The procurement of goods and services in the public sector accounts for a huge portion of domestic spending. An improvement in government procurement has a direct effect on the country's economic performance. Government procurement systems are subject to increasing scrutiny and reform due to domestic and international pressure. The recent focus on the procurement of weapons by the South African government with the subsequent investigation of the affair is an example of the scrutiny of government procurement. Procurement reform is being driven by the principles of democracy and fairness, the opening of the global market, and the small, medium and micro enterprises (SMMEs) that have been excluded from government procurement.

Any Government procurement should support the following in its procurement processes:

- Value for money
- Elimination of corruption
- Creation of an enabling environment for small, medium and micro enterprises
- Promotion of effective and efficient procurement practices and systems
- Achieving continuing improvement in value for money, based on whole life cost and quality
- Standardised tendering procedures, policies and contract documentation.

In a democratic society, Government procures goods and services by means of public funds, which are raised in the form of various taxes. This places a responsibility on government to achieve, maintain and enhance the welfare of its citizens. To achieve these objectives, government procurement must be controlled by legislation to prevent nepotism, corruption and bribery. The National Treasury has tasked the State Tender Board to fulfil the role of procurement watchdog. Other

legislation and policy documents pertaining to government procurement exist, and some of these will be discussed in later chapters.

Research has been done on the development of SMMEs in South Africa, highlighting the barriers experienced by SMMEs (Cupido, 1999; Petje, 1999). As only limited research has been done on the barriers experienced by the sub-category of African black SMMEs, this research will focus on those barriers experienced by African black SMMEs in the construction industry in the Western Cape, with specific emphasis on the Emerging Contractor Development Programme (ECDP) of the National Department of Public Works in Cape Town.

1.2 PROBLEM STATEMENT

During the apartheid era prior to 1994, South Africa was characterised as one of the world's most brutal and unjust economic and political systems. This unjust system has led to inequalities in wealth, income and poverty for huge sections of the population, although the ANC government has committed itself to overcoming poverty and improving the quality of life for the majority of South Africa's citizens. According to the White Paper on Public Works (South Africa, 1997:1), the wealthiest 2.4 million of South Africans account for over 40 percent of all expenditure, while the poorest 21 million account for less than 10 percent of all expenditure. This inequality has led to an unbalanced economy with high levels of unemployment.

Government has thus prioritised the development of small businesses, which has resulted in the promulgation of the National Small Business Act (NSBA) in 1996 with the following as its key objectives:

- Creating an enabling environment for small businesses;
- Facilitating education dealing with finance, income, wealth and earning opportunities;
- Addressing the legacy of apartheid-based disempowerment of black business;
- Supporting the advancement of women in all business sectors;
- Creating long term jobs;
- Stimulating sector-focused economic growth;
- Strengthening the cohesion between small enterprises;

- Levelling the playing fields between big and small business, as well as rural and urban business;
- Preparing small business to comply with the challenges of international competitive economy (National Small Business Act, 1996).

The inequalities in wealth and income based on race, gender, age, disability and urban or rural location have created the need for the National Department of Public Works and State Expenditure to initiate the reform of the national procurement practices. Various measures have been introduced since 1994 to stimulate the participation of Previously Disadvantaged Individuals (PDI) in procurement practices. One of the measures introduced was aimed at emerging contractors in the construction industry is the Emerging Contractor Development Programme (ECDP) (South Africa, 1997).

The National Department of Public Works in 1998 launched the Emerging Contractor Development Programme in the six provinces where its Regional Offices were already established. Table 1.1 lists the six provinces and the cities where the Emerging Contractor Development Programme offices are located. The purpose of the ECDP offices is to increase access for PDIs to job opportunities in construction related work in these provinces.

Table 1.1 ECDP locations in 1998

Province	City
Western Cape	Cape Town
Gauteng	Johannesburg
Free State	Bloemfontein
Northern Cape	Kimberley
Eastern Cape	Port Elizabeth
Kwa Zulu Natal	Durban

Source: Department of Public Works (1998:23)

The National Department of Public Works envisaged piloting the Emerging Contractor Development Programme in these six provinces and then extending it to the other three provinces, including various provincial government departments and local municipalities. After the election in 1999, Ministerial portfolios changed and a new Minister and a Director-General responsible for the National Department of Public Works were appointed. The drivers of the procurement reform process

moved to other portfolios and the ECDP as a strategy came to a near standstill. This created the perception that not much progress had been made on procurement reform, and that the white established businesses were still getting the major contracts, while blacks had to be satisfied with subcontracting.

The purpose of this research is to determine what barriers are being experienced by the African black SMMEs in the construction industry in the Western Cape and what measures should be implemented to ensure that African black SMMEs are being empowered. Factors such as lack of access to work opportunities, lack of management expertise, lack of access to training and lack of access to finance are further constraints on the SMME sector. Bernstein (2000:37) adds that the black SMME also has to cope with frustrating bureaucratic red tape. These factors have a negative effect on the successful implementation of preferential procurement.

Government realised that it needed to legislate for procurement in order to ensure compliance, which led to the Preferential Procurement Policy Framework Act (PPPFA) of 2000 (Act 5/2000), thus forcing all organs of state to implement preferential procurement uniformly .

1.2.1 PREFERENTIAL PROCUREMENT

The Preferential Procurement Policy Framework Act (Act 5/2000) introduced the concept of a points system to be applied by all 'Organs of State' (i.e. all departments in the Central and Provincial Government(s) and Local Authorities or Municipalities) in awarding tender contracts. It defines as beneficiaries of the Act: "*A Historically Disadvantaged Individual (HDI), which now also includes a PDI, is a South African Citizen who ... had no franchise in national elections prior to the introduction of the Constitution of 1984 or, the Constitution of 1993; and/or who is female; and/or who has a disability*" (Preferential Procurement Policy Framework Act, 2000:5).

A previously disadvantaged individual (PDI) is defined as a South African citizen who was socially and economically disadvantaged by the political dispensation prior to April 28 1994. This can be tested against the refutable presumption that PDIs constitute those population groups that had no franchise in national elections prior to the introduction of the tricameral parliamentary system, (i.e. the 1984 Constitution). Persons who obtained South African citizenship after 2 February 1990 must

demonstrate traceable South African parentage (Department of Public Works, 1999:7).

The main difference between a PDI and an HDI is that the PDI classification focused on people who were excluded from voting before 1994. White females and disabled people were excluded from this narrow definition, which was valid from 1994 until the promulgation of the Preferential Procurement Policy Framework Act in 2000. The HDI definition includes white females and disabled people, as the argument is that white females were also marginalized in respect of job opportunities in the all-male apartheid era.

The Preferential Procurement Policy Framework Act seeks actively to promote the inclusion of HDIs into the mainstream of the economy and endorses activities that further the goals of RDP, for example:

- the promotion of South African owned enterprises;
- the promotion of export-orientated production to create jobs;
- the promotion of small, medium and micro enterprises (SMMEs) and enterprises located in rural areas.

In evaluating any tender, all Organs of State are required to apply a points preference system based on the following:

- The 80:20 points system applies to all tenders under R500 000 in value;
- The tenderer obtains 80 points if the tender price is the lowest. If not the lowest then fewer points are allocated pro-rata to the highest tender price e.g.

$$P_s = 80 \left(1 - \frac{P_t - P_{min}}{P_{min}} \right)$$

Where P_s = Points scored for price
 P_t = Rand value of tender
 P_{min} = Rand value of lowest acceptable tender;

- The tenderer obtains a maximum of 20 points for achieving specific empowerment objectives, which must be clearly detailed and specified in the tender document. These objectives must be measurable and quantifiable, and it

must be possible to monitor compliance. ('Objectives' will for instance, include sub-contract work awarded to an HDI, a supplier who has validated BEE credentials and/or, achievement of RDP goals, etc.);

- A 90:10 points system will similarly apply to tenders above R500 000 in value (Preferential Procurement Policy Framework Act, 2000:7)

$$P_s = 90(1 - \frac{P_t - P_{min}}{P_{min}})$$

P_{min}

Where P_s = Points scored for price

P_t = Rand value of tender

P_{min} = Rand value of lowest acceptable tender

The Preferential Procurement Policy Framework Act and its regulations actively encourage large corporations (and all those who tender for State contracts) to sub-contract work to HDI entrepreneurs, to encourage co-operation between white and black businesses and, generally, to identify and reward the transfer of skills, the sharing of equipment and the active promotion of RDP principles. The Act also dictates a high level of transparency for the whole tender process and allows the Minister of Finance to exempt compliance with the procedure where it is in the public or national interest to do so (Preferential Procurement Policy Framework Act, 2000:9)

Initiatives like the above do not have a high success rate and one needs to take care with its implementation. This may be illustrated by a similar experience in the USA where the United States (US) Federal Government introduced legislation in 1978 which stated that prior to receiving a government contract in excess of \$500 000, US companies had to submit a Minority Business Enterprise (MBE) subcontracting plan including goals. The plan had to be approved and monitored throughout the contract's performance period (United States, 1999).

There is widespread consensus in the US that this legislation was not successful in advancing MBE's and research conducted by the Centre for Advanced Purchasing Studies (CAPS) shows that this failure is due to companies not embracing their MBE plans (United States, 1999). In fact, there is a direct correlation between the

practices organisations follow in support of their MBE buying programme and the degree of success of the programme (United States, 1999).

A result of South Africa's apartheid laws is the creation of huge disparities, which have to be addressed, taking into account the barriers experienced by African black SMMEs. International research shows that 30 to 50 percent of small firms fail in their first three years, and only 40 to 45 percent of firms remain in business after 10 years (South Africa, 1997:3). The low level of skills prevalent among the African blacks contributes to an even higher failure rate. This high failure rate needs to be taken into consideration when developing policies for preferential procurement.

One of the main reasons for the failing of small businesses is inadequate management skills, while black SMMEs are further hampered by a lack of work opportunities, a lack of access to training and a lack of access to finance (Tyler, 1997). Black SMMEs also have to cope with red tape. All these factors have a negative impact on the successful implementation of preferential procurement.

From the factors above it is clear that preferential procurement aims to uplift the HDIs by providing job opportunities that were previously reserved for certain groups. However, it also highlights some of the barriers that HDIs experience irrespective of government effort to provide more opportunities, which will be discussed in the next section.

1.3 BACKGROUND TO THE RESEARCH PROBLEM

At the end of 1995, the National Department of Public Works published a paper titled "*Establishing an enabling environment to ensure that the objectives of the Reconstruction and Development Programme and related initiatives are realised in the construction and allied industries*". The Departments of Trade and Industry, Labour, Education, Housing, Transport, Water Affairs and Forestry, State Expenditure and the RDP Office endorsed the principles outlined in this paper (South Africa, 1997: 1).

In February 1996, Public Works was mandated by Cabinet to develop a policy for the construction industry that led to the publishing of the Green Paper entitled, "*Creating an enabling environment for reconstruction, growth and development in*

the construction industry". This Green Paper was published in November 1997 for comment from various stakeholders, which ultimately led to the publishing in 1999 of the White Paper on "*Creating an enabling environment for reconstruction, growth and development in the construction industry*". To overcome some of the barriers that HDIs experience, government adopted an interim strategy, "The 10-point plan", which identifies the ten most important barriers experienced by SMMEs in dealing with government tenders in the construction industry, as well as strategies to overcome these barriers (South Africa, 1999:30).

1.3.1 THE 10-POINT PLAN

The 10-Point plan was developed as a tool to assist HDI SMMEs in becoming part of the economically active population. Part of the vision of the national procurement reform was partnerships with Provincial and Local Government, with the National Department of Public Works as the co-ordinator, supported by the Departments of Transport, Water Affairs, Housing, Labour, Education, Trade & Industry and State Expenditure (South Africa, 1999). The 10-Point Plan comprises the following:

1.3.1.1 Access to tender information

One of the problems experienced by SMMEs is the need to access a complicated tendering system and work with complex documentation. The participation of SMMEs is dependent on receiving information timeously in order to respond to tenders. The existing system fails to give accurate and timely information and so opportunities are missed. The strategy is to simplify the tender information and make it accessible to an SMME via the Tender Advice Centres (TAC), who will disseminate tender information and distribute it to the various SMMEs. The tender results will also be made available to the TACs, and distributed to the SMMEs, to give them an opportunity to evaluate their performance and encourage competitiveness in future participation.

1.3.1.2 Establishment of Tender Advice Centres

The lack of accessible places where SMMEs can access tender information and advice was seen as a complication that led to the establishment of TACs in locations easily accessible to prospective SMME tenderers. The role of the TACs is discussed in the next chapter.

1.3.1.3 Review of procurement procedures for contracts less than R7500

The present system of obtaining telephonic or oral and written price quotations (no tenders are invited) for contracts under a certain value – R30 000 in the case of the State Tender Board (usually from a minimum of three suppliers) excludes many of the emerging SMMEs. The system is dependent on the discretion of an individual and it tends to favour suppliers already known to the buyers and it automatically creates a barrier to entry for new enterprises (Petje, 1999:81). The strategy is to include the SMMEs in a database of approved suppliers, while any business not on the approved list is excluded from the market.

1.3.1.4 Waiver of securities

To minimize risk financial securities/sureties are included as criteria for government tenders. This is a major constraint for banks are risk averse when it comes to supplying finance to SMMEs as the SMME sector is not always geared to provide the required guarantees, and the returns on investment are very small and not guaranteed. The high failure rate of SMMEs also contributes to this aversion to risk. The strategy is to waive the requirement for securities for goods and services less than R100 000.

1.3.1.5 Break-Out Procurement

The SMMEs have difficulties with the size, volume or value of goods and services required in tenders, as they tend to be beyond their limited resources. The strategy is to unbundle the large tenders into manageable, smaller packages without negatively impacting on quality, time and price so as to ensure that SMMEs are able to access such tenders with the limited resources at their disposal.

1.3.1.6 Early payment cycles

Access to finance is one of the most important barriers experienced by the SMMEs. Their cash flow cannot withstand long periods before payment is received. Although the present tendering conditions provide for payment within 30 days, the actual period is often significantly longer than this. The strategy is to enforce a maximum payment cycle of thirty days with compensation for late payments in accordance with banking rates.

1.3.1.7 Preference/Targeting

SMMEs that are owned by specific groups, for example women, youth, the disabled etc. may be targeted or receive specific preferences. This implies that SMMEs owned by such persons, or in which such persons have an equity shareholding, will receive certain preference, based on a point system that converts into a percentage preference. The preference will be used for all contracts below R2 million.

1.3.1.8 Simplification of Tender submission Requirements

The SMMEs see the tender documentation as complicated and cumbersome, and the difficulty in completing the forms results in their appointing consultants to assist with the filling in of forms, at an additional administrative cost. The strategy is to simplify the tender documentation to become more user-friendly.

1.3.1.9 Appointment of a Procurement Ombudsman

Tenderers who lose in a competitive market see government procurement as being flawed and corrupt. The losers are new entrants to the market that are usually SMMEs not conversant with policies and procedures. The strategy is to appoint a procurement ombudsman to intervene in any complaints from businesses.

1.3.1.10 Classification of building and engineering contracts

Building contracts have traditionally been structured to favour the established manufacturer as well as civil engineering sectors. The strategy is to classify contracts as follows:

- International contracts - where South African businesses do not have the capacity to deliver, e.g. military ships etc;
- Major contracts – technically difficult with associated potential high risk and high monetary value, e.g. building bridges etc;
- Minor contracts – potential lower risk and less than R2 million where SMMEs can be involved onerously;
- Micro contracts – very small with a value of less than R10 000 (South Africa, 1999:25).

1.4 THE ROLE OF THE NATIONAL DEPARTMENT OF PUBLIC WORKS

The National Department of Public Works had a fully equipped workshop in each regional office until 1998, with trained artisans in all the construction-related disciplines, which ranged from bricklayers, plumbers, electricians and carpenters to refrigeration mechanics. These employees were responsible for the maintenance of various government properties, but the turn-around time for jobs completed was anything from two days to two months, which was unacceptable. Pressure from the client departments increased because of the slow turn-around time, which was not good for the image of the National Department of Public Works. Therefore, a decision was made to undertake a thorough business process re-engineering (BPR). The outcome of this exercise was to implement the following:

- decrease the staff complement in the workshops through voluntary severance packages;
- create a database of PDI contractors in the various disciplines to perform maintenance work;
- create a helpdesk to deal with maintenance requests.

These outcomes resulted in the creation of the Emerging Contractor Development Programme (ECDP) in 1998. The White Paper (South Africa, 1999: 47) on creating an *enabling environment for reconstruction, growth and development in the construction industry* states the following, "*The need for such a programme is grounded in the recognition of the fact that measures instituted so far by government do not address the full scope of problems encountered by these enterprises*". The Emerging Contractor Development Programme will be discussed in the next section.

1.4.1 The Emerging Contractor Development Programme (ECDP)

The National Department of Public Works (DPW) established the Emerging Contractor Development Programme (ECDP) in 1998 in their 6 regional offices, staffed to provide advice and opportunities to emerging contractors in the construction industry who struggle to overcome supply side constraints. The Emerging Contractor Development Programme is aimed at creating a linkage between the National Department of Public Works, emerging contractors and other government departments, the private sector and Non-governmental Organisations.

The National Department of Public Works provides work opportunities; mobilises support nationally and facilitates an environment in which emerging contractors can develop themselves into competent market-competitive contractors (Department of Public Works, 1999:3).

The Emerging Contractor Development Programme complements the affirmative procurement policy (APP) and focuses on a specific sector of the SMME market, concentrating on developing small contractors in the role of principal contractors as opposed to sub-contractors in the construction industry. The core purpose is to develop the business and management capability of technically competent emerging contractors in a real project environment without creating a dependency syndrome. The Emerging Contractor Development Programme is located within the National Public Works Programme (NPWP), reporting to the Deputy Director-General responsible for the NPWP (South Africa, 2001).

According to the ECDP Training Manual (Department of Public Works, 1999:7), the Emerging Contractor Development Programme is structured around the concept of an Affirmable Business Enterprise (ABE), which is defined as being:

- a legal entity;
- registered with the Department of Inland Revenue;
- *an independent and continuing enterprise for profit;*
- providing a commercially useful function;
- at least two thirds owned by one or more PDIs;
- managed and controlled by one or more PDIs;
- with an average annual turnover within prescribed limits.

The ECDP Training Manual (Department of Public Works, 1999:8) highlights the following key principles:

- The provision of opportunities for the development of entrepreneurs who have ABE status;
- The assumption that emerging contractors will have a basic level of literacy, and *be technically competent to undertake the work provided;*
- Access to job opportunities and support, and the creation of a track record;
- Avoidance of the creation of a dependency syndrome;

- Inclusion of both a monitoring and evaluating function;
- A database of emerging contractors.

The Emerging Contractor Development Programme provides access to work opportunities and support to registered emerging contractors through Helpdesks in each Regional Office fully integrated into the National Department of Public Works' functions and procedures. The Emerging Contractor Development Programme is structured around the following three categories of work, which are provided by the National Department of Public Works.

- **Category 1:** Quotations for work less than R30 000. A basic level of support and development is provided for contractors in this category.
- **Category 2:** Tenders for work between R30 000 and R200 000. A higher level of support is provided for contractors in this category.
- **Category 3:** Tenders for work between R200 000 and R2 million. A back-up level of support is provided for contractors in this category (Department of Public Works, 1999: 9).

In each category, emerging contractors are categorised according to their area of skill-competence and geographic sub-region. Examples of skill-competence are, among others, plumbing, electrical, and general building. Where appropriate, only contractors in particular sub-regions are given the opportunity to quote for work in that sub-region.

Table 1.2 illustrates the different categories of emerging contractors with the different levels of support, as well as the criteria for entrance to the different categories, which are the same for all three categories in terms of ownership at two thirds equity owned and management control by a PDI, while one senior PDI manager must hold equity in the company.

The maximum turnover for Categories One and Two is R300 000 and R1 500 000 respectively, while the minimum turnover for Category Three is R500 000. Category One contractors must be technically competent in at least one of the skill areas, while Categories Two and Three have to prove satisfactory performance in the previous category, or alternatively have experience on projects with a value higher than R30000 and R200 000, respectively in the case of Category Two and Three.

Table 1.2 Categories of emerging contractors

Criteria	Category 1	Category 2	Category 3
Entrance	<ul style="list-style-type: none"> ▪ Two-thirds equity owned and management control by previously disadvantaged S.A. Citizens ▪ One Senior Manager who holds equity must be a PDI ▪ Technically competent in at least one of the skill areas ▪ Basic numeracy and literacy ▪ Maximum Turnover R300 000 per annum ▪ Registered for tax and other purposes as required by law 	<ul style="list-style-type: none"> ▪ Two-thirds equity owned and management control by previously disadvantaged S.A. Citizens ▪ One Senior Manager who holds equity must be a PDI ▪ Maximum Turnover R1 500 000 per annum ▪ Satisfactory performance in Category 1 or demonstrated past experience on projects greater than R30 000 	<ul style="list-style-type: none"> ▪ Two-thirds equity owned and management control by previously disadvantaged S.A. Citizens ▪ One Senior Manager who holds equity must be a PDI ▪ Minimum Turnover R500 000 per annum ▪ Satisfactory performance in Category 2 or demonstrated past experience on projects greater than R200 000
Exit - Unsatisfactory performance	<ul style="list-style-type: none"> ▪ Fraud, dishonesty or failure to comply with legal requirements, e.g. tax ▪ Poor performance in relation to : <ul style="list-style-type: none"> - Response to enquiries - Realistic quotations - Time and quality in executing work Will be counselled and may be given 2 or more chances if reason for non-performance can be remedied 	<ul style="list-style-type: none"> ▪ Fraud, dishonesty or failure to comply with legal requirements, e.g. tax ▪ Poor performance based on ECDP monitoring. May be moved down to Category 1 	<ul style="list-style-type: none"> ▪ Fraud, dishonesty or failure to comply with legal requirements, e.g. tax ▪ Poor performance based on ECDP monitoring ▪ Failure to provide required guarantee ▪ May be moved back to Category 2
Exit - Satisfactory performance	<ul style="list-style-type: none"> ▪ At least 10 contracts executed within ECDP and R30 000 aggregate value ▪ Progress to Category 2 after satisfactory performance 	<ul style="list-style-type: none"> ▪ 5 Contracts completed or value of work exceeds R750 000 ▪ Progress to Category 3 or move back to category 1 	<ul style="list-style-type: none"> ▪ Successful completion – award an ECDP completion Certificate
Procurement	<ul style="list-style-type: none"> ▪ Contractors registered on "Quotes" Sub-list ▪ Work opportunities offered on a rotation basis ▪ Quotes received from top 3 to 5 contractors on the roster, who then move to the bottom of the roster 	<ul style="list-style-type: none"> ▪ Contractors notified of tenders in the relevant skill and contract value range ▪ APP preference points apply to adjudication 	<ul style="list-style-type: none"> ▪ Normal tendering ▪ APP preference points apply to adjudication

	<ul style="list-style-type: none"> ▪ APP preference points apply to adjudication if both emerging and established contractors are competing 		
Support	<ul style="list-style-type: none"> ▪ Support type 1 - "Basic" ▪ Access to in-house training on department systems and procedures ▪ Must complete multi-media programme ▪ Training on quoting and basic contract administration 	<ul style="list-style-type: none"> ▪ Support Type 2 - "Targeted Support" ▪ Access to in-house training on department systems and procedures ▪ Access to workshops in estimating, contract administration and business skills ▪ Access to support schemes from external organisation. (e.g. Banks and suppliers). ▪ Contractors monitored and Department will discuss their performance with them on request 	<ul style="list-style-type: none"> ▪ Support Type 3 "Backup". ▪ Access to in-house training on department systems and procedures ▪ Contractors performance monitored and discussed if requested with them or external organisations ▪ Given support (i.e. References) to access external work opportunities

Source: Department of Public Works (1999:22)

The Emerging Contractor Development Programme makes provision for the removal or re-categorisation of a contractor for either satisfactory or unsatisfactory performance. In Categories Two and Three, unsatisfactory performance is mostly based on compliance with legal requirements. In Category One, the database keeps a record of the responses to quotations, as well as measuring the pricing; therefore, it is relatively easier to measure contractors in Category One.

If a contractor performs satisfactorily in Category One on at least ten projects with an aggregate value of R30 000, the contractor can move to Category Two. A contractor in Category Two can either be promoted to Category Three if five contracts have been completed or the value of work exceeds R750 000; or demoted to Category One if the contractor is deemed to lack tendering skills. A Category Three contractor receives a certificate from the ECDP on completion of the ECDP basic multimedia training.

As example, take a contractor that enters as a Category One contractor. This contractor gains access to all work below R30 000 on a rotation system. When this contractor completes work to the value of R300 000 or at least ten contracts with an

aggregate value of R30 000, he/she can be re-categorised as a Category Two contractor and will not be allowed to quote for work under R30 000, but will be notified of all work above R30 000 and below R300 000. The database makes provision for an annual re-registration.

On the anniversary date of the contractor's initial registration date, the contractor is removed from the active list of contractors and cannot participate until a re-registration form has been submitted. The purpose of re-registration is to determine if a contractor has grown during the last twelve months and what percentage of work the contractor has done for the National Department of Public Works, compared to other Institutions (Department of Public Works, 1999:9).

In Category One, emerging contractors are assured of job opportunities in a closed system, while in Categories Two and Three, competition for jobs is between established as well as emerging businesses, which creates a reluctance on the part of the emerging contractor in Category One to graduate to Category Two. Figure 1.1 outlines the process of the ECDP.

ECDP Process

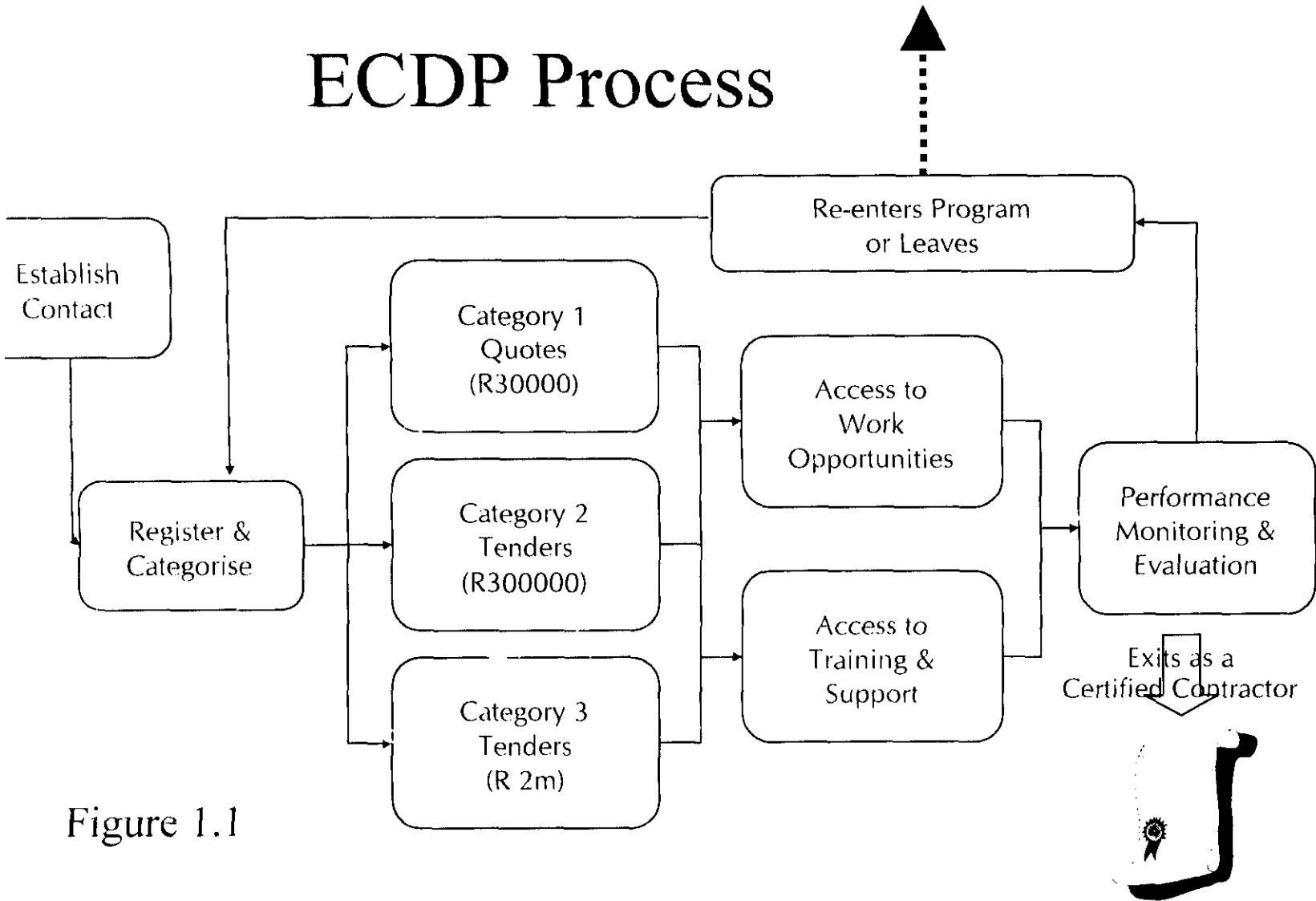


Figure 1.1

The programme has been launched and is focussed on the six regional centres where the National Department of Public Works has Regional Offices - Cape Town, Durban, Johannesburg, Port Elizabeth, Bloemfontein and Kimberley. In due course other centres will be created in Nelspruit, Pietersburg and Mafikeng to extend the programme to all provinces. Sub-regional centres will be established in the provinces to ensure a more comprehensive spread of the benefits of the Emerging Contractor Development Programme. The National Department of Public Works has committed itself to employing emerging contractors throughout South Africa and the intention is that the momentum created by successful implementation of the Emerging Contractor Development Programme will lead to other clients and stakeholders participating to ensure that it becomes a national programme (Department of Public Works, 1999: 9).

The programme is aimed at empowering and uplifting the poor, while, at the same time, increasing service delivery. Currently, the lead-time for service delivery to client departments is approximately two to three weeks, as the in-house maintenance staff have to deal with bureaucratic processes. With the Emerging Contractor Development Programme, the lead-time for service delivery will be cut down to 48 hours. This will also remove the threat of competitors, as government is the only organisation that can supply such a service at the lowest price.

The National Department of Public Works is responsible for the maintenance of all State properties under its jurisdiction in the various provinces, thus creating ideal work opportunities for emerging contractors. These State properties require maintenance and repairs on a continuous basis, as most of the properties are fairly old. Table 1.3 illustrates the State properties that are the responsibility of the National Department of Public Works.

Table 1.3 State properties maintained by National Department of Public Works

Ministerial houses	
House of Parliament	
S A Police	- Police stations
Dept of Justice	- Magistrates Courts
Dept of Correctional Services	- Prisons
Dept of Defence	- Army and Navy
Other State Properties	- Leased properties

Owing to a lack of service delivery and low staff morale, client departments have started sourcing for alternative suppliers of similar services. The client departments have approached the National Treasury with a request to relax certain of the regulations in order to give them the authority to procure services on their own, as this would allow them to make use of competitors. This has prompted the Department to establish the Emerging Contractor Development Programme as a *defensive strategy*. The Emerging Contractor Development Programme is positioned in such a way that entry is difficult for competitors, as the National Treasury protects it. The ECDP database makes provision for measuring payment cycles, as early payment cycles demand the creation of an alternative process of payment within seven days instead of 21 days after invoice.

The Emerging Contractor Development Programme facilitates training in business and contracting management skills. The need for training support is based on the identification of a large number of emerging contractors who are technically skilled, but lack the management skills to enable them to compete with their established counterparts in the mainstream economy.

A training package, the Contractor Entrepreneurial Training Programme (CET), was developed with technical support from the International Labour Organisation (ILO), input from key stakeholders, as well as donor funding from the International Labour Organisation and the United Kingdom Department for Foreign Investment and Development (DFID). The package included twelve training modules and the training of some fifty trainers around the country, effectively establishing a

foundation for the rapid development of the emerging sector (Department of Public Works, 1999).

The Emerging Contractor Development Programme has been in operation for five years in the Western Cape, but the far-reaching impact of Bantu Education and previous job reservation policies impact negatively on the African skills base. There are more than 200 emerging contractors on the Western Cape's database, but only two are accredited African electricians, while a similar situation exists with regard to other fields of specialisation such as plumbing, hot water and air-conditioning installation. This means that informally skilled, but non-accredited, black specialist contractors cannot participate in the mainstream construction economy and no amount of affirmative procurement will overcome this skills gap in the absence of training.

The National Department of Public Works appointed *FUTURA Planning & Development* in February 2001 as consultants to assist the Department in ensuring a sustainable and growing emerging contractor involvement in its projects nationally at a cost of R2.5 million (South Africa, 2001). *FUTURA* researched Departmental policies and procedures, as well as problems experienced by emerging contractors, other initiatives already underway to support emerging contractors and the Department's own capacity. The results of this study were presented to the Steering Committee in March 2001; and a number of basic parameters for the Emerging Contractor Development Programme were agreed upon, and in May 2001 the Department authorised the implementation of the Programme.

The Steering Committee agreed on the following objectives which are aligned to the 10-Point Plan (South Africa, 2001):

1. A more accessible procurement process that is understandable, transparent and streamlined;
2. Provision of measuring payment cycles in the ECDP database, as early payment cycles demand the creation of an alternative process of payment within seven days instead of 21 days after invoice;
3. Establishment of appropriate preference and participation target policies;

4. Promotion of suitable contracting models and the appropriate packaging of public sector contracts to enable diverse forms of participation which accommodates the full spectrum of emerging enterprise involvement;
5. Co-management of a public sector emerging contractor database to monitor the success of policy and support instruments and to enable effective targeting of support;
6. Continuous workflow by extracting statistical data from the macro economic model and advising on opportunities to the value of R190 million in 2001, increasing it by 20% each year to reach R1.4 billion in year 2005;
7. Development of management training and access to training for a minimum of 10000 SMMEs in 2001, increasing it by 20% each year to reach 75000 in year 2005;
8. Registration of a minimum of 1000 contractors on the database in 2001, increasing it by 20% each year to reach 7500 registered contractors in year 2005;
9. Access to finance;
10. Access to credit;
11. Access to information and advice.

The Emerging Contractor Development Programme was implemented in 2001 in the following offices of the National Department of Public Works: Mmabatho, Nelspruit, Pietersburg and Pretoria. Table 1.4 below illustrates the emerging contractors registered on the Emerging Contractor Development Programme databases in the nine provinces at the end of 2002, totalling 3257 registered contractors.

The number of jobs awarded to emerging contractors is not indicated on Table 1.4, nor a further breakdown in terms of ethnic grouping. The Western Cape seems to have the second highest number of registered contractors after Kwa-Zulu Natal (Department of Public Works, 2003).

Table 1.4 ECDP National Report

	CATEGORY 1	CATEGORY 2	CATEGORY 3	NOT CATEGORISED	TOTAL
Bloemfontein	300	5	3	166	474
Cape Town	381	98	41	25	545
Durban	756	12	8	0	776
Johannesburg	142	36	8	126	312
Kimberly	161	16	1	17	195
Mmabatho	55	0	0	15	70
Nelspruit	0	0	0	170	170
Pietersburg	0	0	0	214	214
Port Elizabeth	152	48	61	35	296
Pretoria	188	7	3	7	205
TOTAL	1892	215	122	369	3257

Source: Department of Public Works (2003)

An important measure of success would be the development and participation of these emerging contractors in major projects, for example the Cape Town Convention Centre, which was constructed in 2001/2002. Research on "*Partnering with SMMEs to meet socio-economic sustainability objectives at Cape Town International Convention Centre (CTICC)*" done by Shakantu, Kaatz & Bowen (2002) from the University of Cape Town shows that the number of subcontractors involved in the construction of the CTICC totalled 102, of which 73% were from the Western Cape. The participation goal for HDI SMMEs at the CTICC was set at 40% (Adams, as cited by Shakantu, Kaatz & Bowen (2002)).

This goal has been exceeded in the following categories:

Table 1.5 Empowerment performance of work completed by July 2002

Category	Performance
Consultants	51%
Main Contractor	55%
Selected subcontractors	41%

Source: Smith 2002 as stated by Shakantu, Kaatz & Bowen (2002)

No information is available on the participation of African Blacks as a sub-category on this project, since the broad classification of an HDI, which includes all races except whites, was used to determine HDI participation.

1.5 OBJECTIVES OF THE STUDY

Previous studies have been done to determine the barriers that entrepreneurs and SMMEs face when starting new ventures and sustaining their ventures in this country (Cupido, 1999). The aim of this study is to focus on the barriers those African black contractors as a subgroup of HDI SMMEs experience in the construction industry in the Western Cape. The study will focus on lack of access to work opportunities, lack of management expertise, lack of access to training, lack of access to finance and bureaucratic red tape.

1.6 DELINEATION OF THE STUDY

The proposed research will mainly focus on black SMMEs in the construction industry in the Cape Metropolitan area of the Western Cape.

1.7 SIGNIFICANCE OF THE STUDY

The significance of the study is to bring the plight of the black SMMEs to the attention of the policymakers in government, as black SMMEs are an important factor within the economy. Government then needs to adopt strategies to develop the black SMME sector, in order for the black SMME sector to grow and become economically viable, thereby contributing to the strengthening of the region's economy as a whole.

1.8 CONCLUSION

In conclusion, the aim of this research is to draw the attention of the policymakers in various government departments to the barriers and problems of the current system, and to make recommendations about putting policies in place to ensure that this segment of the market grows as predicted. This study will focus on the factors that prevent the African black contractors in the Western Cape from growing into viable businesses.

Chapter One of this study deals with the introduction and structure of the study, while Chapter Two deals with the literature review and the development of SMMEs

and the need for economic empowerment. Chapter Three features the research design and methodology used in this study. Chapter Four covers the findings and Chapter Five the conclusions and recommendations regarding the topic of research.

CHAPTER 2

THE HISTORY OF SMME DEVELOPMENT IN SOUTH AFRICA

2.1 LITERATURE REVIEW

2.1.1 Affirmative action

The African National Congress (ANC) stated the following at their National Congress in 2001; "***The domination of business activities by white business and the exclusion of black people and women from the mainstream of economic activity are causes for great concern for the reconstruction and development process. A central objective of the RDP is to deracialise business ownership and control completely through focused policies of Black Economic Empowerment***" (African National Congress, 2001). This is cause for concern, as this statement is made seven years into a democratic government, where the playing field is supposed to be level.

Affirmative action programs are not just vehicles for remedying past and present inequities; they are important contributors to income and employment opportunities in distressed urban areas (Boston, 1999: 32)

According to Madi businesses tend to have the following attitude: "*it is not our job to arrange start up capital. Your business must be registered, have glossy brochures, a letter from your banker stating that you are good for a million rand, speak impeccable English and have a politically relevant network*". Madi also goes further and states "*if you do not have a box at Newlands to entertain prospective clients, you can forget about getting any business. Transformation and empowerment is a manufacturing process that is going to deliver one missile: that missile is called a black manager or black civil servant-it doesn't work and it cannot be fired*" (Madi 1997: 14).

In the White Paper on the National Strategy for the development and promotion of small businesses in South Africa (1995) the observation is made that "*small*

enterprises usually regard market constraints and the inability to sell their products and services as one of the most serious obstacles to the starting of business and growth beyond mere sustenance”(South Africa, 1995: 4).

In support of this, Boston (1999:33) states that these affirmative action programmes create important points of entry for minority entrepreneurs, allowing blacks unprecedented opportunities for diversification in choice of business ventures.

Badenhorst & Hugo (2001:81) argue that South African corporations are often prejudiced about preferential procurement, as it is seen as being politically motivated and part of a “do good” culture in business. Morgan & Cruz, and Murphy, as cited in Badenhorst & Hugo (2001), indicate that minority supplier development programmes are under pressure because of the downsizing of the supplier base and the backlash to affirmative action from majority suppliers. The backlash has occurred as the majority suppliers argue that they have encountered reverse discrimination when applying for contracts.

Badenhorst & Hugo (2001:83) further argue that the black population has the strongest purchasing power mainly because of the population growth among blacks, while Morgan & Cruz, as cited in Badenhorst & Hugo (2001:83), also suggest that it makes economic sense to change from a “do good” mindset to the recognition that it is good strategy to buy from those groups that will give the highest volume.

Van Niekerk in Badenhorst & Hugo (2001:82) argues that the critics of preferential procurement see the preference point system as a protectionist scheme. As a result, legislation has been introduced to ensure compliance by state organs, with the idea that the private sector will follow suit.

2.1.2 Management skills

Job reservation in the previous dispensation had a major negative impact on the development of management skills of Historically Disadvantaged Individuals. In addition, Stoner & Freeman (1989), Lussier (1997), as well as Peters & Heller (2000), argue that general management principles teaches potential entrepreneurs only the bare basics about surviving in the corporate world. From consulted

literature, it became clear that the subject matter is still new and therefore it is important that more research be done.

Further to this debate, Tyler (1997:35) argues that red tape, access to capital, skills development and management capabilities are major barriers to the entrepreneur, while Scholtz (1986) on the other hand support this argument by stating that entrepreneurs fail due to the inability to acquire finance, business resources and lack of management skills.

In addition to the above, Timmons (1999:516) has an in-depth discussion on the subject of entrepreneurial ventures, and he argues that many founders can and do manage ventures successfully. This can only be done if management skills are acquired.

Another pertinent factor linked to this is identified by both Sawaya (1995) and Nobanda (1998) who investigated the problems affecting small manufacturers. They found that a serious problem exists in management skills and development as a result of improper and inadequate education.

2.1.3 Economic importance

Scholtz (1986) argues that it is generally accepted that small business has an important role to play in an economy, particularly in providing employment opportunities. Hence there are various incentives or schemes of assistance from government and the private sector to encourage the development of small business.

2.1.4 Finance

According to Sawaya (1995), the need for finance will always be a factor to contend with. The acquisition of start-up funds is very difficult and most times impossible to find.

2.1.5 Red Tape

The perception is that red tape is a major obstacle for the budding entrepreneur. Bernstein (2000:37) argues that the government will have to cut the red tape that is

restraining business in order to establish a vibrant entrepreneurial spirit to combat unemployment. The development of an SMME should be a process by which both the government and the entrepreneur stand to benefit. It is not expected that the entrepreneur should receive handouts and become dependent on the state but that he/she should at least get assistance and encouragement to the point of becoming established as an asset in the supply chain of the economy.

2.1.6 Job creation

Nobanda (1998:65) states that all the governmental structures are in place to assist the SMME. However, these structures seem to be inaccessible to the SMME.

The Strategic Projects Initiative (SPI) launched by the Department of Public Works in May 1998 is part of the Department's Affirmative Procurement Policy. SPI is aimed at accelerating the progression of blacks from a sub-contractor to a prime contractor level on government construction contracts above R5 million. Projects with a combined contract value of R600 million were identified under the SPI (Sicgua, 2001).

The National Minister of Public Works stated the following in 2001; *"The R34 billion a year construction industry is a national asset, playing a vital role in the realisation of reconstruction and development targets. Government through its procurement muscle, is the largest consumer (more than 40 percent) of the industry's annual output"*(Sicgua, 2001:).

2.1.7 Employment

The White Paper on Public Works states that the estimated size of the economically active population was 14.5 million in 1995, but the actual number of jobs in the formal sector has failed to keep up with the increasing number of people requiring work (South Africa, 1997:1).

In 1998 it was estimated that of the 4.3 million people of the Western Cape, 3.3 million (76 percent) belonged to the historically disadvantaged communities; 2.2 million are Coloureds and 1.1 million are African blacks. The average income per

head of whites was 2.2 times that of coloured and 3.5 times that of African blacks. Low income and unemployment further prolong and intensify these inequalities (Tender Board Secretariat, 2000).

The national labour force has grown by nearly 40 per cent between 1995 and 2002 , while employment has increased by only 19 percent, and unemployment by a staggering 87 percent. The figures for the Western Cape reflect a growth of 19% in its labour force with employment having increased by 13 percent, while unemployment has increased by 46 percent (Western Cape, 2003:18).

According to the Western Cape Economic Review 2003, the employment absorption rate in 2002 shows that only 34% of new entrants to the national labour market have found jobs. The national economically active population has increased by 11% since 1995, while the Western Cape's economically active population has increased by 21%, which is higher than the national average. Unemployment is highest amongst African blacks with more than 40% unemployed, while White, Coloured and Asian workers are in a more favourable position (Western Cape, 2003).

In the Western Cape, only 3 out of every 100 African blacks have found employment, while the absorption rates for Coloureds, Whites and Asians are 54%, 92% and 81% respectively (Western Cape, 2003). The Western Cape Economic Review 2003 also states that: *"Africans seek employment or are employed in sectors that are just not growing or are in decline, while their counterparts attach themselves to those sectors that are growing and progressing"* (Western Cape, 2003:22).

These employment statistics indicate that African blacks still lack certain skills required by the job market. It is, therefore, clear that employment for African blacks in the formal sector is not keeping pace with the growth in the economy and needs to be supported by other initiatives to deal with the problem of overcoming poverty and improving the quality of life for African blacks.

2.2 HISTORICAL BACKGROUND

To understand the constraints faced by the SMME sector in South Africa, the historical background of the development of the SMME must be taken into consideration. As the development and support of the SMME sector in South Africa is seen as a priority for government, Government has passed laws to enhance the development of SMMEs. During the apartheid era this sector was neglected by the policy makers, and in the case of black-owned enterprises, discouraged through legislative measures such as the Group Areas Act and job reservation.

According to Lowenberg & Kaempfer (1998:284) the apartheid policies were motivated by the "desire of white employers to secure good land and cheap agricultural and mining labour". The tax burden forced blacks to enter the labour market as subordinate to the whites. The Land Act (1913) and the Native Trust and Land Act (1936) limited blacks to only 14 percent of South Africa's land. Job reservation laws made certain jobs, including many in government, available to whites only.

Before these discriminatory acts were promulgated, black entrepreneurs in the early 1900's dominated the transport industry, and they were eager farmers. "Their knowledge of the care and breeding of cattle attracted international attention" (Hetherington 1994:24). The benefits of Western technology were recognised by the black population and this caused dissatisfaction with the mission schools that taught the black children only trade skills. The blacks decided to set up their own schools with private finance, hiring white teachers to teach their children commercial and management skills needed to become business owners rather than employees (Hetherington, 1994:24).

This new type of black education caused the white farmers to complain, as a valuable cheap source of labour was now out of their reach; and the white farmers could not compete economically nor attract blacks to work on their farms and in the mining industries. This led to the importation of Chinese and Indian labourers to fill the gap; laws were passed to prohibit land ownership by blacks and to restrict the entrepreneurial talents of black people. African education was gradually reduced to

the level required to make blacks good labourers or junior clerks in government offices (Hetherington, 1994:25).

The isolation of the blacks was almost complete by the early 1950's. An excluded few blacks owned land, and in the 87% of the country deemed white, blacks were not allowed to manufacture anything or to form companies, nor to employ whites; they could not even trade except for a very restricted list of daily provisions, and then only with other blacks in their own areas. The National African Federated Chamber of Commerce (NAFCOC) was formed in 1964 to resist this process and in 1979 blacks were allowed to manufacture goods only in black townships, and not in industrial areas designated white. After 42 years, the apartheid regime came to an end in 1990. "Anybody can buy land anywhere now; anybody can establish any kind of business, but the damage caused by the decades of suppression will take years to repair" (Hetherington 1994:23-25).

It is accepted that small business as compared to big business worldwide are faced with a range of barriers, even in effectively functioning market economies. These barriers mainly relate to the legal and regulatory environment, access to markets, access to finance, the acquisition of skills and managerial expertise, access to appropriate technology, quality of the business infrastructure in poverty stricken areas and taxation (Scholtz, 1986; Sawaya, 1995; Tyler, 1997; Nobanda, 1998; Timmons, 1999). However, the historical past of South Africa made the situation worse, particularly for entrepreneurs in rural areas and for women (South Africa, 1996).

The ANC government, in an attempt to redress the legacy of the past, through the Ministry of Trade and Industry, produced a Discussion Paper on Strategies for the Development of an Integrated Policy and Support Program for Small, Medium and Micro Enterprises in South Africa in October 1994 and a White Paper in March 1995. The White Paper was based on the understanding that South Africa has a vast, largely untapped potential of entrepreneurs, encompassing all races, all sectors and all the provinces (Kirsten, 1995:1).

South African political history played a major role in the creation of the backlog pertaining to the state of small business development in the country. The ANC

government recognised the economic importance of SMME development and introduced new small business legislation. Furthermore, it addressed institutional configuration (state and non-state institutions at national and provincial levels) so as to create viable opportunities for the development of small business. After wide consultation with all role players, the White Paper on the National Strategy for the Development of Small Businesses became the National Small Business Act in 1996 (South Africa, 1996).

To understand the history of the SMME development, the role played by the National Party government must be taken into consideration and this will be discussed briefly in the next section.

2.2.1 SMMEs under National Party rule

During National Party rule, a number of programmes and small business-support policies were in place. The institutions that developed over these years were mostly racially biased: The Development Bank of Southern Africa (DBSA), the Small Business Development Corporation (SBDC) and the Industrial Development Corporation (IDC) were seen as financiers and SMME-support agencies under the aegis of the previous government. The regional development corporations that were supposed to develop black entrepreneurs made little impact. Central government and black business never co-operated effectively. The public tendering system favoured established and larger businesses, which were largely white ones. Newly established businesses found it extremely difficult to enter the public tendering system. University-based small business units as well as the private and NGO sectors were also involved in small business development, but were not effective in their overall impact, often in competition with each other, and even unco-ordinated. These sectors could not make an impact on addressing the needs of the majority of the South African population (Hetherington, 1994).

It is against this background that the call for co-ordination, co-operation and a clear national strategy framework increased over the past few years. Lack of legitimacy made it impossible for the previous government to fulfil such a role (South Africa, 1995).

2.3 INITIATIVES FOR SMME DEVELOPMENT UNDER THE ANC RULE

The ANC government saw the development of SMMEs as an opportunity to address the challenges of job creation, economic growth and equity in South Africa in line with Growth, Employment and Redistribution (GEAR) and the Reconstruction and Development Programme (RDP). The first step in the reconstruction process of small business development was the creation of an enabling environment. October 1994 saw the release of the discussion document on the strategy and policy for SMMEs. Out of this document flowed the White Paper on a National Strategy for the Development and Promotion of Small Business in South Africa with relevant legislation being passed by the government in March 1995. The President's Conference that was held at the end of March 1995 discussed and endorsed the national framework for small business development and promotion (National Small Business Act, 1996).

According to Cronje *et al* as cited by Petje (1999:24), Europe, Japan and the United States classifies an SMME as any business with fewer than 500 employees; small firms having fewer than 100 employees and medium firms between 100 and 500 employees. The Bureau for Market Research at the University of South Africa investigated the definition of small enterprises, but this research did not include medium enterprises (Petje, 1999). Siropolis (1994:4) argues that a small enterprise employs fewer than 500 people and should not be part of another business.

The National Small Business Act (1996:20) recognised that different classes of SMMEs are active in the different sectors of industry and a generic classification would do more harm than good. Based on this, a classification was agreed on and the different classes of SMMEs will now be discussed.

2.3.1 Different classes of SMMEs

The National Small Business Act (1996:20) classifies SMMEs into four categories:

2.3.1.1 Survivalist enterprises

Poverty and an attempt to survive are the main characteristics of this category of enterprise. Survivalist enterprises consist of activities conducted by people unable to find a paid job or enter the economic sector of their choice. The income generated from these activities falls short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business.

2.3.1.2 Micro enterprise

Very small businesses often involving only the owner, some family members and at most two paid employees are categorised as micro enterprises. They usually lack formality in terms of business licences, VAT registration, formal business premises, operating permits and accounting procedures. Micro enterprises have a limited capital base and only rudimentary technical or business skills, but many of them develop into viable small businesses. The earning level of micro enterprises differs widely depending on the particular sector, growth phase of the business and access to relevant support.

2.3.1.3 Small Enterprises

Small enterprises constitute the bulk of established businesses, with employment ranging between five and fifty people. The small enterprise is usually owner managed or directly controlled by the owner. The small enterprise normally operates from business or industrial premises, is registered for tax and meets other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.

2.3.1.4 Medium enterprises

Medium enterprises are difficult to demarcate *vis a vis* the smaller big business categories. They are still viewed as owner/manager controlled, although the shareholding or community base could be more complex. Employment of 200 people and capital assets (excluding property) of about R5 million are often seen as

the upper limit. The quantitative measurement of small businesses as discussed above, differs from industry to industry, as can be seen from Table 2.1 (National Small Business Act, 1996).

2.3.2 The role of the Department of Trade and Industry

The Department of Trade and Industry (DTI) established a separate Chief Directorate at national level called the Centre for Small Business Promotion (CSBP). The CSBP in turn established both Ntsika Enterprise Promotion Agency and Khula Enterprise Finance Limited as the main statutory bodies to support and assist SMMEs (Nagoya, 1998). The various initiatives contained in the National Small Business Act of 1996 will now be discussed.

2.3.2.1 Centre for Small Business Promotion

The Centre for Small Business Promotion (CSBP) is a separate Chief Directorate of the Department of Trade and Industry, responsible for SMME policy and support programs that are directly and indirectly assisted by the government. The Centre also co-ordinates the implementation of the framework within central government.

2.3.2.2 Provincial SMME offices

Dedicated provincial SMME offices were established in all nine provinces, with the purpose of giving support to the SMME sector in all nine provinces.

2.3.2.3 Ntsika Enterprise Promotion Agency

Ntsika Enterprise Promotion Agency (NEPA), as a support agency, provides a range of non-financial services to local service delivery groups that work directly with SMMEs in the provinces, e.g. Local Business Services Centres (LBSCs), Non-Governmental Organisations (NGOs), Educational Institutions and Community Based Organisations (CBOs). Services rendered include institution building of local service delivery groups, training programs for entrepreneurs, mentoring of individual firms, marketing, and procurement advice and technology assistance.

2.3.2.4 Local Business Service Centre (LBSC)

The LBSCs are owned by the local business people and managed by the local people. Their services include training, marketing and linkages, counselling, referrals and information gathering and dissemination. The major challenges to these centres are in developing SMMEs in rural communities. These SMMEs operate in a sea of poverty and unemployment; most of them are survivalist enterprises; there is poor infrastructure, outflow of wealth to larger urban centres and reduced access to markets.

"The enormous challenge of upgrading the position of disadvantaged rural SMMEs cannot be resolved by local government alone. Rural SMMEs require a targeted strategic set of interventions, which will require support from national, provincial as well as local levels of government" (Rogerson, 1997:138)

2.3.2.5 Tender Advice Centre (TAC)

Tender Advice Centres provide non-financial support to small businesses. TACs provide SMMEs with access to markets and procurement advice. They also provide to SMMEs information about government tenders, counselling and support services such as assistance in the completion of tender documents and the provision of advice and information on tender opportunities. These services are made available to SMMEs through workshops and seminars about tendering procedures. The TAC program is run by accredited organisations around South Africa

2.3.2.6 Manufacturing Advisory Centres (MACs)

Manufacturing adds considerable value to the South African growing economy. The importance of Manufacturing Advisory Centres (MACs) in South Africa, where previously blacks were not even allowed to manufacture anything, cannot be over-emphasised. These Centres provide information and advice to small and medium manufacturing firms.

TABLE 2.1: SCHEDULE OF SMMEs: DEFINITION

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees less than	Total annual turnover less than	Total gross asset value (fixed property excluded)
Agriculture	Medium	100	R 4.00 m	R 4.00 m
	Small	50	R 2.00 m	R 2.00 m
	Very small	10	R 0.40 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R 7.50 m	R 4.50 m
	Very small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Construction	Medium	200	R20.00 m	R 4.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	20	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Retail and Motor Trade and Repair Services	Medium	100	R30.00 m	R 5.00 m
	Small	50	R15.00 m	R 2.50 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering, Accommodation and other Trade	Medium	100	R10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m
Transport, Storage and Communications	Medium	100	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Finance and Business Services	Medium	100	R20.00 m	R 4.00 m
	Small	50	R10.00 m	R 2.00 m
	Very small	10	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Community, Social and Personal Services	Medium	100	R10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.50 m
	Very small	10	R 1.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m

Source: National Small Business Act (1996:20)

2.3.2.7 Khula Enterprise Finance Limited

Khula Enterprise Finance Limited was established in 1996 under the Companies Act as a Department of Trade and Industry initiative. It is an independent, limited liability company, with its own board of directors, dedicated to improving access to finance for the SMMEs. Khula as an alternative financing house provides capital for small business. This is in direct response to the seeming inability of banks to support small enterprises, especially those in disadvantaged communities. Khula took over the credit guarantee facility from the former Small Business Development Corporation (now Business Partners).

Khula also provides 'wholesale' finance to NGOs that offer micro loans to start-up entrepreneurs. This is done through the development of financially sound Retail Financial Intermediaries (RFIs) with the commitment and the capacity to serve the SMME sector.

2.3.2.8 Retail Financial Intermediaries (RFIs)

Khula does not lend money directly to SMMEs since it operates as a wholesale dealer. Finance is made available to SMMEs through three of its lending programs. These programs are the Credit Guarantee Scheme, the Retail Financial Intermediaries (RFIs) and the Micro Credit Outlets (MCOs).

Retail Financial Intermediaries borrow money from Khula to lend to the SMMEs, from as little as R5000 to a maximum of R50 000. The SMMEs must repay the loan to these organisations according to agreed terms and conditions. Micro Credit Outlets (MCOs) lend money to very small entrepreneurs, mostly in the rural areas and informal settlements in urban areas (Directory of Retail Financial Intermediaries).

2.3.2.9 Credit Guarantees

Khula Credit Guarantee provides guarantees to commercial banks. Khula assumes a portion of the risk associated with lending to the SMME sector. To raise capital or

to acquire assets, banks may require applicants to provide guarantees to secure the loan. Khula will furnish these guarantees to approved applicants by means of three products: Individual, Institutional and Portfolio Guarantees. Loans of between R60000 and R600 000 can be guaranteed through this scheme (<http://www.khula.org.za/credit.htm>).

2.3.2.10 Others

The SMMEs are also assisted by Semi-government organisations and the private sector. The Industrial Development Corporation (IDC) assists with venture capital and other low interest empowerment schemes, while the South African Bureau of Standards (SABS), through its missing link program, offers quality assistance and awareness to SMMEs. The Council for Science and Industrial Research (CSIR) through their National Manufacturing Centre provides product improvement and manufacturing assistance to SMMEs. Banks and some of the major companies have established SMME helpdesks to assist the emerging entrepreneurs.

2.4 PRIVATE SECTOR SUPPORT SYSTEMS

The role of the government is to facilitate transformation and not to implement the transformation process. According to the White Paper (1995:8), institutions that most closely reflect the entrepreneurship and risk characteristics of small business themselves are the most successful in implementing small business support programs. Examples of these institutions are typically small localised non-governmental organisations (NGOs), private consultancies, partnerships and companies.

Examples of NGOs that are committed to the promotion and development of the historically disadvantaged small business sector in South Africa are Matchmaker Services, Get Ahead Foundations and Triple Trust. Other sources of finance, apart from government institutions are commercial banks, Community Based Institutions (CBOs), local private sector institutions and international development agencies. Chambers of business and industry associations also play a role in the support of SMMEs. Those business associations that directly supply services to their clients

are also eligible for state support if such services are related to state-assisted programs (Ladzani, 2001).

2.5 EVALUATING SMALL BUSINESS DEVELOPMENT INITIATIVES

The implementation of the National strategy for Small Business Development was seen as a major challenge since new structures and programs had to be put in place. The preparatory work was part of the short-term implementation, which included preparation for the Discussion Paper, analysis of feedback at grassroots level, and preparation of the White Paper.

The medium-term phase stretched up to the year 2000, and it included developing a funding framework for SMME support; developing monitoring and evaluation systems for program assistance; regulatory monitoring and adjusting of existing programs; and start shifting emphasis in SMME support from central/provincial to local economic development. Based on the progress made up to the year 2000, there was further expansion of target programs, beginning of the phasing out of some programs (sunset clause to become effective) and ongoing streamlining of the institutional framework.

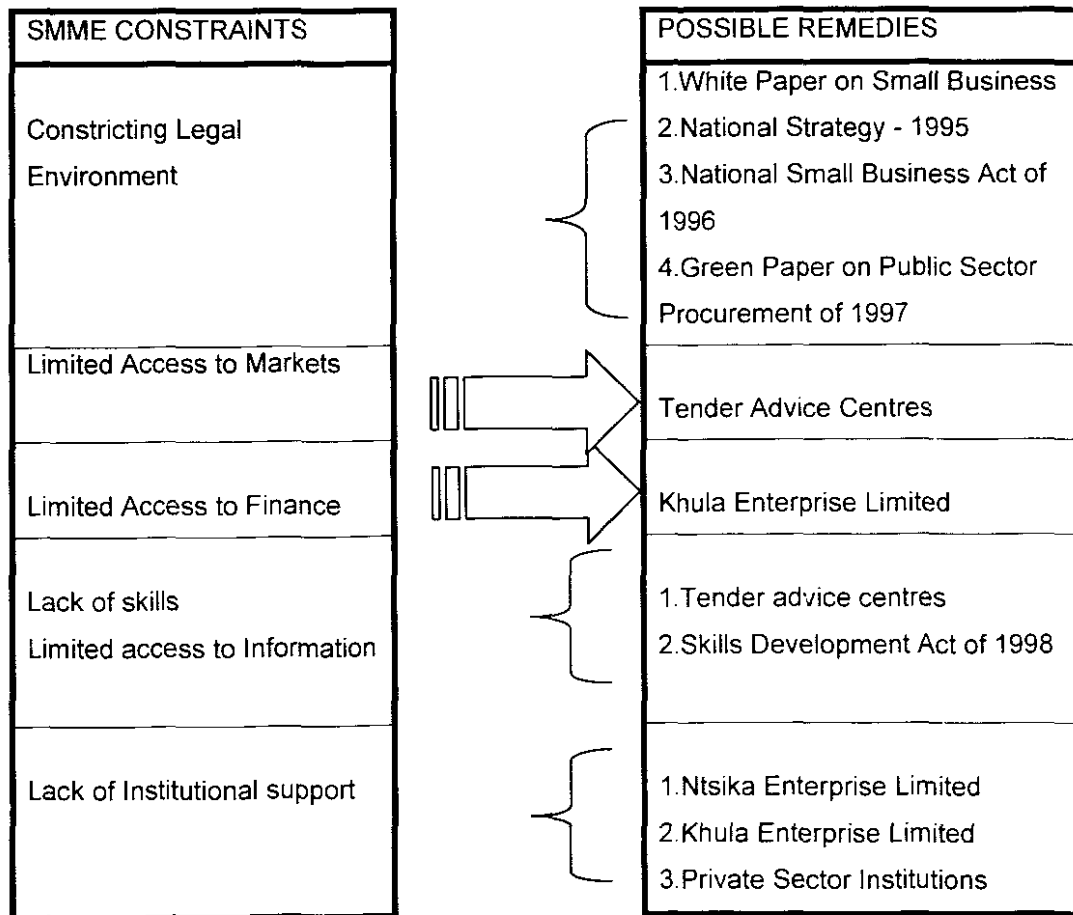
The White Paper listed a number of problems that SMMEs are currently facing. Figure 2.1 tries to link each constraint with the possible remedy initiated since the restructuring of small business development started.

The Department of Trade and Industry appointed an international consulting firm, the CARANA Corporation and two South African consulting firms (Upstart Business Strategies and MSS consulting group) to perform an evaluation on the National strategy. "The evaluation was intended to provide a frank and practical assessment in order for government to make the National Strategy more effective in meeting the *critical national objectives of job creation, income generation, and economic growth*" (Carana Report, 1999:3).

It has become clear that the Strategy has been exposed to numerous obstacles in achieving significant impacts and growth in South Africa, which is largely due to the South African lack of entrepreneurial tradition and culture among the historically

disadvantaged population. Another factor was the lack of basic education and management experience required to run successful businesses. These factors alone will slow down any progress, regardless of the resources committed to these efforts (Ladzani, 2001).

Figure 2.1: SMME Constraints and Possible Remedies



2.5.1 MAJOR CONSTRAINTS

The Carana report identified four factors that slow down the progress of the National Strategy; these factors will be briefly discussed here.

2.5.1.1 Lack of National integration

The National Strategy is not regarded as an integrated national plan linking all programs at national and regional level to achieve defined goals (Carana Report

(1999:6)). Although the Department of Trade and Industry has been authorised to drive this process, it has not been given sufficient powers. As one of several government departments, it is difficult to integrate the programs of the various government departments to meet the National Strategy objectives.

2.5.1.2 Poor market segmentation

The Strategy has also failed to segment its market, as it does not differentiate between the ability of the different target groups (micro, small, and medium) to create jobs. Although small businesses have not benefited on the expected scale from the Strategy's efforts to improve their access to finance, small businesses are seen as the sector with the biggest job creation potential.

2.5.1.3 Poor co-ordination and linkages

The Strategy is regarded as leaderless and not effectively co-ordinated. There seems to be *no policy co-ordination and communication between Ntsika, Khula, the CSBP and other government departments working with small business. Ntsika does not effectively link training programs in terms of aftercare and mentoring of trainees as well as the creation of market opportunities; Ntsika are largely unsuccessful in marketing services to target groups.*

2.5.1.4 Conservative approach

Khula's programs, on the other hand, have fallen short of their objectives, despite an efficient and professional internal organisation. Khula is seen as too hesitant to take risks and too conservative for an organisation with strong developmental objectives. The programmes' design is flawed in the sense that Retail Financial Intermediaries are required to lend to the 'unbankable', and yet be self-sustaining at the same time. RFIs are not commercial banks, yet Khula's charter requires them to function as such. Khula's success is dependent on whether the commercial banks wish to lend to small business, which, in general, they do not; the credit guarantee program has thus far fallen far short of its objectives, serving principally medium-size white-owned businesses (estimated at 62%).

2.5.2 OVERCOMING THE BARRIERS

The development of SMMEs is a process, and South Africa has only started with the rebuilding of its economy. To reduce failure and to fast-track SMME development at provincial and local level, the following issues need to be taken into account:

- Regular assessment of SMME development strategies;
- *Adaptability of projects to the local environment;*
- The barrier caused by the assumption that the private sector will buy-in simply because SMME development comes from government;
- Involving all stakeholders in SMME development from the beginning;
- Provision of training and after-care services.

If these barriers can be overcome, the SMME sector will be able to make a huge contribution to the economic growth of South Africa.

2.6 THE ECONOMIC IMPACT OF SMME DEVELOPMENT

In South Africa, the SMME sector contributes 42% to the Gross Domestic Product (GDP), while 80% of the Department of Trade and Industry's R91m budget for enterprise and industry development is spent on SMMEs. Ntsika receives R35m of this money, while Khula receives R20m (Ntsika, 1997)

According to the USA Bureau of Labour, small businesses account for 58 percent of the private, non-farming work force in America. It also contributes 43 percent of all sales in America, and generates 51 percent of the private gross domestic product. Between 1991 and 1999, the total number of new businesses increased by 8.8% to an estimated 588,900. In 1999, there were approximately 24.8 million non-agricultural businesses, of which 99 percent were small by Small Business Administration (SBA) size standards. These included corporations, partnerships and sole proprietorships. The number of small businesses with fewer than 500 employees increased by 17 percent from 4.95 million in 1988 to an estimated 5.8 million in 1999 (United States, 1999).

Women-owned businesses in the United States of America (USA) increased by 16 percent from 1992 to 5.4 million in 1997, compared to an approximate 6.5 percent

increase in the total number of all businesses. Women-owned businesses generated \$819 billion in revenue, an increase of 33 percent between 1992 and 1997. An estimated 7.1 million employees (or about 7 percent) worked for women-owned businesses, an increase of 28 percent during the 1992-1997 period (United States, 1999).

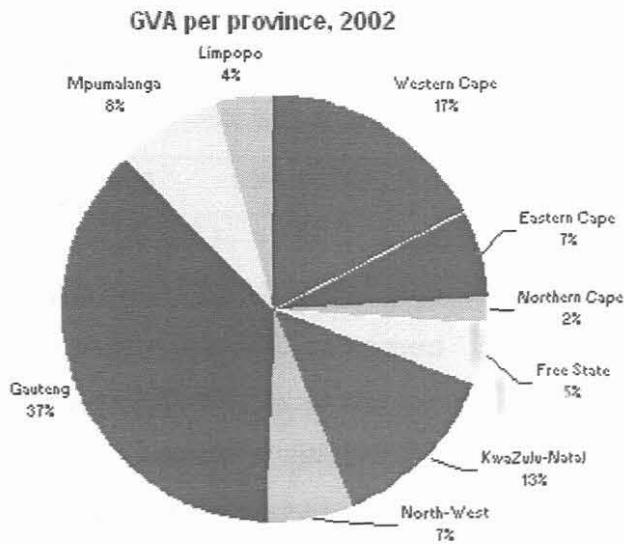
Minority-owned businesses in the USA increased by 30 percent from 1992 to 1997, to about 3 million. Minority-owned businesses generated around \$600 billion in revenue in 1997. Approximately 4.5 million employees worked for minority-owned businesses in 1997. Minority-owned businesses represented about 15 percent of the total number of businesses in 1997 (United States, 1999).

In 1997 small businesses in the USA with fewer than 500 employees represented 96.5 percent of exporters of goods and contributed 30.6 percent of the value of exported goods. Jesselyn (2003:96) argues that "the drive of entrepreneurs in developing countries can provide the catalyst to lift an economy onto an upward growth spiral and empirical studies highlight a limited impact on growth, profit or job creation".

Provincial Gross Value Added (GVA) measures the total production of all final goods and services in the economy of a province at a given point in time. The difference between GVA and GDP lies in taxes and subsidies not being included in the GVA calculation. *Global Insight's* latest GVA estimates for 2002 (see figure 2.2) indicates that the Gauteng province continued to contribute the major share to overall economic activity in South Africa, followed by the Western Cape, Kwa-Zulu Natal, Mpumalanga, Eastern Cape and North West and lastly by the Free State, Limpopo and the Northern Cape provinces (Western Cape, 2003).

This is an indication of the importance of the role that the Western Cape Economy plays in the contribution to economic growth in the country.

FIGURE 2.2 GVA PER PROVINCE 2002



2.7 CONTRIBUTION TO EMPLOYMENT

Kesper (2000:13) argues that the projected future performance of SMMEs in the Western Cape offers a positive outlook in terms of the manufacturing industry. The labour force of 41% of the SMMEs increased for the period 1994 to 1998, while 38% decreased their labour force. This is due to the high levels of uncertainty in the market. No information could be found pertaining to the construction industry.

According to Stryker (2001) of the Equity and Growth through Economic Research Project (EAGER), the negative effect of the apartheid policies has caused serious structural damages to the South African economy. The formal economy is not geared to grow and absorb new job seekers, causing massive unemployment.

Ntsika (1997) states that the official unemployment rate of the economically active population was 29.3 percent in 1995, while twenty percent of the total estimated population was employed in the formal sector and four percent in the informal sector. The small business sector contributes an estimated 32.7% to South Africa's

GDP, and it is estimated that the distribution of private sector employment by sector and size for 1995 came to a total of 4 004 550 (see Table 2.2).

Table 2.2 Jobs created by SMMEs in 1995

Type of enterprise	Amount of jobs created	Percentage
Micro enterprises	706 600	11.3%
Very small enterprises	880 900	22%
Small enterprises	113 000	32.7%
Medium enterprises	909 100	22.7%

Petje (1999:39) states that 39.3% of the jobs created in South Africa in 1995 were in the large business sector compared to 60.6% in the SMME sector. Small businesses play a major role in the creation of jobs, as almost all businesses start small and many need to grow to an optimal size to minimize costs. Small businesses create about 75 percent of the net new jobs in the USA (United States, 1999).

In June 1996, the government announced the macro-economic framework for growth, employment, and redistribution (GEAR). The promotion of SMMEs was considered a key element in the government's strategy for employment creation and income generation.

Stryker (2001) argues that a perception exists that employment intensity in SMMEs is higher than in large firms. Using the 1995 figures to estimate the employment effects resulting from changes in output for large and small firms, he states: "the results suggest that small enterprises are on average more employment-intensive and generate more GDP per job than large firms" (Stryker, 2001). Based on this analysis, it is clear that the promotion of SMMEs in South Africa should result in increased employment.

Solomon (2002) in an article in the *Sunday Times* states: "Small business occupies pride of place in the government's Growth, Employment and Redistribution (Gear) document, a fact apparently overlooked by South Africa's legislators".

This author further observes that small businesses contribute 44.8% and large businesses 55.2% to total private sector employment, while the contribution to gross domestic product (GDP) is estimated at 32.7% for SMMEs and 67.3% for large businesses. In Japan, SMMEs account for more than half of manufacturing output, 78.5% of retail sales, and 80.6% of industrial employment.

The government is aware of the positive effects and the contribution of the SMMEs to economic growth, but the regulatory environment surrounding the entrepreneurs has increased, leading to more obstacles and perceived harassment. The Labour Relations Act (LRA) and Basic Conditions of Employment Act (BCEA) will further increase costs and discourage job creation. Companies are moving towards more capital-intensive production to bypass the labour legislation. According to *SMME Alert*, the newsletter of the Small Business project, deregulation has become a dirty word.

Solomon, in the same article in the *Sunday Times*, observes that deregulation is associated with the reversal of social advances such as employee rights and the removal of safeguards for health, safety and the environment. "Some of our laws, as many small businesses can attest, are at best described as lunacy," *SMME Alert* is cited in the same article. A recent survey analysing the cost of administrative procedures in European private enterprises found that compulsory administrative procedures resulting from legislation accounted for 37% of administrative costs and that 60% of this amount "are of no immediate benefit to the individual enterprise" (Solomon, 2002).

The *Sunday Times* (Solomon, 2002) observes that employment costs currently account for about 30% of companies' salary bills. The introduction of payroll levies to fund the national training programme will add to unemployment, currently rising at the rate of 10 000 a month. One of the strategies to overcome the restrictive clauses of the new labour laws is to convert employees into contract workers.

In New Zealand, the number of employees in SMEs increased by two percent between 2001 and 2002, following a fall of 0.1 percent in the previous year. According to the Ministry of Economic affairs in New Zealand, new small businesses creates the largest number of new jobs (New Zealand, 2003).

According to Kesper (2000: 24) jobless growth is taking place in the SMME sector. SMMEs that needed to increase production have done so by shedding jobs and turning employees into subcontractors, or subcontracting and replacing labour with capital, while others have upgraded equipment, retrenched unskilled workers and retrained higher-skilled workers.

Owing to South Africa's legacy of segregation, another type of intervention, namely Black Economic Empowerment, was tabled to level the playing fields.

2.8 BLACK ECONOMIC EMPOWERMENT

Black South Africans were marginalized by apartheid. They were denied access to education, basic health care, education, skills development, job opportunities, basic infrastructures and social services. Furthermore, they were dispossessed and denied access to arable land. South Africa was dominated by a few white-owned conglomerates. Management structures and styles were hierarchical and autocratic. Workers, who were mostly blacks, were excluded from decisions that affected the operation of firms. Blacks were forced into an environment of low skills, unemployment, poverty, hunger, diseases and chaotic social relations.

It is, therefore, important to redress this imbalance through some active intervention to ensure economic growth. Black Economic Empowerment (BEE) must, therefore, be seen as an alternative development strategy to transform the structure of economic power in South Africa in order to enable blacks to participate meaningfully and equally in the economy.

Black ownership measured by total JSE total capitalisation rose from less than 1% in 1994 to 2.9% in March 2000 compared to the rise from 24% in 1996 to 35% in 1999 of Afrikaner businesses of listed JSE companies. As pointed out earlier, disempowerment took the form of denial of access to education and training opportunities to blacks, which has resulted in a low skills base amongst the black population, in particular, and the consequent shortage of skilled workforce in the economy. South African education and training must be repositioned to enable

blacks, women, the disabled and youths to acquire skills necessary for productive work and wealth creation.

The traditional sectors have shed over 600,000 jobs since 1994, and the unemployment rate is currently in the region of 36%. While 29.2% of Africans are unemployed, the figure for whites is 4.7%. The unemployment rate amongst Indians and Coloured is 15.6% and 15.2, respectively. Unemployment also reflects a gender bias with more women affected.

2.8.1 DEFINING BLACK ECONOMIC EMPOWERMENT

According to Madi (1997), there are two approaches to Black Economic Empowerment, namely the minimalist approach and the maximilist approach, both of which will be discussed.

2.8.1.1 MINIMALIST APPROACH

The minimalist approach focuses on the career mobility or advancement of black managerial, professional and business ranks. Freund *et al.* (cited by Madi 1997:16) regard this approach as a class creation project with the focus on the promotion of a new class of wealthy and powerful African movers and shakers. According to this approach, BEE occurs every time a group of black people acquires shares in white-owned businesses or secures an equity stake in government-initiated business.

Segal (1998) argues that most of the black operating companies cannot stand on their own and their contribution to job creation and skills development remains limited. Whites are still controlling management and operations, including financing. The *Sunday Times* (22 August, 1999) reports that none of the directors of *Wiphold Financial Services* that is being set up by *Wiphold's* Black Empowerment Group are black. They are all white males. The *Financial Mail* (20 August, 1999) likewise reports that *African Life* and *Metropolitan Life's* directors are all white males. Blacks have been relegated to token positions of non-executive directors. Segal further notes, "*Black economic empowerment is evolving into something that is not black, economic or empowering, but rather white, political and enriching*" (Segal: 1998:25)

2.8.1.2 MAXIMILIST APPROACH

This approach centres around simultaneous empowerment of the collective and the individual as an entity. Economic empowerment occurs when various networks, within and outside the community, are created to generate employment, capital formation, and increased productivity for the community at large. Therefore, the development of black business is a means towards an end, namely the general empowerment of the black community.

2.9 OBSTACLES TO BLACK ECONOMIC EMPOWERMENT

The following issues have been identified as obstacles to achieving real economic empowerment:

- Lack of commitment by white businesses to real change;
- Opportunistic dishonesty that tends to ride the wave of Government redress for self-interested parties;
- More setbacks than breakthroughs In the past ten years of attempts at empowerment;
- Black individuals or groups fronting for white establishments that unrepentantly wish to continue to do business as usual;
- Unabated rent-a-black schemes for the specific purpose of securing Government contracts or business;
- Black auditioned companies obtaining Government contracts and immediately selling them;
- Blacks using whites and *vice versa*, leading to a vicious circle of mutual abuse.

These issues defeat the goal of real empowerment and erode the foundation for genuine black enterprises to find an earnest entry, establish a firm footing and growth within the country's economic landscape.

The Broad-Based Black Economic Empowerment Bill has been introduced to establish an enabling framework for the promotion of BEEs in South Africa. In particular, this draft legislation will allow the Minister of Trade and Industry to issue guidelines and codes of good practice on BEE as well as to establish a BEE Council

to advise the President on the implementation of BEE and related matters (Broad-Based Black Economic Empowerment Bill, 2003).

2.10 THE BLACK ECONOMIC EMPOWERMENT BILL

It has been difficult to define black economic empowerment as one needs to find a balance between a very broad definition and an overly narrow one. To define BEE too broadly would equate BEE with economic development and transformation in general; the strategy would then be commensurate with the totality of government's programme of reconstruction and development. To define BEE too narrowly would limit it to a set of transactions transferring corporate assets from white to black ownership.

Accordingly, government defines BEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities (Broad-Based Black Economic Empowerment Bill, 2003).

The BEE process will therefore include elements of human resource development, employment equity, enterprise development, preferential procurement, as well as investment, ownership and control of enterprises and economic assets.

The successful implementation of the BEE strategy will be evaluated against the following policy objectives:

- A substantial increase in the number of black people who have ownership and control of existing and new enterprises;
- A substantial increase in the number of black people who have ownership and control of existing and new enterprises in the priority sectors of the economy that government has identified in its microeconomic reform strategy;

- A significant increase in the number of new black enterprises, black-empowered enterprises and black-engendered enterprises;
- A significant increase in number of black people in executive and senior management of enterprises;
- An increasing proportion of the ownership and management of economic activities vested in community and broad-based enterprises (such as trade unions, employee trusts, and other collective enterprises) and co-operatives;
- Increased ownership of land and other productive assets; improved access to infrastructure; increased acquisition of skills, and increased participation in productive economic activities in under-developed areas including the 13 nodal areas identified in the Urban Renewal Programme and the Integrated Sustainable Rural Development Programme;
- Accelerated and shared economic growth;
- Increased income levels of black persons, and a reduction of income inequalities between, and within, race groups.

Government will utilise a number of policy instruments to achieve its objectives in respect of BEE. These include legislation and regulation, preferential procurement, institutional support, financial and other incentive schemes. In addition, government will be seeking partnerships with the private sector to accelerate the BEE process. Before 1994, tenders for construction work were based solely on price. After 1994, a points system was introduced whereby price was not the only factor. In 2000, with the introduction of the Preferential Procurement Framework Act, the points system was legislated for all organs of state.

The disadvantage of the points system was that a holistic approach to the evaluation of tenders was lacking. Preferences were awarded to tenderers, and it was difficult to ascertain if the claimed preferences were true. This placed an additional burden on the procurement departments. The BEE Bill introduced a

balanced scorecard approach (Broad-Based Black Economic Empowerment Bill, 2003).

2.10.1 The balanced scorecard

The balanced scorecard (see table 2.2) measures progress made in achieving BEE by enterprises and sectors (Broad-Based Black Economic Empowerment Bill, 2003). The use of a common scorecard by different stakeholders provides a basic framework against which to benchmark the BEE process in different enterprises and sectors. The scorecard measures three core elements of BEE:

- *Direct empowerment through ownership and control of enterprises and assets*
- Human resource development and employment equity
- *Indirect empowerment through preferential procurement and enterprise development.*

The scorecard also allows government departments, state-owned enterprises, and other public agencies to align their own procurement practices and individual BEE strategies. The scorecard also facilitates the process of setting measurable targets for BEE.

In particular, government will apply BEE criteria, as set out in the scorecard, whenever it:

- Grants a licence to engage in a specific regulated economic activity, for example, gambling or mining
- Grants a concession to a private enterprise to operate an asset or enterprise on behalf of the state
- Sells an asset or a state-owned enterprise
- Enters into a public-private partnership
- Engages in any economic activity.

Table 2.2 The BEE Scorecard

Core Component of BEE	Indicators	Conversion factor	Raw score	Weighting	Total score
Direct Empowerment score					
Equity ownership	% Share of economic benefits			20%	
Management	% Black persons in executive management and/or executive board and board committees			10%	
Human resource development and employment equity score					
Employment equity	Weighted employment equity analysis			10%	
Skills development	Skills development expenditure as a proportion of total payroll			20%	
Indirect empowerment score					
Preferential procurement	Procurement from black-owned and empowered enterprises as a proportion of total procurement			20%	
Enterprise development	Investment in black-owned and empowered enterprises as a proportion of total assets			10%	
Residual 10%					
To be determined by sector/enterprise	Investment in black-owned and empowered enterprises as a proportion of total assets			10%	

Source: Broad-Based Black Economic Empowerment Bill, 2003).

2.10.1.1 Indicators

Specific indicators are provided as a guide that enterprises or sectors may use to provide an accurate reflection of progress in each of the core components of BEE.

2.10.1.2 Conversion factor

The conversion factor enables the scorecard to reflect progress made against the specific BEE targets established by the sector/enterprise. If an enterprise has established a target of 5% for procurement, then the component factor for procurement will be $100/5$, which is equal to 20. When that enterprise achieves its target, it will receive a score of 5% times 20, 100% for achieving its target. If the enterprise only procures 3% from black enterprises, it will get a score of 3% times 20, or 60%.

Table 2.3 Application of the conversion factor for measuring progress against BEE targets set by a sector/enterprise

Core Component of BEE	Indicators	Conversion factor	Raw score	Weighting	Total score
Preferential procurement	Procurement from black-owned and empowered enterprises as a proportion of total procurement Year 1 - 3% Year 2 - 5%	Target is 5% of procurement in 3 years Conversion factor: $100/5 = 20$	 $3\% \times 20 = 60\%$ $5\% \times 20 = 100\%$	20% $60\% \times 20\%$	12%

2.10.1.3 Weighting

The weighting of each component reflects the relevant importance that government attaches to it. The six core components of BEE are weighted to bring the scorecard to a maximum of 100%.

2.10.1.4 Total score

The total score will be calculated by the sum of the individual component scores and will be reflected as a score out of 100%.

- Total score of more than 65% - good contributor to broad-based BEE
- Total score of 40% to 64.9% - satisfactory contributor broad-based BEE
- Total score below 40% - limited contributor to broad-based BEE

2.10.2 Categories of enterprises

The following categories have been established as a guide to enable preferential support (Broad-Based Black Economic Empowerment Bill, 2003):

- **A black enterprise:** Ownership of 50.1% by black persons and substantial management control. Ownership refers to economic interest, while management refers to the membership of any board or similar governing body of the enterprise.
- **Black empowered enterprise:** Ownership of at least 25.1% by black persons and substantial management control. Management refers to executive directors.
- **Black women owned enterprise:** Ownership of at least 25.1% representation of black women within the black equity and management portion.
- **Community or broad-based enterprise:** Has an empowerment shareholder who represents a broad base of members such as a local community, or where benefits support a target group like black women. Shares are held via direct equity, non-profit organisations and trusts.
- **Co-operative or collective enterprise:** An autonomous association of persons who voluntarily join to meet their economic, social and cultural needs and aspirations through the formation of a jointly owned and democratically controlled enterprise.

2.11 DEFINING EMPOWERMENT

Empowerment has been defined as an alternative development, placing emphasis on the improvement in the conditions of life and livelihood of the excluded majority. This process aims to redress the historical process of systematic disempowerment or exclusion of the vast majority of people from economic and political power. Disempowerment denies the majority the opportunity to flourish, as their lives are

characterised by hunger, poor health, poor education, a life of back-breaking labour, a constant fear of dispossession and chaotic social relations. Empowerment therefore aims to humanise the system that has shut out the majority, and its long-term aim is to fundamentally transform the whole of society, including the structures of power.

A wider, albeit more general, definition of empowerment originates with Gwede Mantashe, the General Secretary of the National Union of Mineworkers: *“Interventions to fundamentally correct and address the consequences of institutionalised discrimination against black people in general and Africans in particular.* (Gwede Mantashe, 2002).

Another definition, with a specific socio-economic focus, is put forward by Mashudu Ramano, Acting CEO of NAFSOC, argues that empowerment means democratisation of ownership of economic resources, creation of a significant entrepreneurial class amongst blacks, increased human capital development among blacks, improved living conditions of blacks and the elimination of race in economic activities (Ramano, 2002).

Although these definitions may vary in degree, they are not mutually exclusive as there is no disputing the common nature of the empowerment process.

One of the mechanisms to ensure that empowerment does take place is to include measurable socio-economic goals within work specifications. The National Department of Public Works has initiated targeted procurement as an alternative to the normal procurement practices.

2.12 TARGETED PROCUREMENT

In any procurement process, technical specifications are used to define the outcome, whether it is a service or product. Resource specifications, on the other hand, define social deliverables and the manner in which the social deliverables can be achieved, measured and monitored. Watermeyer (2000) states that for resource specifications the following are essential steps to be taken:

- Specify the required socio-economic deliverables

- Specify the methods by which deliverables may be obtained and verified
- Determine the means by which progress towards the attainment of the deliverables are to be quantified at discrete intervals
- Set the framework within which prime contractors have to engage HDIs through unbundling their contract into smaller portions to make it more accessible for SMMEs
- Create joint ventures with HDIs
- Provide work for HDIs by structuring their resources differently.

Table 2.4 gives the standardised resource specifications that have been developed by the National Department of Public Works.

Table 2.4 Standardised Resource specifications

TP1	Targeting of affirmable business enterprises	Applicable to goods, services and engineering and construction works
TP2	Structured Joint Ventures (Affirmable partners)	Applicable to goods, services and engineering and construction works
TP3	Structured Joint Ventures (Targeted partners)	Applicable to goods, services and engineering and construction works
TP4	Targeting of local resources	Applicable to service contracts, engineering and construction works
TP5	Engagement of Targeted labour	Applicable to service contracts, engineering and construction works
TP6	Targeting of Affirmable Professional Service Providers	

Table 2.5 indicates the resource specifications that can be used to support the various socio-economic objectives.

Table 2.5 Socio economic objectives

Socio-economic objective	Resource specification required to enact certain targeting strategies	
	Code	Strategy
Development of sectors of an industry, e.g. small business, women owned business and local industry development.	TP1	Targeting of affirmable enterprises
	TP2	Structured Joint Ventures (Affirmable partners)
Development of sub-contractors to prime contractors Development of management capacity of small businesses	TP3	Structured Joint Ventures (Targeted partners)
Local economic development Job Creation Poverty alleviation Community based developments	TP4	Targeting of local resources
Job creation Poverty alleviation	TP5	Engagement of Targeted labour

Targeted procurement also promotes business linkages between large-scale and small-scale enterprises.

In the traditional procurement system, contracts are awarded on the basis of price alone. The lowest bidder, who complies with the requirements and the capacity is awarded the job. In using targeted procurement, points are awarded for developmental objectives as follows:

$$A = \frac{(1 - P - P_m)}{P_m} \quad \text{or} \quad A - P_m / P$$

$$A = \frac{(1 - P_m - P)}{P_m} \quad \text{or} \quad A - P / P_m$$

$$N_p = Y \times A \frac{(D - D_s)}{(X - D_s)}$$

Table 2.6 explains the formula used in targeted procurement

Table 2.6 Application of formula for targeted procurement

COMPONENT	FORMULA	SYMBOLS
Price	$N_p = Y \times A$	<p>N_p = the number of bid adjudication points awarded for price;</p> <p>A is calculated from one of the following formulae as provided in the bid documents:</p> <p>Lowest price, value or percentage commission</p> $A = \left(1 - \frac{P - P_m}{P_m}\right) \quad \text{or} \quad A - P_m / P$ <p>Highest price / discount</p> $A = \left(1 - \frac{P_m - P}{P_m}\right) \quad \text{or} \quad A - P / P_m$ <p>P_m = the tendered parameter of the most favourable responsive bid adjusted to a common financial base for comparative purposes, if applicable.</p> <p>P = the tendered parameter of the responsive bid under consideration adjusted to a common financial base for comparative purposes, if applicable.</p> <p>Y = a number (less than 100) usually 90, reflecting the importance of price)</p>
Development objectives (Resource goals offered)	$N_c = Z \frac{(D - D_s)}{(X - D_s)}$	<p>N_c = the number of bid adjudication points awarded for socio-economic deliverables / development objectives</p> <p>D = the tendered resource goal percentage in accordance with the provisions of a resource specification</p> <p>D_s = the specified minimum resource goal percentage stated in the bid documents (equal to zero if no minimum resource goal is specified)</p> <p>X = the maximum resource goal percentage stated in the bid documents above which no further adjudication points are awarded</p> <p>$Z = 100 - Y$</p>
Development objectives (direct preference)	$N_c = Z_n$	<p>N_c = the number of bid adjudication points awarded for development objectives</p> <p>Z_n = the amount of adjudication points stated in the bid documents for enterprises who enjoy a specified status</p>

Source: An introduction to targeted procurement: 2000

The tenderer scoring the highest points, based on technical and financial capacity, and allowing for a ratio of 90 points for price and 10 points for the developmental objective, is usually awarded the contract.

2.13 CONCLUSION

Based on the information above, it is clear that the implementation of black economic empowerment is a daunting and difficult task, as there are so many variables to consider. With black economic empowerment as the driver in any procurement process, a balance has to be achieved between social responsibility and quality of the outcome.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

The literature review highlights what SMMEs in general experience as barriers with regard to access to finance, lack of managerial skills and the abundance of red tape, especially in government departments.

3.2 RESEARCH METHODOLOGY

Quantitative descriptive research was conducted. Descriptive research involves observation and description of variables as they are distributed throughout a population (Crowl, 1993:38). Quality observation (measurement) is the nucleus of descriptive research, which may be classified as either qualitative or quantitative research. Quantitative descriptive designs yield numeric or statistical descriptive data about how the variables are distributed among members of a population. *Quantitative descriptive designs include the use of surveys, classification research, passive designs and ex post facto designs.* This latter method of research was chosen because it would yield the data needed to answer the research questions pertaining to this study. In addition, this research method offers the advantage of being relatively inexpensive while yielding required data in a short space of time.

3.2.1 Exploratory research

Welman & Kruger (2002:12) argue that "exploratory research does not start with a specific problem - the approach of such a study is to find a problem or a hypothesis to be tested".

For this study a sample was drawn from a population of African black contractors who are active in the construction industry in the Western Cape Metropole, striving to be afforded opportunities by the National Department of Public Works. This

specific sector was selected, as the author is familiar with the operational aspects pertaining to the *Emerging Contractors Development Programme*. The Western Cape Metropole was selected as this is the only area where the *Emerging Contractors Development Programme* has been implemented.

3.2.2 Sampling design

The sample used for this study was drawn from the market sector of 15-20 African black SMMEs in the construction industry; each of these contractors in the population sampled has been in business for at least two years. The geographical location of the sample population was the Cape Metropole of the Western Cape and will be used as exemplar for this study. A provincial or national survey would have exceeded the parameters of this research.

3.2.3 The questionnaire and interviews

The primary data collection tool for this study consisted of structured interviews conducted by one person (the author), posing the same questions in the same sequence to ensure uniformity. All interviews were person to person to ensure objective and unbiased information. The interviews were defined by the constraints of the questionnaire and were kept within these parameters. For the questionnaire used during the interviews see Figure 3.1.

Figure 3.1 Questionnaire

1. Position of person being interviewed:

Owner Manager

Other

2. Gender:

Male Female

3. Year Business Established:

4. Type of Business:

Sole Proprietor Closed
Corporation

Partnership Limited
Liabilities

5. Available credit

R2500 – R5000

R5000 – R10000

R10000 – R25000

R25000 – R50000

R50000 – R100000

6. Terms of Finance

(highest loan/overdraft interest rate obtained to date)

7. Number of fulltime employees

8. Number of part-time employees

9. Did you have a start-up business plan?

Yes

No

10. Are you given opportunities for work from Government departments?

Yes No

10.1 If yes, mark with a cross/tick:

how often are you given opportunities for work from Government departments?

Once every four weeks Once every quarter

Once every eight weeks Once every six months

Other:

.....
.....

10.2 how successful were you in obtaining the work on a scale of 1-5. (5 being most successful)?

1

2

3

4

5

11. Did you receive any managerial training before setting up your business?

Yes No

12. Do you think it is important to have managerial skills to run a business?

Yes No

13. Did you receive any financial assistance in setting up your business?

Yes No

14. Were any conditions attached to your being given financial assistance?

Yes No

14.1 If yes, what conditions:

- collateral?
- terms of payment?
- surety?
- other.....

15. When applying for finance, did you encounter any discrimination or pitfalls?

Yes No

15.1 If yes, indicate the nature of discrimination/pitfalls

.....

.....

16. Was applying for finance an easy task?

Yes No

16.1 If no, what obstacles did you encounter?

.....

.....

17. How did red tape affect your start-up and the current running of your company?

.....

.....

18. Is red tape a hindrance in your venture?

Yes No

List of contractors interviewed

Injongo Constructions	Teamwork Civils
Tinzi Builders	Silithemba Trading cc.
Dumani Locksmith	Masakhe Builders
Take note trading 28 cc	Nombewu & Assoc
Sibabalwe Property Consultants	Thinanono Building renovators

The list of interviewees was sourced from the Emerging Contractor Development Programme database of the National Department of Public Works in the Western Cape. The interviewees are all African black contractors.

3.2.3 Purpose of the research

The purpose of this research was to determine the reasons why African black contractors cannot find the business opportunities that they seek. The opportunities may be available, but these contractors lack the financial capacity to take advantage of them. The lack of finance or access to finance causes these contractors not to be able to perform as anticipated.

The survey was done among African Black contractors to determine from them what their experiences were with the Emerging Contractor Development Programme. The survey also focused on the amount of opportunities given to them by the National Department of Public Works and the effect of their lack of finances.

3.3 CONCLUSION

The research focused on selected African black contractors, a sample population drawn from the National Department of Public Works Emerging Contractors database. The Market sector of black SMMEs operating in the Cape Metropole of the Western Cape was targeted to ascertain their experiences, inter alia with the emerging contractors development programme as well as the barriers experienced by them.

CHAPTER 4

ANALYSIS OF RESEARCH RESULTS

4.1 INTRODUCTION

In this chapter, the research findings are analysed and interpreted. The target group consisted of African black contractors registered on the ECDP database at the Western Cape National Department of Public Works. The research excluded white coloured and Indian contractors, as the focus is on African blacks as a sub category of the population. In the final analysis, 16 contractors formed the sample population.

4.2 Analysis of the research results

The survey questionnaire was developed following a literature study of small business development in South Africa and after holding discussions with African contractors and procurement managers. The contents of the questionnaire was developed to gather the required data in order to make the correct analysis and conclusions.

Direct interviews were conducted with the owner/manager of each business. The questionnaires were in English and all interviews were conducted through the medium of English owing to linguistic constraints on the part of the researcher; extreme care was taken to avoid any misinterpretation and to ensure quality answers. The survey was conducted between April and May 2004. The information on contractors was sourced from the database of Public Works.

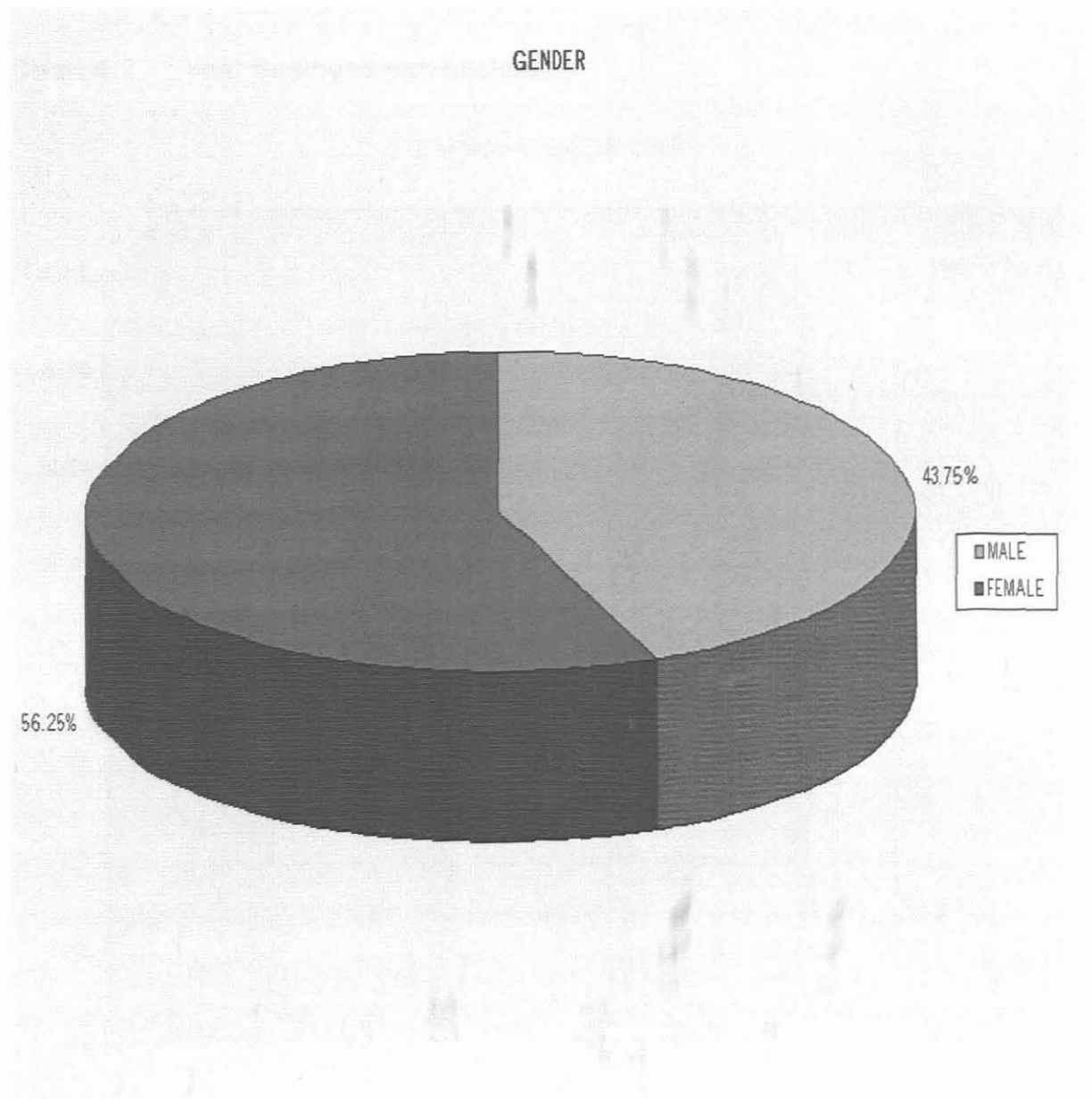
4.2.1 Responses

In total 16 questionnaires out of 26 were completed and returned to the author of this research study. All respondents are the owners of the businesses that they are currently managing.

4.2.1.1 Gender of the contractors

The results of the study shows that African females at 56.25% are more dominant in SMMEs than males at 43.75%.

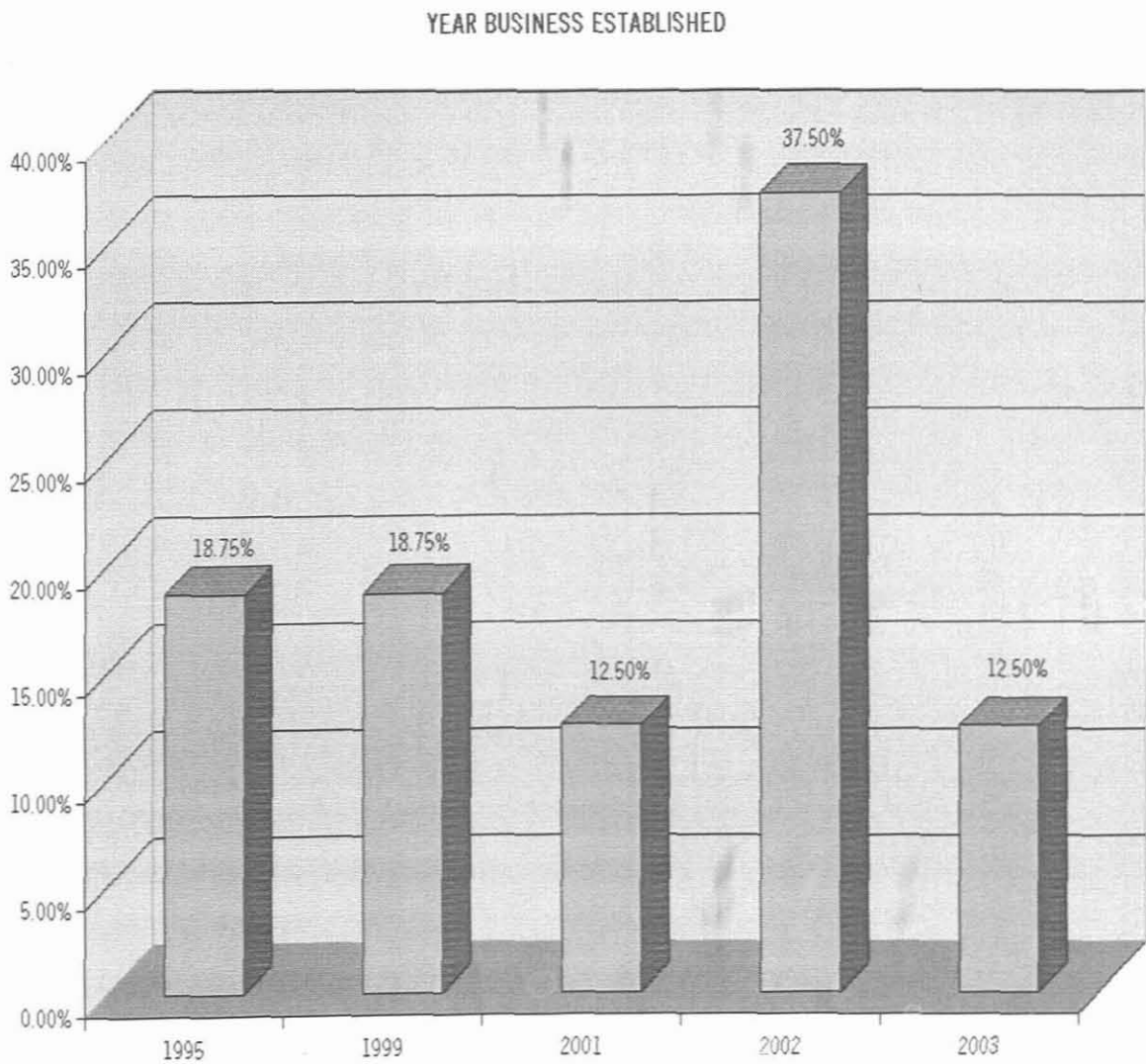
Chart 4.1 Gender of the contractors



4.2.1.2 Number of years in business

From the information gathered, three of the contractors have been operating for eight years, three for five years, two for three years and eight for two years.

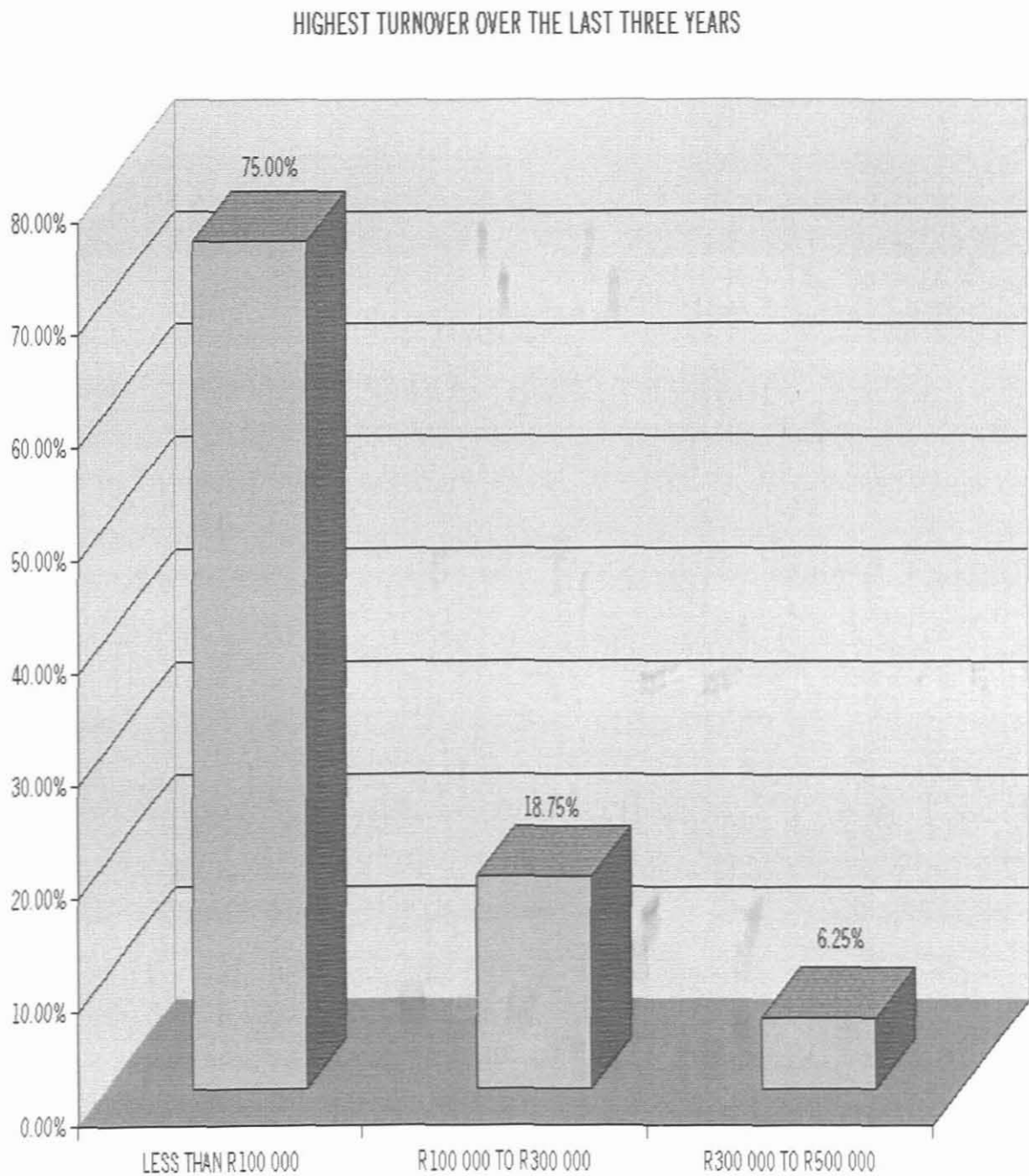
Chart 4.2 Year business established



4.2.1.3 Turnover

Only one contractor indicated a turnover of more than R300 000 per annum, while 75% had a turnover of less than R100 000.

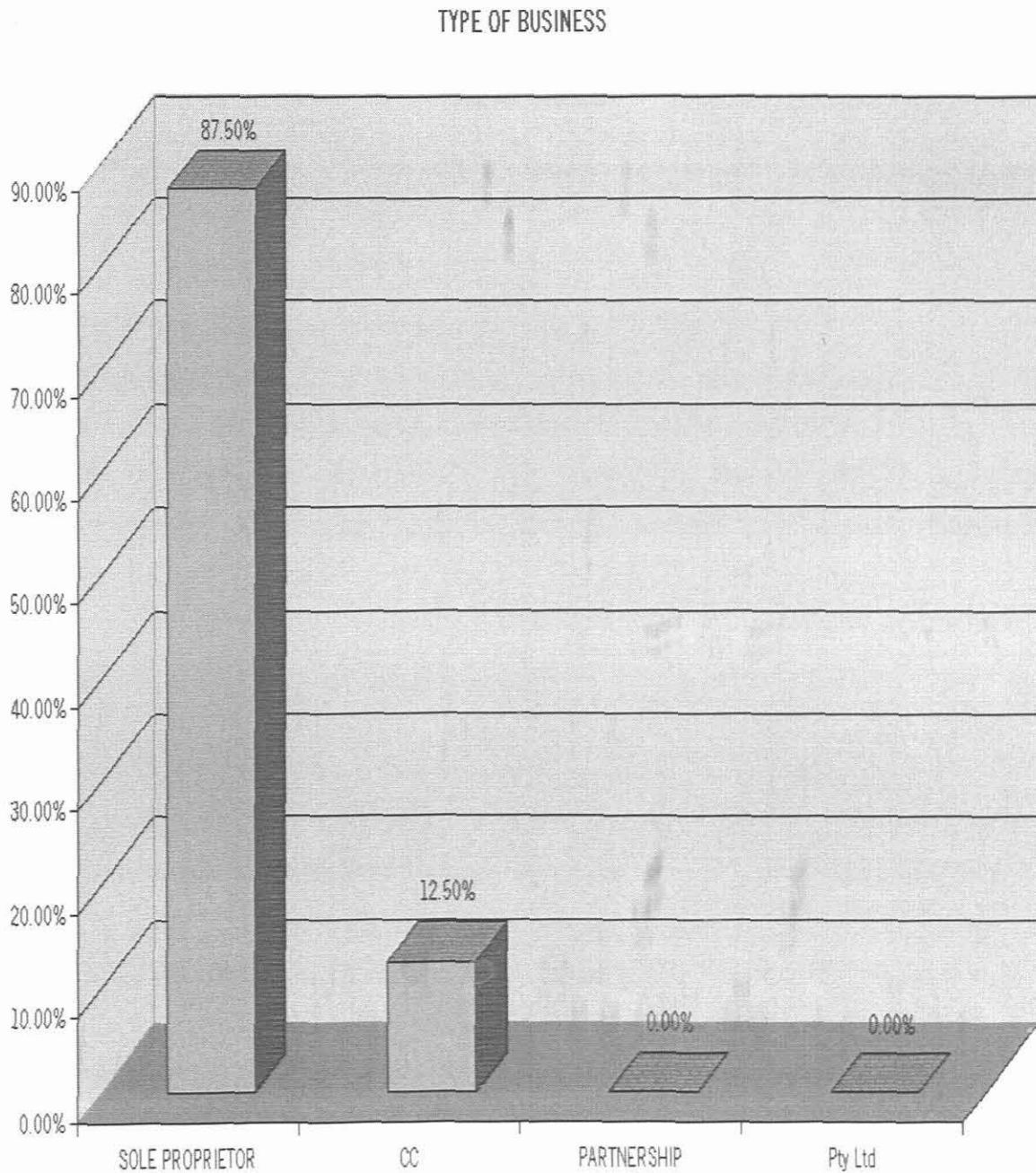
Chart 4.3 Turnover



4.2.1.4 Type of business

Among the enterprises surveyed the highest percentage, at 87.50%, was sole proprietorships; there were only two Closed Corporations.

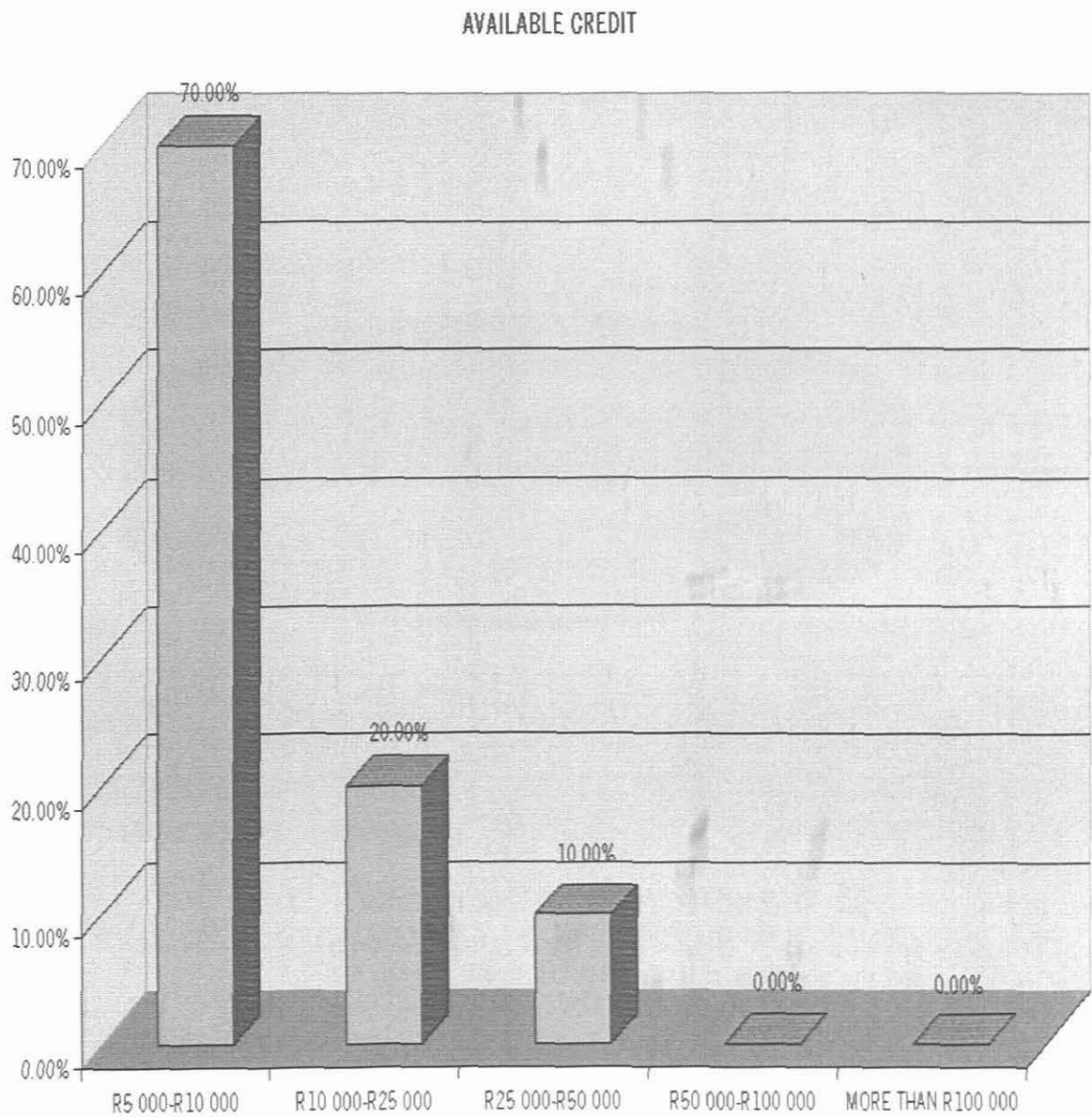
Chart 4.4 Type of business



4.2.1.5 Available credit

The majority of the respondents (70%) indicated that their credit facilities ranged between R5000 and R10000, normally from family or friends.

Chart 4.5 Available credit



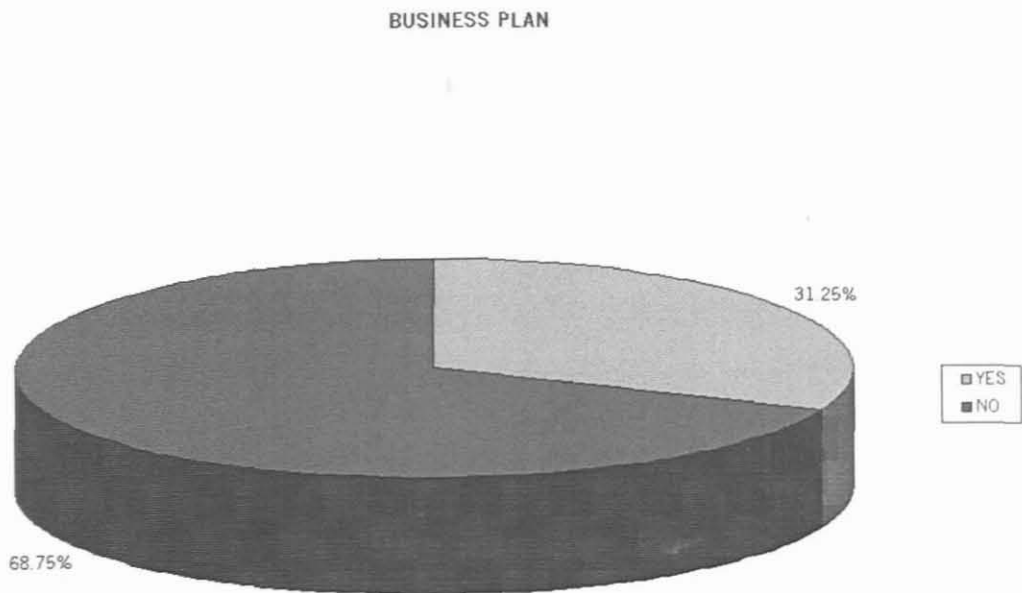
4.2.1.6 Average number of employees

The respondents reported a staff establishment of three full-time employees on average and six part-time employees.

4.2.1.7 Business Plan

Of the sampled population, only 31.25% of respondents started out with a concrete business plan, as opposed to 68.75% who started without one.

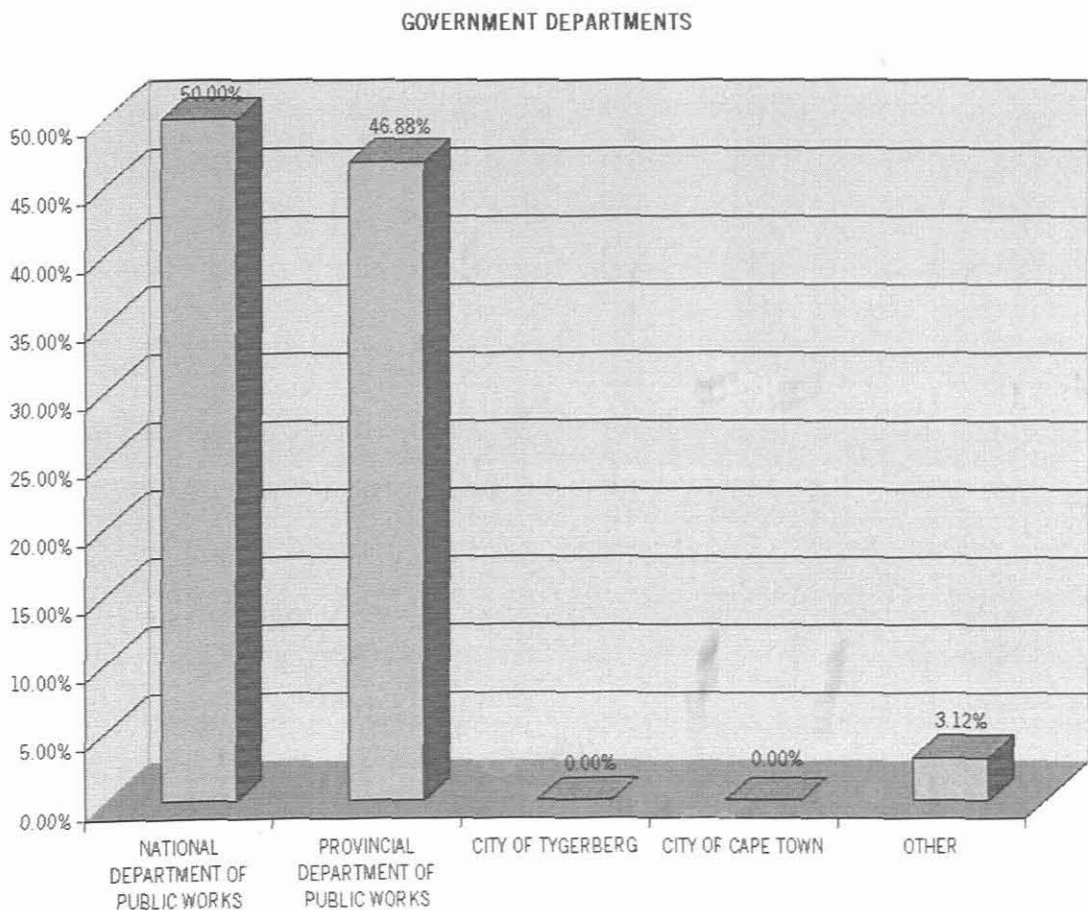
Chart 4.6 Business plan



4.2.1.8 Opportunities afforded by Government departments

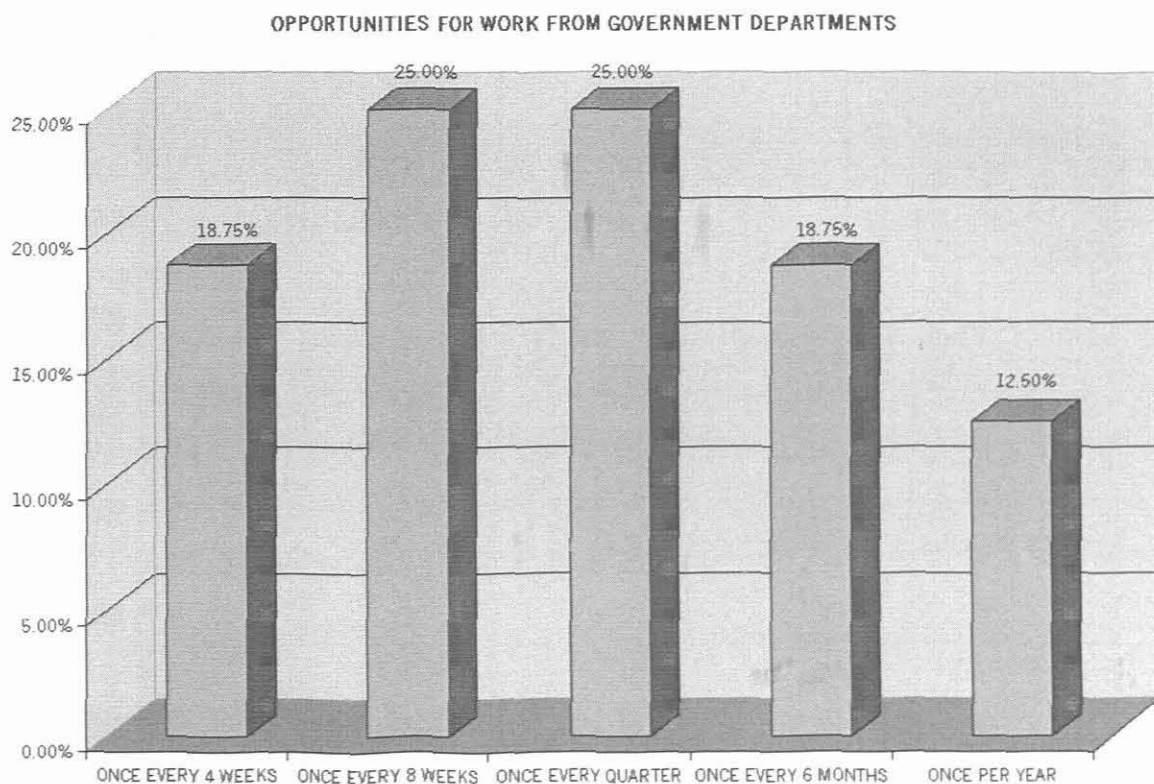
The majority of the respondents indicated that they were afforded opportunities by both the National Department and Provincial Departments of Public Works. A small percentage of respondents indicated that they were also given opportunities by other sources, while none of them reported having been given opportunities by either the City of Cape Town or the City of Tygerberg.

Chart 4.7 Opportunities from Government departments



4.2.1.9 Frequency of Opportunities given by Government departments
The Emerging Contractor Development Programme is not based on awarding work, but rather on providing opportunities for emerging contractors to participate in the procurement process.

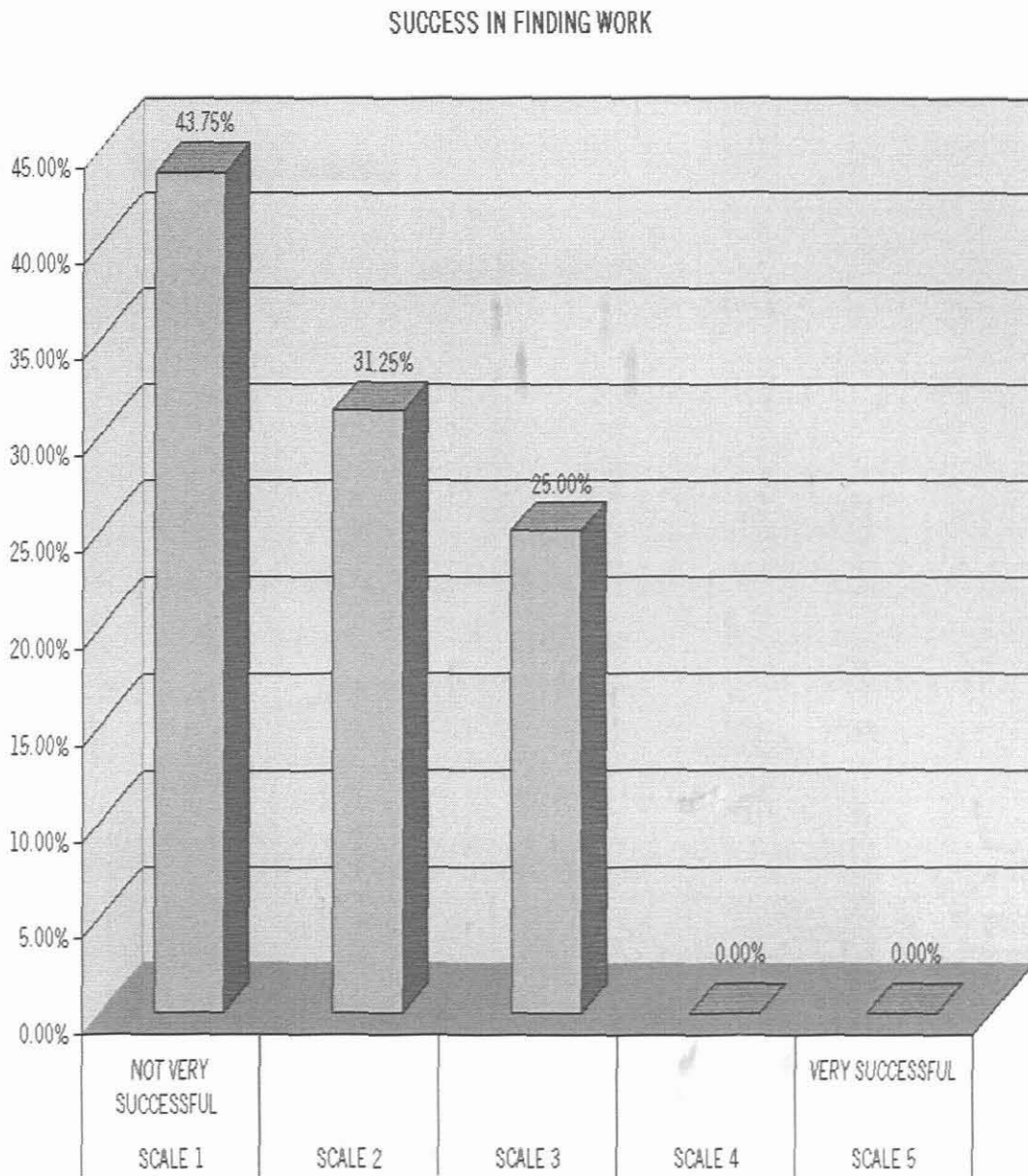
Chart 4.8 Frequency of Opportunities from Government departments



4.2.1.10 DEGREE OF SUCCESS IN FINDING WORK

The majority of respondents indicated that despite being given some opportunities, they had limited success in obtaining work.

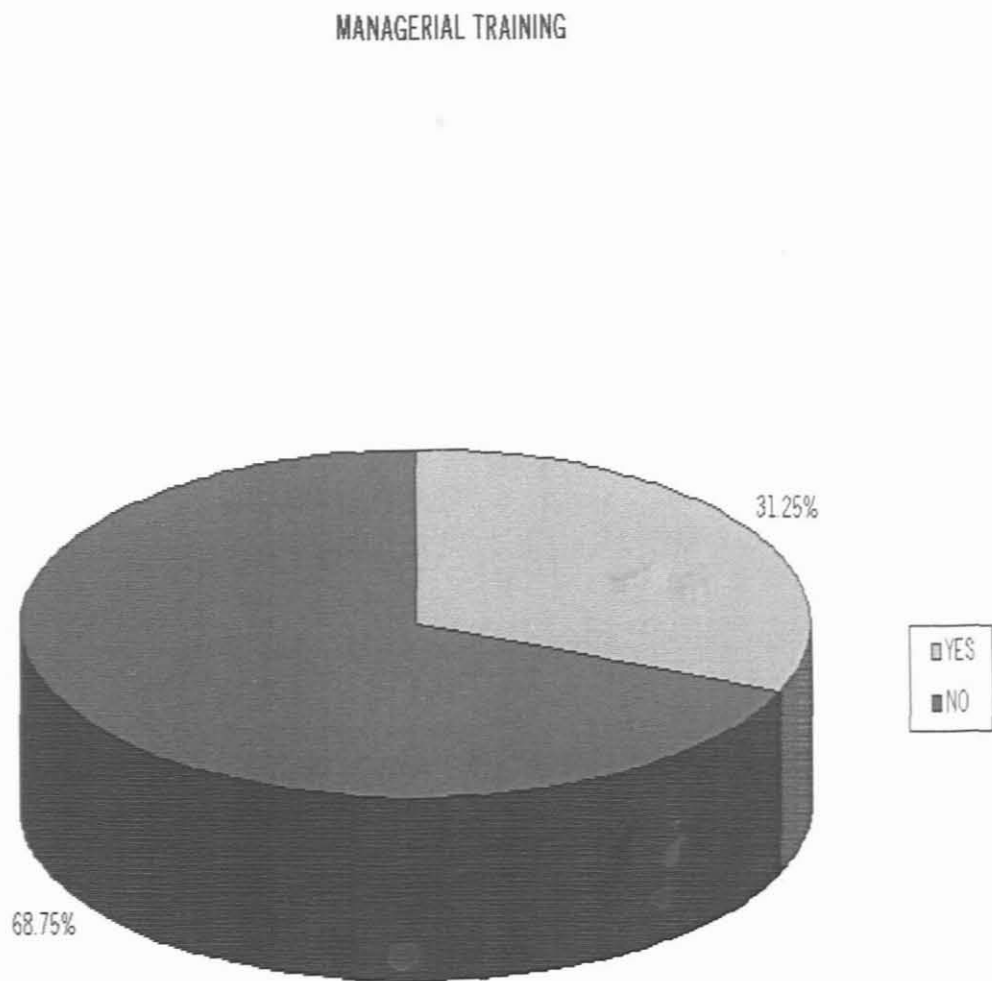
Chart 4.9 DEGREE OF SUCCESS IN FINDING WORK



4.2.1.11 Managerial training

A very small percentage of the respondents (31.25%) indicated that they had received some sort of managerial training, while the majority had received no managerial training at all. All the respondents, however, feel the necessity for some sort of managerial training.

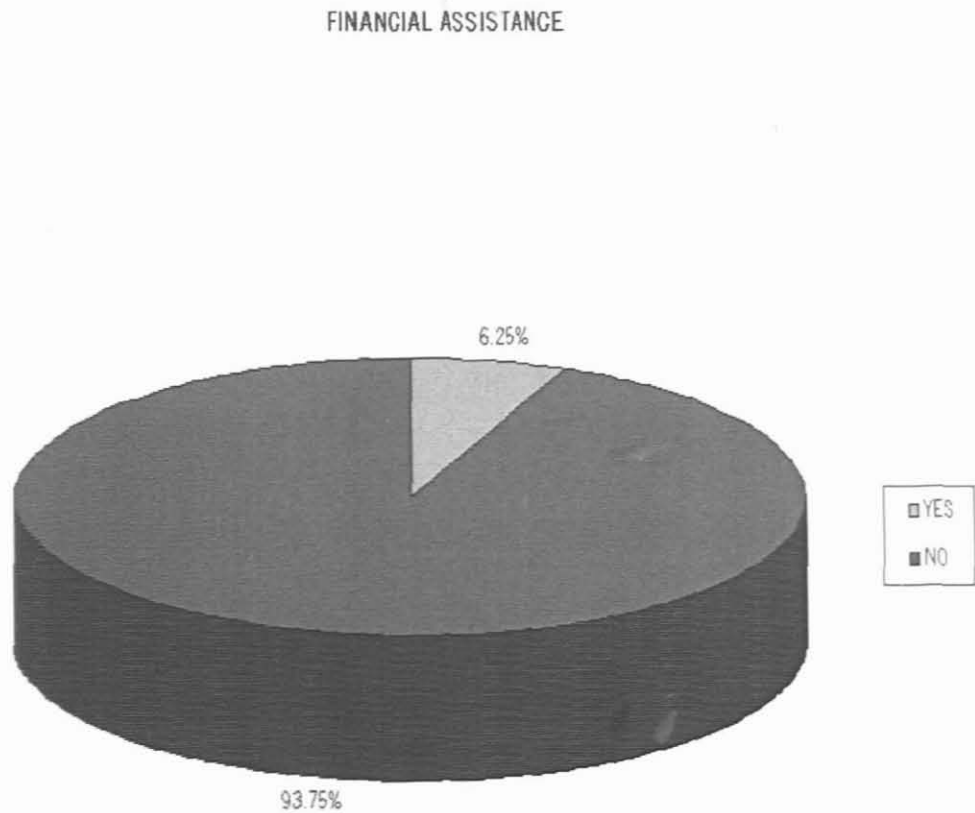
Chart 4.10 Managerial training



4.2.1.12 Financial Assistance

Only one respondent had received any assistance from an established financial institution, with strict terms of payment attached to the finance provided. The others have received assistance from family and friends. Reasons for refusal of finance ranged from poor credit ratings to poor bookkeeping functions. Some of the respondents indicated that there were too many forms to be completed in the process.

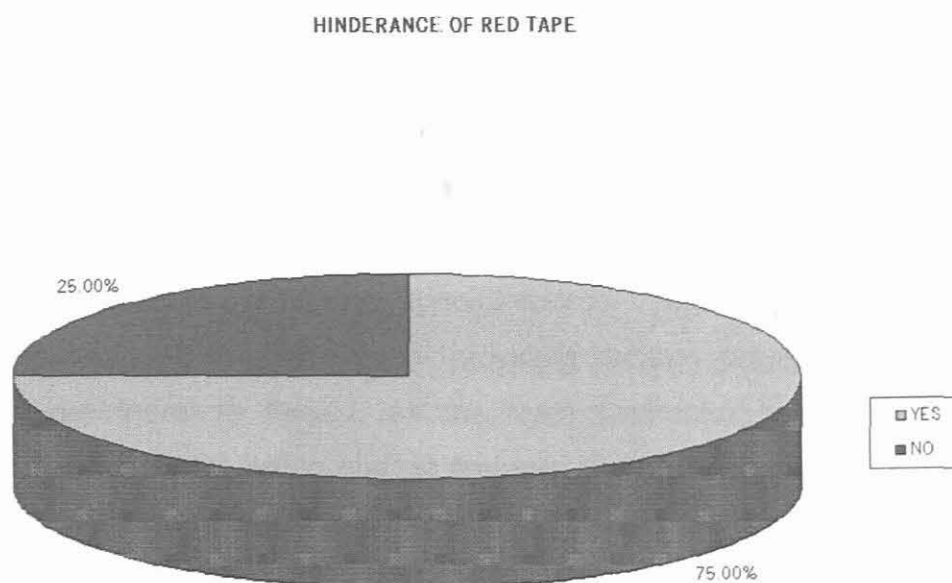
Chart 4.11 Financial Assistance



4.2.1.13 Red Tape

All respondents indicated that red tape caused financial burdens as the payment periods were too long, which affected cash flow. In addition, the fact that they continuously have to follow up on their payments is a highly time-consuming task. Red tape was also seen as limiting job opportunities.

Chart 4.12 Red tape



4.3 CONCLUSION

The Government has proposed some bold initiatives for assisting emerging contractors in terms of access to finance, job opportunities and empowerment in general. These initiatives as set out in policies and procedures are models, but they lack effective implementation. Responses pointed to a feeling among the target group that they were being totally ignored. Moreover, these contractors experienced difficulty in obtaining opportunities for tenders, and even if they were given any

opportunity, the degree of success in being awarded the work is limited. The African Blacks, because of their lack of resources and skills are mostly unable to access information about tenders, and if they are successful in obtaining a tender, there is a lack of support from the procurement officials to assist them with completing projects successfully. The main problem with SMMEs in general is that they are not trusted by the procurement officials because of a history of poor performance by SMMEs, which tends to engender reciprocal instinct of procurement official on the part of the SMMEs.

One of the key performance areas of procurement officials is to procure goods and service at best price and best quality; therefore they strive to procure from established businesses with good track records. Where a main contractor is appointed, the employment of African Blacks as sub-contractors are seen as a major impediment to the ability of the main contractor to perform, and as such the main contractors reserve the right to appoint sub-contractors of their own choice, thereby relegating African Blacks to providing labour only. Sub-contracting opportunities are therefore limited, as the main contractor has a mandate to complete projects on time, within budget and with the required quality. In the next chapter, conclusions regarding the survey data collected will be used to formulate recommendations for increasing the participation of African Blacks.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

Based on the literature review, it is evident that the infrastructure to foster growth in SMMEs does in fact exist, but that policy and procedures are not properly implemented or are not effective. Although this study used the SMME sector in the Western Cape as exemplar, it can be assumed that the problems encountered by African blacks will generally be similar throughout South Africa. However, it has become apparent during this study that further research on this topic is needed, especially with regard to the impact of technology and strategic supply management on the SMME market. One of the cornerstones of strategic supply management is to decrease the supplier base and concentrate on strategic partnerships. This will have a negative effect on the empowering of SMMEs and could be seen as a barrier. A limitation was the lack of literature covering SMMEs in the South African context, as most of the literature refers to the USA and papers presented at seminars in the USA.

5.2 CONCLUSION

The results of the study shows that African females at 56.25% are more dominant in SMMEs than males at 43.75%. The construction industry is a male dominated industry, as it requires skills normally associated with the male physique. The presumption is that females are acting on behalf of their male counterparts, as there are minimal legal requirements for starting this type of enterprise. Other reasons suggested for the predominance of females are the perception that females will receive additional preference points or, alternatively, that the females do the marketing while the males are engaged in physical work.

From the information gathered, three of the contractors have been operating for eight years, three for five years, two for three years and eight for two years. It might

be that there had been an upsurge in 2002, which could be attributed to the renewed emphasis on the Expanded Public Works programme.

Only one contractor indicated a turnover of more than R300 000 per annum, while 75% had a turnover of less than R100 000. One of the reasons for the highest turnover could be the length of existence of the business.

The purpose of this study was to determine what, if any, barriers exist for the African black contractors in the Western Cape construction industry, with regard to management skills, lack of access to finance and job opportunities.

Of the sampled population, only 31.25% of respondents started out with a concrete business plan, as opposed to 68.75% who started without one. The business plan is usually a blueprint of the strategy and the resources required to operate an emerging business. The drafting of such a business plan requires certain skills, an exercise that does not come cheap. Investors and financial institutions base their financial investment decisions on properly constructed and feasible business plans.

The Emerging Contractor Development Programme is not based on awarding work, but rather on providing opportunities for emerging contractors to participate in the procurement process. In order to sustain these contractors, opportunities should be made available on a regular basis and also to create an environment of learning. Based on responses by the respondents, opportunities that will allow them to actively participate and grow are not forthcoming. Most of the respondents indicated that they were afforded opportunities on average only once every eight weeks, while some reported having been given opportunities only once a year.

The study has revealed the difficulty experienced by the African black contractors registered on the database of the National Department of Public Works' ECDP programme. Although programmes are currently in place to foster growth in the sector, no provision has been made for this sub-category of blacks as defined in the Preferential Procurement Policy Framework.

5.3 RECOMMENDATIONS

Based on the conclusions highlighted above, it is recommended that Government and Purchasing managers take the following into consideration:

5.3.1 Improving communications:

The creation of business units in government and private organisations to focus on the advancement of SMMEs. The local LBSC should be more prominent in the dissemination of information to SMMEs; local government structures can be used to pass on information to the targeted group. There should be synergy between National government, Provincial government, Local government and the private sector regarding empowerment.

Currently, these bodies operate in a silo, which causes frustration to the SMMEs. Each one of the above structures is running its own database, and SMMEs are expected to register on each and every database. This is a time-consuming and costly exercise for both parties. In the case of the Government and private institutions, the duplication of valuable resources, human and financial, poses a huge administrative burden that adds no value to the goals. In the case of SMMEs, the lack of interdepartmental communication causes huge frustration as they have to provide the same information to each and every Institution, largely without any positive outcomes. The solution would be to have one database with one registration form that will give any SMME access to opportunities from all the structures above. An example of a common database is the one developed by the Western Cape Provincial Government and the City of Cape Town and operated by Tradeworld. This central database can be accessed by both Institutions, and it is also available to any other Government or private institutions at a certain cost. This initiative should be extended to both Government and private Institutions at minimal cost. The advantages offered by such a shared database include:

- freeing up valuable human resources as the current staff employed to drive this process could be minimised;
- freeing up financial resources from the decreased costs on staffing;
- creating a central information point from which empowerment could be tracked;
- preventing duplication of resources;
- preventing fronting as the auditing of information is done up front;

- delivering of services is carried out more effectively and efficiently;
- less administrative work and less pressure from management on empowerment goals;

5.3.2 Establishing of goals

Each institution has to establish clear goals on the percentage spent per annum on African Blacks eg to spend 35 percent of all procurement spent on African blacks during a specific year. The goals should be specific, measurable, attainable, realistic and time bound. One of the goals should be to only source a minimum number of African blacks as suppliers/contractors in a specific commodity and develop this small group over a period of at least two years. The focus should shift from having a huge database of suppliers with little work opportunities forthcoming to any single one where the smaller group could really access these opportunities. This will allow the African black contractors to progress from sub-contractors within a period of two years. After two years, a new group would be taken on and the same process repeated.

5.3.3 Establishing crossfunctional teams

Establishing cross-functional teams from the various sub-departments to identify barriers that affect African blacks in the procurement process and to recommend changes to policies and instituting strategies to create real empowerment. The opportunities awarded to African Blacks should be tracked to ensure that goals are reached; contracts that have been awarded in the past to established businesses have to be restructured to allow African blacks to participate. Top management commitment is required to drive the process and an enforcement procedure is required so that appropriate sanctions may be imposed if any provisions are violated,

The goals for a contract must be set before it is advertised and have to be met by the prime contractor, who should identify in the tender what African blacks are being utilized, what service they will provide, and how much money will be paid to them. If this information is not included in the tender, it should be endorsed as "non-responsive" and rejected as such.

5.3.4 Validating and Accrediting of contractors

Black economic empowerment must be balanced against the risks as well as the costs involved. It is therefore important for organisations to increase participation of African blacks, taking into consideration the risks and the costs, and one of the mechanisms for increased participation is to ensure that contractors are validated and accredited. Qualified contractors should be screened to lessen the risk of non-compliance. Since price matching is only one factor in the evaluation of tenders, other sifting tools are required. The accreditation and validation of contractors involve the setting of certain criteria against which the contractors are to be evaluated and measured.

5.3.4.1 Accreditation

Accreditation is a process whereby enterprises that register on a database as prospective suppliers are accredited with organisations like BMF or TRADEWORLD or business chambers. Such accreditation serves as proof that the accredited suppliers have met certain criteria. An example of this in practice is the Electrical Contractors Association (ECA), which allows only contractors accredited by it to perform electrical work.

Any recognised institution should set acceptable criteria, which firms seeking accreditation would have to meet. Usually considerations for accreditation include detailed background information, for example a firm's owner(ship) and core technical/professional personnel. Also included are generic performance measurements, for example how many contracts have been completed successfully, the size of the largest contract completed and client satisfaction references.

The accreditation 'authority' will have to assure that all the necessary information is on file, thereby meeting the conditions for accreditation. Any detailed qualitative check on the information or past performance falls outside the normal context of accreditation, since it would be costly and raise difficult evaluation issues.

Corporates that have to rely on references in selecting suppliers, view accreditation as a first step, but hardly one sufficient for them insofar as an assessment of the capacity of suppliers to fulfil a contract is concerned; more detail is critical for the purpose of risk minimisation. As the minimum level of capacity required varies from corporate to corporate, validation comes into play as an initiator role.

5.3.4.2 Validation

In this process of supplier assessment, information is scrutinised in greater detail and the quality of performance is evaluated, guided by specific performance expectations. These expectations or criteria may be sector specific, location specific (e.g. increased delivery time and cost that applies to rural suppliers) and, in the final instance, business specific. Validation may be one-off, annual, more frequently or even continuous depending on the cost and the willingness of suppliers to submit to or request validation. Obviously, a detailed validation process enables buyers to significantly reduce the risk of non-fulfilment.

Accreditation is the easier, less expensive more comprehensive process, a good 'first step', while validation is a far more expensive, extensive and penetrating process, opening up difficult issues such as the criteria for qualitative evaluation, appropriate yardsticks etc.

If applied strictly validation can easily be interpreted as a reluctance on the part of the purchasing organisation to give African Blacks a chance to access the supply chain. Quantitative and qualitative evaluations will generally be accepted only in those instances where African Blacks are competing for the same contracts. The sourcing of African Blacks should be approached with a positive mindset, which encourages the diversification of the supplier base and ensures a speedy process in achieving a long-term BEE strategy through affirmative procurement.

5.3.4.3 Other mechanisms

Funding should be made available by Government to roll out the ECDP to both public as well as private institutions, while a clear definition of fronting, with punitive measures, should be agreed upon. The private sector has to be incentivised to

become more involved, for example in the form of tax rebates or preferential status in the tender process.

The Sector SETAs (ISETT, MAPP & Services) should undertake continuous and ongoing research into what skills are needed over a certain time frame, as well as facilitate partnerships between academic institutions, training providers and business.

Partnerships and alliances should be encouraged, such alliances to be based on clear agreements and objectives

A set-aside program should be implemented, whereby a certain percentage of government tenders is designated for Africa n Blacks. These set-asides should be expressed as goals that government departments strive to meet. Special attention needs to be paid to local Government structures, given the high level of procurement spend.

Supplier support and funding mechanisms through Tender Advise Centres (TACs) should be enhanced, while the implementation of a central monitoring system which enables evaluation of procurement spend to ensure that it meets national objectives, (BEE included), is imperative.

There is an urgent need to overhaul and implement a turnaround strategy for procurement offices/agencies through a comprehensive skills audit, training programme and institutional capacity building strategy. Training for procurement officials needs to be fast tracked to enable them to procure in a manner that furthers all Government objectives.

The private sector should be able to access all these services at a fee in the interest of Black economic empowerment.

5.4 SUGGESTIONS FOR FUTURE RESEARCH

African blacks in South Africa face challenges that stem from the apartheid past, and this poses many challenges for future research. Firstly, research should be undertaken into the level of available skills, and what mechanisms can be put in

place to ensure that these skills are effectively developed. Secondly, the increase in outsourcing presents major opportunities for all SMMEs, but the impact of the outsourcing on African Blacks should be understood and measured. Thirdly, the impact of government procurement on African Blacks should be measured and understood in order to put the most appropriate structures in place. Lastly, the links between the private sector and all spheres of government should be investigated to gain an understanding of the obstacles facing the African blacks striving to access and enter the business world as SMMEs

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