

FRIDGE PROCUREMENT PROJECT **EXECUTIVE SUMMARY**

The Nedlac constituencies agreed to a FRIDGE project to assess the current context of South African procurement and develop strategic recommendations to enable further consideration of local content, quality, labour and environment in procurement.

The motivation for prioritising this project was that greater procurement in terms of the principles of local content, quality, labour and environment could contribute significantly to South Africa's socio-economic transformation for a number of reasons, including:

- Generating employment multiplier effects
- Increasing productive investment
- Contributing to broad-based black economic empowerment
- Encouraging integration of value matrices
- Enhancing competitiveness of local production
- Improving effectiveness of public sector spend
- Ensuring that economic growth is not achieved at the cost of the rights of workers or the environment, in accordance with the principles of sustainable development

Following a five-month, consultative research process¹, Kaiser Associates and the FRIDGE Counterpart Group consolidated existing knowledge about procurement policy and practices, and developed new insights into the challenges and opportunities around transforming procurement. This situational analysis informed the development of strategic recommendations. The details of strategic options, mechanisms, role players and timings are set out in the *Strategic Recommendations* document prepared by Kaiser Associates. The six main **areas of intervention** are summarised below:

1. *Fundamental Requirements*

- Identify a driver/champion to coordinate the implementation of procurement activities, in particular to drive implementation of the findings of this study, as well as monitor and evaluate progress of local content procurement
- Improve gathering and dissemination of information on government and private sector procurement patterns in terms of supplier size and ownership, use of local content and sectoral demand by product cluster
- Improve linkages and integration with existing targeted/preferential procurement processes, including within BEE and small business development structures, as well as the new Supply Chain Management framework

2. *Policy, legislation, and binding agreements*

- Effectively implement relevant provisions within existing legislation and stakeholder agreements, in particular the use of local content and RDP objectives in terms of the Preferential Procurement Policy Framework

¹ The research process included an assessment of South African procurement policy, practice and role players, as well as current and potential multilateral and bilateral obligations, based on secondary research and interviews. It also included the development of case studies across all three spheres of government, parastatals, large South African companies, multinationals operating in South Africa, SMMEs and comparable international benchmarks.

- regulations, Targeted Procurement resource specifications around the use of local resources, as well as the procurement aspects of multi-stakeholder sectoral agreements
- Develop legislative and regulatory amendments and further (sectoral) stakeholder agreements, possibly including amendment of the PPPFA, incorporation of Proudly South African and/or local content principles into the Supply Chain Management Framework and compulsory country of origin labelling
3. *Trade and Foreign Investment*
 - Ensure future multilateral and bilateral trade negotiations retain sufficient scope to use procurement as a tool for socio-economic development, including negotiations on the potential WTO agreement on Transparency in Government Procurement and the US-SACU bilateral trade agreement
 - Create greater linkages with FDI activities, in particular the Industrial Participation Programme, as well as programmes with other existing and potential investors below the IPP threshold
 4. *Supplier Development*
 - Expand prioritised and strategic supplier development and education programmes in line with sector strategies, including government-led training workshops and mentoring programmes and extension of purchasers' internal supplier development programmes
 5. *Addressing Purchaser Issues*
 - Increase awareness of available targeted suppliers through networking and referral, database development, and accreditation
 - Encourage a "dynamic" approach to procurement by teaching companies the value of preferential procurement and following the examples of leading South African companies in this field
 6. *Ensuring a level playing field and ethical practices*
 - Eliminate exclusionary technical specification and brands in procurement decision-making through training and making generic specifications widely and easily accessible to procurement professionals
 - Prevent and redress procurement-related misrepresentation, abuse, and corruption by demanding more transparency and accountability in procurement practices and aligning responsible preferential procurement with other sound corporate governance principles

Effective **implementation** will require the cooperation of a variety of role players including government at a national, provincial and local level, parastatals, business (both organised and individual businesses), labour, civil society and consumers. Without a cohesive approach, there is a danger that all ventures will fall short of achieving the potential positive impact on the South African economy.

Implementation of all of the above recommendations cannot be achieved with the current available (financial and human) resources and level of buy-in. Failure to allocate sufficient resources will perpetuate the trend of non-implementation of procurement legislation and agreements, while continued "mixed signals" from some role players may lead to confusion and inconsistent action by implementing agents. Constituencies therefore need to engage in a process of prioritisation of interventions and provide leadership in subsequent implementation planning and resource allocation.

It is also vital that implementation of these strategic recommendations dovetails with current activities that may impact on preferential procurement issues, including roll-out of the broad-based BEE framework, the Growth and Development Summit, the Supply Chain Management Framework, and various sectoral processes and summits.

While insufficient information currently exists to assess with great accuracy the potential impact of a shift in procurement, the case studies conducted as part of this project show numerous instances where competitive local suppliers exist that are excluded from current procurement². This is likely to be indicative of a far wider opportunity to strategically target procurement demand to retain and boost competitive production, grow employment, and contribute to economic transformation.

The following **documents** prepared by Kaiser Associates as part of this project are available from Nedlac and the FRIDGE secretariat:

1. [Situational Analysis](#) (Word document)
2. [Case Studies](#) (Word document)
3. [Strategic Recommendations](#) (Word document and Excel summary matrix)
4. IDC [trade and production statistics](#) (indicating shift in domestic demand met by local production from 1994 - 2000)
5. [Secondary sources consulted](#) (hyperlinked Excel spreadsheet)
6. [Primary sources consulted](#) (Excel spreadsheet)
7. Electronic versions of relevant legislation and WTO agreements
8. Summary presentation (Powerpoint, available from Nedlac/FRIDGE secretariats)

² See the [Case Studies](#) document for examples, including case studies on Mustek & Pinnacle, Association of Electrical Cable Manufacturers, DDL Equipment, Megaphase Trading, Albert Carpets