

THE IMPACT OF THE AWARDING OF STATE TENDERS AND
QUOTATIONS ON BLACK ECONOMIC EMPOWERMENT IN THE
FREE STATE PROVINCE IN THE 2000-2006 FINANCIAL YEARS.

BY

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A dissertation submitted in partial fulfillment of the requirements for the
degree

MASTERS OF PUBLIC ADMINISTRATION

In the

Faculty of Economic and Management Sciences
(Department of Public Management)

at

The University of the Free State
Bloemfontein (2008)

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LIST OF ABBREVIATIONS

ANC	:	African National Congress
BEE	:	Black Economic Empowerment
BBEE	:	Broad-Based Black Economic Empowerment
HDI	:	Historically Disadvantaged Individuals
HDP	:	Historically Disadvantaged Persons
IDC	:	Industrial Development Corporation
MTEF	:	Medium-Term Expenditure Framework
NEF	:	National Empowerment Fund
NAFCOC	:	National African Federated Chamber of Commerce
NEA	:	Not Economically Active
NGOs	:	Non-governmental organisations
PPFA	:	Preferential Procurement Framework Act
RDP	:	Reconstruction and Development Programme
SARS	:	South African Revenue Services
Dti	:	Department of Trade and Industry

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THE IMPACT OF THE AWARDING OF STATE TENDERS AND QUOTATIONS ON BLACK ECONOMIC EMPOWERMENT IN THE FREE STATE PROVINCE IN THE 2000- 2006 FINANCIAL YEARS

1. INTRODUCTION

The first democratic government of South Africa that was inaugurated into office in 1994, inherited a society that was divided between the haves and the have nots. The haves were mainly whites who benefited economically under the National Party led government. The have nots were mainly blacks who were in the majority. The blacks were not allowed to participate in the economy of South Africa. The task that faces the new democratic government is to redress the wrong-doings of the past. The democratic government is faced with the challenge of improving the lives of the blacks politically, economically and socially. The democratic government did not hesitate to make its intentions clear of redressing the imbalances of the past. The votes of the electorate who voted the new government into office, were interpreted by the politicians as a mandate to redress the wrongs committed by the National Party government. The government engaged in rigorous policy making processes and new policies were passed in both the national and provincial governments.

The government is faced with a number of challenges. When the current government took over, the number of blacks participating in the economy was very small. The current government is faced with the challenge of increasing the number of blacks participating in the mainstream economy of the country. In order to bring in more blacks into the mainstream economy, the state had to channel state tenders to blacks. The debate that is going on is on the successes and the failures of the government both national, provincial and local in bringing blacks into the mainstream economy through the channeling of state tenders. Much has been said about factors that have had a negative and positive impact on black economic empowerment.

This dissertation is a study of the impact of tenders awarded to blacks by the Free State Provincial Government on black economic empowerment. The focus in the

dissertation will be on whether the Free State Government is actually succeeding in empowering the blacks economically.

In this rubric, the following will be outlined: Background and reasons for the study, problem statement, hypothesis formulation, objective of the research, research methodology, key words and concepts and the scope of the dissertation.

1.1 Background and Reasons for the study

Before 1994, blacks could not participate in the mainstream economy due to segregation laws. In order to bring blacks into the economic mainstream, the new government started a process of establishing of various policies aimed at assisting in the implementation of black economic empowerment. Since 1994, there has been an outcry that few people benefit from state tenders (Madi1997: 2). According to Theobald and Planting (2003:38), some individuals and the consortia have obtained tenders by misleading those who make decisions on tenders and some consortia have used to their advantage their relationship with the ruling government to obtain lucrative state tenders. This implies that the individuals and the consortia that do not have a relationship or friendship with the ruling government failed to obtain tenders from government. The existing research on black economic empowerment has been based on the following:

- The research of Montsho (2001) was based on black economic empowerment through use of small, medium and micro-enterprises.
- The research of Moseki (2000) was based on the emergence of black consortia as a result of black economic empowerment.

The available literature is limited in that it fails to provide the figures that indicate the impact of state tenders on black economic empowerment. This study will therefore provide the results of case studies conducted in the Free State Provincial State departments on the impact of state tenders on Black Economic Empowerment in the Free State Province.

1.2 Problem Statement

The National Government passed legislation that provides a legal framework for the national, provincial and local governments to channel state tenders to blacks in order to empower them economically, but a small number benefit from the awarding of state tenders and some of those benefiting do not fall under the category of blacks in need of economic empowerment as they are already economically empowered. In the Free State Province a small number of blacks benefit from the awarding of state tenders.

1.3 Hypothesis formulation

The failure of the Free State Provincial Government to award state tenders to more black people impacts negatively on black economic empowerment.

1.4 Objectives of the study

This study intends to study whether the Free State government is succeeding in increasing the number of blacks in the mainstream economy, through the awarding of tenders and quotations. The findings from this research could be useful to:

- The Free State Government as it will be informed on the impact of state tenders on black economic empowerment in the province.
- National government that will be informed as to whether the Free State Provincial Government is succeeding in implementing the policy on black economic empowerment.
- The private sector that will be informed that the state cannot carry the black economic empowerment load alone.

1.5 Methodology

This research is a case study of the impact of the awarding of state tenders by the Free State Provincial Government on Black Economic Empowerment. Information will be collected from the different Free State provincial departments; the Office of the Premier and Statistics South Africa.

The following research instruments will be used: Study of records; study of reports; statistics on employment and black economic empowerment; questionnaires; and census data. The following methods will be used to analyze data:

- Count: How many interviewed officials believe that tenders have a positive impact on black economic empowerment and how many are saying no.
- Comparing responses from officials with the current statistics.
- Use of descriptive statistics like graphs.

1.6 Keywords and Concepts

Blacks and designated groups, economy, fair discrimination, targets, scorecard, efficiency, effectiveness, corruption, sustainability, tenders, outsourcing, black economic empowerment.

1.7 Scope of the Research

The dissertation consists of seven rubrics. **Rubric one** introduces the dissertation by focusing on the following: The problem statement, the formulation of the hypothesis, objectives of the study, the methodology, keywords and concepts and the scope of the research.

In **Rubric two**, economic development will be discussed. Under economic development, different economic sectors will be discussed. Procurement will be discussed in **Rubric three**. Under procurement purchasing and outsourcing will be discussed. The black economic empowerment legislation will be outlined in **Rubric four**. The focus will be on the preferential procurement policy and preferential procurement regulations, the Black Economic Empowerment Policy, the objectives of black economic empowerment, key principles, policy instruments to achieve black economic empowerment, finances for black economic empowerment and the role of the Industrial Development Corporation in financing Black Economic Empowerment. In **Rubric five**, the focus will be on the responses from different respondents and the findings of the study. **Rubric six** focuses on the conclusion and recommendations of the study.

2. ECONOMIC DEVELOPMENT IN A BEE CONTEXT

Meier (1995:7) states that economic development includes economic growth that has an increase of productivity, a change in attitude and values in the way people relate to nature and an improvement of the social system. For the economy to grow, governments have to make laws that would enhance such a process. Black economic empowerment could be regarded as one of the measures that could be implemented to direct the growth of the economy of South Africa and job creation for the citizens who were previously excluded from such processes. In order to put these statements into perspective, it is necessary to explain some of the concepts referred to above.

2.1 Black Economic Empowerment

The Industrial Development Corporation (2004: www.idc.co.za) defines black economic empowerment as "...the process by which previously disadvantaged South Africans are being empowered through the transfer of ownership, management and financial control of companies, the multi-level of skills and the widespread creation of jobs." The National Department of Tourism (2004: www.tuorismbeecharter.co.za) defines BEE as "...a process that contributes to the economic transformation of the country that increases the number of black people that manage, own and control the country's economy and decreases income inequalities". From these definitions, it can be concluded that the focus of BEE is on bringing in black South Africans into the mainstream economy as owners and managers, and to reduce the income gap that existed between the previously advantaged and the previously disadvantaged South Africans. The Broad-Based Black Economic Empowerment Act, 2003 (Act 53 of 2003), explains the term 'previously disadvantaged or black South Africans' in the context of black economic empowerment as referring to Africans, Coloureds and Indians who were disadvantaged during the apartheid era. The IDC (2004: www.idc.co.za) sees BEE as a key to the development of the economy of South Africa which will result in economic growth. In order to make BEE a reality, the South African Government passed a number of BEE legislation that will be discussed in details in rubric 4.

2.2 Economy

Meier (1995: 520) states that for the economy to develop, policies that could stabilise the macroeconomic environment are needed. The economy is divided into macroeconomics and microeconomics.

- **Macroeconomics**, according to Wonnacott and Wonnacott (1982:3) could be defined as “... the study of how people make their living, how they acquire the food, shelter, clothing, and other material necessities and comforts of this world... and (it entails) ... a study of the problems they encounter, and of the ways in which these problems can be reduced”. Snowden and Vane (2005:1) define macroeconomics as being “... concerned with the structure, performance and behaviour of the economy as a whole.” Macroeconomics is concerned with the overall economy. It requires a study of national economic issues like the Gross Domestic Product, the Gross National Product, unemployment, inflation and international transactions. Macroeconomics looks at how the GNP affects variables like unemployment and inflation.
- **Microeconomics** is a branch of economics “...that deals with small units, including individual companies and small groups of consumers... and (it) is a study of how resources are allocated to the satisfaction of competing objectives” (Encarta 2001: 1). Microeconomics refers to the demand of goods, the supply of goods and how the market reaches equilibrium. The market must be able to determine the demands of the people and react by supplying goods and services that will meet these demands. Equilibrium is reached when a market is able to balance the demands of people with the supply of goods and services the people wants. With the so-called Marshallian Supply and Demand theory, Marshall tried to show that the demand and supply of a commodity determine its price. Mohr, Fourie and Associates (2004:142-144) argue that - if the demand of a commodity is high and the supply is low, the price will go up and if the demand becomes low and the supply high, the price will go down. Nicholson (1978: 11) states that the satisfaction of the buyers with what the sellers produce and charge will result in an equilibrium being reached.

The participation of Black entrepreneurs in the economy of South Africa should be guided by the indicators of the macro- and micro-economic environments in the South African context. The deliberate channelling of state tenders to black-owned businesses could for instance be regarded as efforts by government to increase the participation of such businesses in the microeconomy of South Africa which, under normal circumstances, should subsequently stimulate economic growth. Economic growth in developing countries such as South Africa is not a smooth process and requires further investigation.

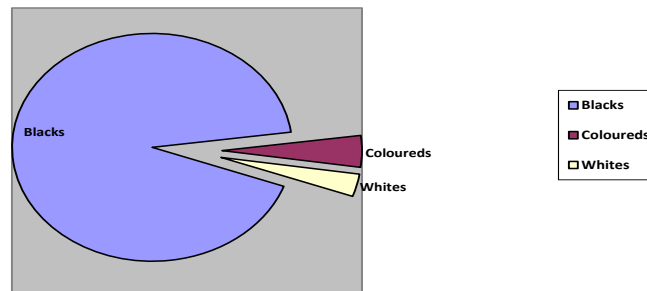
2.3 Factors challenging economic growth in developing countries

Kuznets in Todaro (1985: 114) define economic growth as "... a long-term rise in capacity to supply increasingly diverse economic goods to its population and this growing capacity is based on advancing technology and the institutional and ideological adjustments that it demands". An economy that is not able to supply the diverse economic goods to a country's population is not growing. Economic growth in developing countries like South Africa is faced with a number of challenges of which three will be discussed in the paragraphs that follow.

2.3.1 BEE and unemployment

Unemployment is a challenge to economic growth. Statistics South Africa (2006: 92) estimated unemployment in the Free State at the end of September 2004 as 311 000 of the 1 910 000 economically active Free Staters. Of the 311 000 unemployed Free Staters, blacks are 288 000, coloureds 14 000, and whites 10 000. Unemployment in the Free State can be graphically presented as follows:

Unemployment in the Free State as at September 2004



In an effort to create employment in the Free State Province, income generating projects in the agricultural sector and public work programmes were established (Rhodes University et al., 2003: 21). BEE is a tool the Free State Provincial Departments should use to create employment. Beneficiaries of state tenders should be able to create job opportunities for the poor. The level of unemployment in the Free State indicates that job creation should be prioritized and speeded.

2.3.2 The dual economy and BEE

Lewis in Chenery and Srinivasan (1989: 1555) defines a dual economy as an economy that is made up of the traditional and modern sector. The modern economy is formal whilst the traditional economy is mainly informal. The movement of people is from the traditional economy to the modern economy because the traditional economy supplies the modern economy with labour. The modern economy is more developed and organized than the traditional economy. The income gap between the traditional economy and the modern economy is huge and has resulted in the influx of people from rural areas to cities. According to Todaro (1985:82, 83) dualism includes the income gap between the rich that are mainly found in the modern sector and the poor that are mainly found in the traditional sector. The narrowing of the income gap that exists between the small number of elites and the poor masses is the challenge that faces the South African Public Departments.

2.3.3 Rapid urbanisation and BEE

South Africa is experiencing an influx of people from rural areas to urban areas. Due to the unavailability of accommodation, these people are staying in squatter camps. Statistics South Africa (2006: 25) states that in 2001, 75% of people in the Free State were staying in the urban areas. In the Free State, rapid urbanisation is taking place in Bloemfontein and the Goldfields (Collins 2001: //E:\AgriBEE\Urbanisation.htm). Nomdo and Coetzee (2002: 81) and Collins 2001: //E:\AgriBEE\Urbanisation.htm state that the influx of people to cities has resulted in the city populations outnumbering available job opportunities. According to Klimmit in Robinson, McCarthy and Forster (2004: 4), there is a need to develop towns and cities through urban development in a way that all the inhabitants will share in economic, technological and social progress. The awarding of state tenders to city inhabitants is one of the methods public departments can use to bring in city dwellers into the economy.

Lack of resources in the rural areas is a cause for the influx of rural people to cities (Internet Geography 2007: [//E:\AgriBEE\InternetGeography-GeoTopics-Urbanisation.htm](http://E:\AgriBEE\InternetGeography-GeoTopics-Urbanisation.htm)). The influx of rural people to cities poses a serious challenge to economic development in these areas. The challenge facing the public departments like Public Works, Education, Local Government and Housing, Health, Agriculture and Municipalities in South Africa is to invest in the building of public infrastructure in rural areas so as to create job opportunities for rural people. Rogerson in Khosa (2001: 287) contend that the development of the Small, Micro and Medium Enterprises in the rural areas as the solution to the reviving of the rural economy that before 1994 depended on manufacturing, agriculture and public sector employment. The centralisation of public departments left many rural people unemployed especially in former Homelands like Qwa-Qwa and Thaba Nchu. Black economic empowerment in the former homelands should result in the reviving of their former economies (Rogerson in Khosa 2001: 287).

2.4 BEE and Agriculture

According to the land reform report (National Department of Agriculture, 2001: <http://www.nda.agric.za/docs/Redistribution.htm>), black people occupied 13, 9% of the land and whites occupied 86, 1% of the land during the apartheid era. The report further states that white farmers owned 86 million hectares of farm land. Of the 86 million hectares of the land in the hands of white people, the government through land restitution programmes has returned 1, 2% of the land to blacks. The challenge that faces the South African National Department of Land Affairs is to return the land that the black people lost during the apartheid era to rightful owners. The economy of South Africa is made up of the modern industrial sector and the traditional agricultural sector. Before blacks can participate in the traditional and modern agricultural economy, land is needed. The figure that the land reform report gives on land occupation indicates that white people currently occupy 84,9% of farm land whilst blacks occupy 14%. Due to lack of access to farming land, the participation of black people in the agricultural economy is limited.

In South Africa, BEE in Agriculture is provided for in legislation known as AgriBEE. The National Department of Agriculture (2004: 7) defines AgriBEE as “...a sectoral broad-based black economic empowerment framework intended at a deliberate and systematic support of Black South Africans to actively participate fully in the agricultural sectors as owners, managers, professionals, skilled employees and consumers”. In order to ensure that BEE exists in the Agricultural sector, the public departments and enterprises will have to commit to the following (The National Department of Agriculture 2004: 13-14)):

- BEE companies in the agricultural sector should be targeted whenever procurement needs to be done,
- BEE companies in the agricultural sector should report to the National Department of Agriculture annually on all BEE transactions,
- BEE companies should be given preferred supplier status for services and goods in the agricultural sector for a five year period,
- Companies in the agricultural sector should pay BEE enterprises within a month for services rendered.

Growing the Agricultural economy will be helpful to rural people because rural people depend on agriculture for survival. The South African Agriculture Departments should assist rural people to develop the Agricultural economy. The growing of the Agricultural economy will help in the alleviation of poverty in the rural areas and the influx of rural people to cities will be reduced.

2.5 BEE and the use of the labour intensive approach

Todaro (1985: 111) states that the developed countries use technology to save labour and not necessarily to save money whilst the developing countries use cheap labour not technology to save money. The approach of the South African public institutions to black economic empowerment is to use the labour intensive approach instead of the labour saving approach. According to the Green Paper on Public Sector Procurement Reform in South Africa (1997: 47), the labour intensive approach has been used for "...construction projects like the construction of rural gravel roads, low level bridges, small dams, residential township roads, water and sewerage reticulation for townships, surfacing of roads, low voltage electrical reticulation, storm water drainage systems, and on-site sanitation".

The labour intensive approach which the South African Public Departments has adopted, ensured that the use of machinery for the construction of public infrastructure is reduced and more people are employed instead. The Expanded Public Works Programme of 2003 targeted 750 000 unemployed people to build public infrastructure through the use of the labour intensive approach.

2.6 Industrial development

Unlike the agricultural sector that is mainly in rural areas, the industrial sector is in urban areas. Manchidi and Merrifield in Khosa (2001: 409), state that public departments should invest in the construction of public infrastructure as it will lead to economic growth. Participation in the industrial economy is faced with the following challenges:

- **Unlimited labour supply**

According to Adelzadeh et al. in Khosa (2001: 231), the number of people entering the industrial sector as job creators is not satisfactory. People are moving from rural areas to urban areas in large numbers. The majority of these people have an experience of working in the agricultural sector and are unskilled. Industries do not have the capacity to employ all job seekers. Statistics South Africa (2006:91) estimates unemployment in South Africa at 50%.

- **Shortage of Capital**

For industries to perform well, capital is needed. Due to lack of capital, the growth of industries is limited. According to Manchidi et al. in Khosa (2001: 419), the South African Fiscus lacks financial resources to finance the construction of public infrastructure. Shortage of capital is the result of a high number of people entering the industrial economy as labourers not as investors. Huge capital is needed in order to participate in the industrial economy. Bouare in Khosa (2001: 59) suggests that the Department of Trade and Industry should raise private funds to assist the unemployed South Africans to open businesses through repayable loans.

- **Balanced growth**

Industrialisation should not focus on one type of economic sector. According to Statistics South Africa (2006:89), the economic sectors that exist in the Free State Province are Agriculture; Mining; Manufacturing; Electricity; Construction; Trade; Transport; Finance; Community and, social and personal sector and the Private households. In developing the industry of the Free State, the Provincial Departments should ensure that BEE covers all economic sectors with the exception of the private households sector. If BEE covers all economic sectors in the Free State Province, the balanced economic growth will be achieved in the Province.

2.7 The Expanded Public Works Programme

The Expanded Public Works Programme is a programme that the National Government of South Africa adopted in 2003. It was adopted in order to reduce unemployment and create business opportunities for BEE businesses. The work and business opportunities created in the Expanded Public Works Programme are in the building of public infrastructure. The Expanded Public Works Programme (20003: 5)

mentions the following strategies that the Public Departments and Municipalities should use in creating employment and business opportunities for BEE businesses:

- The public departments should ensure that the labour intensive approach is used in all funded infrastructure.
- Opportunities should be created in environmental programmes.
- Procurement should include learnership programmes.
- The public institutions should give the unemployed work experience through state funded learnerships.
- People who are on the Expanded Public Works Programme should be provided with skills such as business management skills.
- People who leave the Expanded Public Programme should be able to continue with their businesses.

The Expanded Public Works Programme (2003: 5) mentions the following people who should benefit from the programme:

- People without jobs who are willing to work.
- The unskilled people.
- People not receiving social grants.
- Poor people in both urban and rural areas.
- Disable people.
- The youth.

The Expanded Public Works Programme (2003: 5, 6) lists the following types of programmes that should be used to create employment for the unemployed and business opportunities for BEE businesses:

Sector and Types of activities	Targets over the five years: 2004-2009	Coordination and Skills development
<p>Infrastructure development</p> <ul style="list-style-type: none"> • Upgrade rural and municipal roads, and • Upgrade municipal pipelines, storm water drains and sidewalks. • Labour intensive provincial and municipal infrastructure 	<p>Over five years, work opportunities for 750 000 unemployed people to build:</p> <ul style="list-style-type: none"> • 37 000 km roads • 31 000 km of pipelines • 1500 km storm water drains and • 150 km urban side 	<ul style="list-style-type: none"> • All 750 000 workers will receive training funded by the Department of Labour. • 500 emerging contractor learnerships funded by CETA, Local councils with help from Public Works. •

programme	walks. <ul style="list-style-type: none"> • Average 4 month jobs • Resources allocated in the budget: R15 billion. 	
Other infrastructure programmes such as: <ul style="list-style-type: none"> • Maintenance of government buildings • Trenching in the electrification programme 	<ul style="list-style-type: none"> • A further 150 00 work opportunities for unemployed persons over five years. • Average four months jobs. 	<ul style="list-style-type: none"> • Public works with local councils, Eskom and other departments where relevant
Environmental and cultural programmes <ul style="list-style-type: none"> • Agriculture department: <ul style="list-style-type: none"> ○ Land Care programme • Department of Environment and Tourism <ul style="list-style-type: none"> ○ Clean Up SA ○ Tourism programmes • Department of Water Affairs and Forestry: <ul style="list-style-type: none"> ○ Working for Water ○ Wetlands ○ Fire programmes • Department of Arts and Culture: programmes not yet developed. 	<ul style="list-style-type: none"> • Work opportunities for 200 000 unemployed • Create 400 sustainable SMMEs • Environmental targets: <ul style="list-style-type: none"> ○ Control invasion of alien plants on 1 million hectares of land, ○ Improve 1200 km coastline • One year average jobs. • Resources allocated in the budget: R4 billion. 	Relevant national and provincial departments mentioned
Social Sector <ul style="list-style-type: none"> • Health: <ul style="list-style-type: none"> ○ Home based care – community health workers • Social Development: <ul style="list-style-type: none"> ○ Community based care support workers. • Education <ul style="list-style-type: none"> ○ Early childhood development workers 	<ul style="list-style-type: none"> • Social sector average two years jobs • Resources allocated in the budget: R600 million 	<ul style="list-style-type: none"> • All social sector programs will include on the job experience, as stipend and training for a period, leading to NQF qualifications. • Department of Social Development is the lead department with relevant national and provincial department working on plans. • NGOs and CBOs main delivery agents of social sector programmes funded by government and business.
Economic programmes <ul style="list-style-type: none"> • Department of Trade and Industry is working on a sector plan. Possible economic activities include: <ul style="list-style-type: none"> ○ Community production centres (Department of Agriculture) ○ Community cooperative income generating projects (GDS) ○ Enterprise learnership programmes (Departments of Labour and Trade and Industry) 	<ul style="list-style-type: none"> • 3000 learnerships over 5 years, 3 employees per learner • Learnership for 18 months average • Resources allocated in the budget: 	<ul style="list-style-type: none"> • Registration on full-time SETA funded learnerships, classroom training funded by SETA • Practical work experience (departments allocate learning contracts to learners through government procurement • Mentoring (business) • Access to micro finance.

Source: Republic of South Africa 2004: <http://www.epwp.gov.za>.

The Expanded Public Works Programme was launched in the Free State on 28 September 2004 at Charles Mopeli Stadium in Qwa-Qwa (Free State Department of Public Works: <http://www.freetrans.gov.za/index.asp?>). During the launch, the following projects were launched:

- The construction of a 13 km Makwane Road.
- Building of 1000 low cost rural houses along Makwane Road at the cost of R33 300 000.
- The Hydrophobic Project intended to grow seeds till being transplanted.
- The Tswaranang Waste Management which is a cleaning project intended to remove waste from individual households in Qwa-Qwa.

The Business Plan (2004) of the Free State Provincial Department of Public Works, Roads and Transport indicate that 17 340 jobs were to be created through the Expanded Public Works Programme in the Free State. The Expanded Public Works Programme Template Version 6.2 for 2005/06 Financial Year of the Free State Provincial Government shows that during the 2005 and 2006 financial year, 316 096 jobs were created throughout the province at a cost of R 377, 749, 099. The number of jobs created in the Free State Province in the 2005 and 2006 is greater than the target that the Free State Provincial Department of Public Works had set for the Province.

2.8 BEE transactions in the Free State Province

The Free State Provincial Treasury compiled the Infrastructure Plan 2005/2006 for the Free State Provincial Public Departments. The Free State Infrastructure Plan 2005/2006 is based on the Expanded Public Works Programme and the following business opportunities for BEE businesses are listed as per provincial department:

- **Education**

Department	Business opportunity	Number of opportunities/tenders	Tender value budgeted for in thousands
Education	Renovations of schools	20	10 650 000
	Strongrooms provision	26	
	Building of toilets for learners	137	
	Building of toilets for educators	72	
	Building of new schools	15	2360927689
	Fencing	28	
	Provision of water	133	
	Electrification of schools	58	
	Provision of push button systems	15	
	Recycling of septic tank water	30	5 410 000
	Incentives for performing schools	20	34 454 000
Total budget		554	135.273.000.00

Source: Free State Provincial Treasury 2005: 95-129

○ **Health**

Department	Business opportunity	Number of opportunities/tenders	Tender value budgeted for in thousands
Health	Infrastructure budget for Hospitals	11	46,817,000
	Infrastructure budget for clinics	12	21,947,000
	Hospitals upgrading	7	113,082,000
	Upgrading of clinics		10,000,000
Total budget		30	191,846,000

Source: Free State Provincial Treasury 2005: 57-58

○ **Public Works, Roads and Transport**

Department	Business opportunity	Number of opportunities/tenders	Tender value budgeted for in thousands
Public Works	New Roads	6	40,000,00
	Regravelling of roads	12	63,000,000
	Hospitals upgrading	7	113,082,000
	Resealing of roads	4	19,000,000
Total budget		29	195,082,000

Source: Free State Provincial Treasury 2005: 240

○ **Agriculture**

Department	Business opportunity	Number of opportunities/tenders	Tender value budgeted for in thousands
Agriculture	New Constructions of facilities	49	35,487,000
	Rehabilitation of facilities	5	4,170,000
Total budget		54	39,657,000

Source: Free State Provincial Treasury 2005: 192

○ **Sports, Arts, Culture, Science and Technology**

Department	Business opportunity	Number of opportunities/tenders	Tender value budgeted for in thousands
Sports, Arts, Culture, Science and Technology	New Constructions of facilities	32	15,250,000
	Rehabilitation of facilities	41	9,750,000
Total budget		73	25,000,000

Source: Free State Provincial Treasury 2005: 209-211

○ **Social Development**

Department	Business opportunity	Number of opportunities/tenders	Tender value budgeted for in thousands
Social Development	Construction of new facilities	3	3,500,000
	Rehabilitation of facilities	5	6,577,000
Total budget		8	10,077,000

Source: Free State Provincial Treasury 2005: 220

○ **Tourism**

Department	Business opportunity	Number of opportunities/tenders	Tender value budgeted for in thousands
Tourism, Environmental and Economic Affairs	Maintenance of Nature Reserves and holiday resorts	22	10,000,000
Total budget		22	10,000,000

Source: Free State Provincial Treasury 2005: 237

The Infrastructure Plan 2005/2006 of the Free State Public Departments mentions 770 business opportunities for BEE businesses at a cost of R606 935 000. According to Statistics South Africa (2006:113) the economic growth in the Free State is at 2% per annum. Of the total contribution of the nine provinces to the economy of South Africa, the contribution of the Free State Province is second from the bottom. The Free State Provincial Departments have much to do in developing the economy of the Free State Province as the figures of Statistics South Africa indicate. The small percentage indicates that the Free State has few primary and secondary industries. BEE should grow the economy of the Free State. If the Free State can create job opportunities as indicated in The Expanded Public Works Programme Template Version 6.2 for 2005/06 Financial Year, unemployment will be reduced.

3. PROCUREMENT

According to Burt (1984:3), "...procurement is the systematic process of deciding what, when, and how much to purchase; the act of purchasing it; and the process of ensuring that what is required is received on time in the quantity and quality specified". The Green Paper on Public Sector Procurement Reform in South Africa (1997: 65) states that procurement in South Africa should include the acquisition of goods such as raw materials and commodities, acquisition of services such as auditing, and engineering and construction works that combines the acquisition of goods and services and the building of infrastructure. Purchasing is important in procurement and is discussed below.

3.1 Purchasing

According to the Green Paper on Public Sector Procurement Reform (1997: 6), the South African national, provincial and local government use 30% of their budgets on procurement and contribute 13% to the Gross Domestic Product. According to Leenders and Fearon (1993: 4), purchasing is a process whereby the organization identifies its needs, locate and select the supplier and negotiate the price. Leenders and Fearon (1993: 31-40); Fearon and Hamilton (1980: 13-20); Behan (1994: 12-16) mention the following types of purchasing:

- Purchasing of raw materials that are used to manufacture commodities.
- Purchasing of special items that the organization need to perform its functions.
- Purchasing of standard production items such as bolts and pipes whose prices remain fairly the same.
- Purchasing of items of small value like office stationery.
- Purchasing of capital goods whose price depreciates after acquisition like machines.
- Purchasing of services like advertising and auditing.
- Purchasing of resale goods that have been manufactured internally but outsourced to external suppliers who sell them back to the organization as finished products.

According to the Green Paper on Public Sector Procurement Reform (1997:3), the procurement policy of the South African Government is intended to make tendering

more accessible to small businesses. In empowering small businesses economically, the South African Government awards tenders for the purchasing of items of small value, purchasing of standard production items, purchasing of capital goods and purchasing of services.

3.2 Types of suppliers

Handfield (2006: 244) mentions the following types of suppliers from which public institutions can choose:

- **Transactional suppliers:** The transactional suppliers have a strong market leadership but the commodity they are trading in cannot be guaranteed.
- **Partner suppliers:** The Green Paper on Public Sector Reform (1997: 11) states that the government can form co-operative relationship with suppliers.
- **Preferred suppliers:** Preferred suppliers can be those suppliers that have served the government well in the previous contracts. In South Africa preferred suppliers are those that have been identified as beneficiaries of affirmative procurement.
- **Strategic suppliers:** The strategic suppliers are preferred suppliers who have done well in their previous business with government.

3.3 Logistics and Procurement

The United States of America Council of Logistic Management in Lysons and Gillingham (2003:65), defines logistics "... as that part of the supply chain process that plans, implements and controls the efficient, effective flow and storage of goods, services and related information from the point of origin to the point of consumption in order to meet the customers' requirements". After making purchases, public institutions have to ensure that goods are properly stored and controlled.

3.4 Rights of a buyer

The government as a buyer has the right to determine what to buy, when to buy and from whom to buy. Leenders and Fearon (1993: 40) ; Fearon and Hamilton (1980: 20) mention the following prerogatives of the buyer:

- **Right to select the Supplier**

The officials in charge of the purchasing government departments should gather sufficient information that will be of assistance when a supplier has to be selected. The national and provincial departments and municipalities in South Africa use a database of suppliers where all suppliers intending to do business with government are registered. In selecting buyers, the purchasing departments of the South African government use BEE legislation.

- **Right to use whichever pricing method is appropriate**

The purchasing departments of the national, provincial and local government as buyers should be able to negotiate for reasonable prices. Before making purchases, the departments have to invite tenders and quotations from companies registered in their databases.

- **Right to question the specifications**

When making purchases, the purchasing departments of public institutions have to be informed of commodities that have substitutes. If the prices of the tenders are high, the purchasing departments have to advise the bidders to opt for substitute commodities in lower price ranges price.

- **Right to control all contacts with potential suppliers**

The South African public institutions require that any company that intends to do business with them should be registered in the databases of different departments. Registering is done through an invitation to register from the departments to all potential suppliers. The Green Paper on Public Sector Procurement Reform in South Africa (1997: 12) states that the establishment of databases of suppliers, service providers and contractors will benefit the government when procurement strategies are to be developed.

3.5 Characteristics of public buying

Leenders and Fearon (1993: 534-544); Fearon and Hamilton (1980: 336-340) mention the following characteristics of public buying:

- **Sources of authority**

Legislation controls public purchasing. Legislation stipulates who is responsible for purchases and how purchasing is to be done. In South Africa, BEE legislation stipulates that public institutions should give preference to BEE enterprises when awarding state tenders.

- **Budgetary restrictions**

Public departments have to budget for purchases. Without budgets there will be no funds allocated for purchases. The South African public institutions are expected to spend for purchases as budgeted without over-spending or under-spending.

- **Absence of interests costs**

Keeping goods in storerooms costs money. Unlike the private sector that charges interest for inventories, the government does not charge inventory interest to cover costs of keeping inventories. The Green Paper on Public Sector Procurement Reform in South Africa (1997: 13) states that one of the functions of the purchasing departments of government is to avoid incurring high inventory costs associated with storage of goods.

- **Absence of inspection**

The government does not have inspection departments that control incoming supplies. Supplies that are received from suppliers are not properly checked to determine whether specifications are correct.

- **Time required to modify public organizations**

Changing of organizational structures of government takes longer than in the private sector. If purchasing departments of public institutions are to be restructured, purchasing will be affected.

- **Information cannot be kept confidential**

The public has the right to be informed of the companies that do business with government and how much the government is paying to the companies. Even companies competing for government contracts have access to such information. The Green Paper on Public Sector Procurement in South Africa (1997: 12) states that the

purchasing departments of government should keep the suppliers informed of procurement decisions.

- **Emphasis on the bid process**

Public institutions purchases take long due to the bidding process. The government has to invite bids, check the bids and award the bid to the successful bidder. The bidding process itself is time consuming. The Green paper on Public Sector Procurement Reform in South Africa (1997: 114) differentiates the emergency procurement from the normal procurement. The tendering process for normal procurement is longer than that of the emergency procurement. Emergency procurement is concluded within a month. Emergency procurement is used when the need of government is urgent like during natural disasters and war.

3.6 Procurement policies

Public institutions should have procurement policies and procurement procedures. The procurement policies and procurement procedures will enable the management to control procurement. Procurement policies and procurement procedures are useful during decision-making processes. The procurement policy and will guide the staff involved in procurement as to what procedures need to be followed during procurement. Heinritz and Farrell (1981: 368-379) mention the following types of procurement policies:

- **Policies relating to vendor relationships**

Policies that outline the type of relationship that should exist between the government and suppliers are important. The suppliers entering into contracts with public institutions will know how they should relate to government. Relationships between the government and the suppliers that the policy does not govern, can result in suppliers taking advantage and bribing government officials or the government officials promising the suppliers government contracts for a fee.

3.7 Purchasing at the right price

In order to ensure that changes in price do not adversely affect the public institutions as buyers, the public institutions can enter into pricing agreements with suppliers. Price agreements are important as they will determine who will bear the costs related

to changes in price. Leenders and Fearon (1993: 325); Behan (1994: 56-68) mention the following price change clauses that need to be included in a contract:

- **Guarantee against price decline clause**

Prices can go up or down. If the guarantee against price decline clause is included in a contract, the supplier will be promising public institutions as buyers that if it may happen that prices should go down, the prices of goods in the contract will be reduced. If prices of goods do go down, the public institutions as buyer will save money from the contract.

- **Price protection clause**

The price protection clause is inserted in the contract to protect the buyer from prices going up. This clause gives the buyer the power to buy from other suppliers the same goods the contracted supplier supplies if cheaper than the ones of the contracted supplier. If the contracted supplier intends to prevent the buyer to buy from non-contracted suppliers, the contracted supplier will have to supply the goods at the price of the other suppliers.

3.8 Forecasting

The purchasing departments of public institutions as buyers should be able to predict changes in price. This prediction will be useful during budgeting and planning. Handfield (2006: 161-179) mentions the following types of forecasting:

- **Price forecasts**

In South Africa the performance of the Rand against other currencies like the American dollar, the British Pound and the Euro affects the price of goods. When the Rand performs well against the foreign currencies, prices of goods will go down. When the Rand performs badly, the prices of goods will go up. The purchasing departments of government should be in a position to can predict price changes of goods based on the performance of the Rand against foreign currencies. Another factor in South Africa that affects prices of goods is inflation. When inflation goes up, the Reserve Bank increases the interest rates and this affects the price of goods. The

purchasing departments of government should be able to predict price increases based on inflation.

- **Competitor forecasts**

Competition amongst companies affects prices. When companies selling a commodity are few, the price of the commodity will go up. When companies selling a commodity are many, the price of the commodity will go down. In implementing BEE, the purchasing departments of government should encourage competition amongst black owned companies. The Green Paper on Public Sector Reform in South Africa (1997: 8) states that public sector reform should encourage competition in the public procurement process.

- **Capacity forecasts**

The capacity of companies doing business with government to deliver the service as required is important. The purchasing departments of government should be able to determine before contracting a BEE company whether the company has the capacity to deliver the service.

- **Technology forecasts**

Changes in technology affect prices of goods and services. The purchasing departments of government should be able to make a forecast on how changes in technology will affect the price of goods and services.

- **Political and Economic Country Forecast**

The South African Government is not only doing business with local companies. The South African Government buys locally and internationally. When buying internationally, the purchasing departments of government should make a forecast on how the politics and the economy of the country doing business with the South Africa will impact on prices of goods and services.

3.9 E-procurement

The computer technology has made it possible for the public institutions to do business with the private sector through the internet. Lysons and Gillingham (2003:

172) defines e-procurement as "... the business-to-business purchase and sale of supplies and services over the internet". E-procurement is possible if the government networks are able to communicate with networks of suppliers. E-procurement saves time and costs in the sense that orders are placed through the internet and payments are electronically transferred. Handfield (2006: 275,276) mentions the following benefits of e-procurement:

- "Elimination of paperwork.
- Reduction in time between need recognition and release or receipt of order.
- Improved communication within the company and with suppliers.
- A reduction in errors.
- Lower overhead costs in the purchasing area.
- Purchasing personnel spend less time processing POs and invoices and more time on strategic value-added purchasing activities."

3.10 Purchasing manuals

A purchasing manual contains purchasing policies, procedures, instructions and regulations relating to purchases. Lysons and Gillingham (2003:189) mention the following advantages of purchasing manuals:

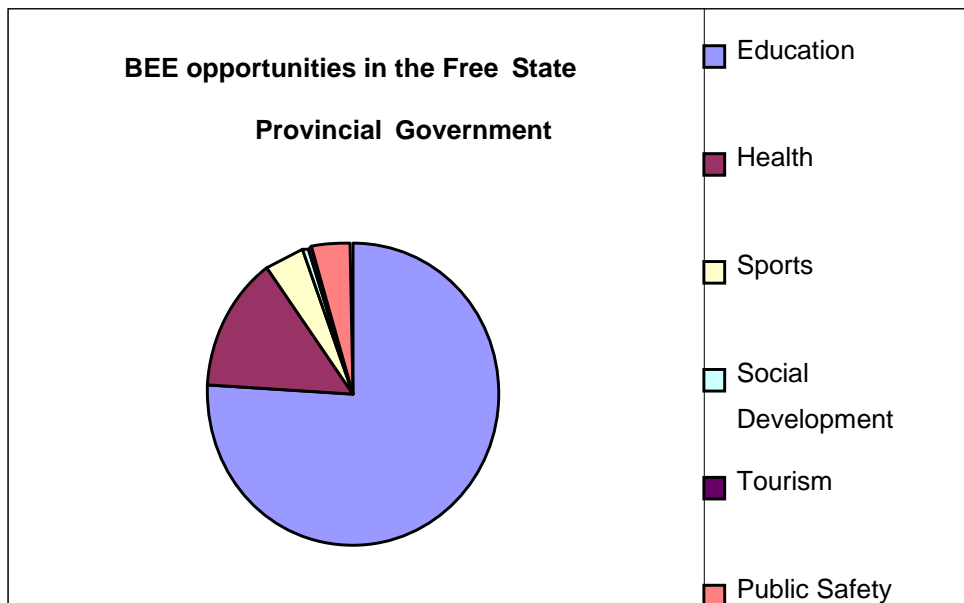
- Purchasing manuals make consultation between the purchasing departments of public institutions and suppliers possible.
- Purchasing manuals outlines procedures that need to be followed when purchasing is made.
- Purchasing manuals can be used to train and workshop staff.
- When annual audits are done, purchasing manuals become useful.

3.11 Purchasing business opportunities for BEE businesses in the Free State Provincial Government for the 2005 to 2006 financial years.

According to the Free State Provincial Treasury (2004), the Free State Department of Education manages 2 038 public schools, has one head office and five district offices and the Social Development and Health Departments also have one head office and

five district offices each whilst the Departments of Public Works, Roads and Transport; Sports, Arts, Culture, Science and Technology; Agriculture; Local Government and Housing; the Provincial Treasury; the Office of the Premier and Tourism, Environmental and Economic Affairs each have one head office. The Free State Provincial Treasury (2004) further states that the Free State Province has 24 district hospitals and 350 clinics (fixed and mobile); 102 libraries, 12 museums, 6 Arts and Cultural Centres and 2 Sports Centres; 14 Nature Reserves and 6 Holiday Resorts and 111 police stations.

Purchases for the Free State Provincial Government Departments range from office equipment for head offices and district offices; office stationery; classroom furniture for schools; books for schools and public libraries; medical equipment for clinics and hospitals, bedding and linen for public hospitals and holiday resorts. The purchasing opportunities as per department can be graphically presented as follows:



The above graph excludes small Provincial Departments like the Office of the Premier; the Provincial Treasury; Local Government and Housing and Agriculture as they have few BEE opportunities that can be reflected in the graph. In this study, the size of the department is determined in terms of institutions that fall under a particular department that may require purchases. The above graph shows that the Department of Education has the highest number of opportunities for BEE businesses due to its size followed by the Health Department. When the number of institutions the

departments control are added together, purchasing opportunities for BEE businesses in the Free State are 2 656. The figures indicate that 2 656 BEE companies can be contracted to make purchases for 2 656 Provincial Government institutions.

3.12 Awarding of contracts to suppliers

During purchasing, public institutions enters into contracts with external suppliers. Contracts are important as they outline the expectations of government from the external suppliers. Contracts include timeframes and the external suppliers commit themselves to the terms of the contract.

□ Tenders

In order to select suppliers, the government can use suppliers in its database for quotations. For major purchases, the government has to invite tenders from interested companies. According to The Aqua Group (1982:1), a tender is “... an offer by one party to do something in return for a consideration to be paid by the other party and the subsequent acceptance of that offer by the second party.” Pike (1982:6) defines a tender as “... any form of offer or quotation to provide goods and/or services”. In tendering two parties are involved. After acceptance of the offer the two parties enter into a contract that is binding.

The Procurement Policies and Procurement Procedure govern tendering. The Procurement Policies and Procurement Procedures outline the whole tendering procedure and who does what. The tendering procedure should include the following aspects:

- Invitations to tender.
- Submission of proposals.
- Tender adjudication.

3.13 Outsourcing business opportunities for BEE businesses in the Free State Provincial Government for the 2005 to 2006 financial years.

Outsourcing business opportunities for BEE businesses in the Free State are in cleaning services for government building such as offices, schools, hospitals and clinics, police stations and game reserves and parks; security services for all government buildings; catering services for schools and hospitals and training and development of government employees. Outsourcing opportunities also exists in the building of infrastructure for the Free State Province.

If half of the business opportunities in the Free State public institutions identified in the study can be awarded to BEE businesses per financial year, not less than 1328 BEE businesses will enter the Free State mainstream economy yearly.

4. LEGISLATION SUPPORTING BLACK ECONOMIC EMPOWERMENT

The Constitution of the Republic of South Africa Act, 1996 (Act 108 of 1996) is the supreme law of the country. All legislation passed should not contradict the Constitution. Section 217 of the Constitution of the Republic of South Africa, 1996 (herin after referred to as the Constitution) provides for the fair discrimination legislation like the Preferential Procurement Policy and the Black Economic Empowerment Policy. Such legislation though it discriminates against non-designated groups, is constitutional and legal.

4.1 The Constitution

The provision for the advancement of people who were unfairly disadvantaged during the apartheid era is found in Section 217 of the Constitution and reads as follows:

- (1) “When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.
- (2) Subsection (1) does not prevent the organs of state or institutions referred to in that subsection from implementing a procurement policy providing for-
 - (a) categories of preference in the allocation of contracts; and
 - (b) the protection of advancement of persons, or categories of persons, disadvantaged by unfair discrimination.
- (3) National legislation must prescribe a framework within which the policy referred to in subsection (2) may be implemented.”

4.2 Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000)

According to Sowell (1990:14), preferential policies “... are policies which legally mandate that individuals not all be judged by the same criteria or subjected to the same procedures when they originate in groups differentiated by government into preferred and non-preferred groups”. In the South African context of black economic empowerment, preferential procurement means that the state gives preference to black owned and black empowered companies when buying or outsourcing services.

The Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) has been established to provide a legal framework for the implementation of Section 217 of the Constitution. The Preferential Procurement Policy Framework Act, 2000 makes the following provisions for the advancement of black people:

- “Any state department must determine its own preferential procurement policy which, must use a preference point system provided for by the Preferential Procurement Policy Framework Act. The point allocation system is as follows:
 - (i) “Contracts whose Rand value is above a prescribed amount should be awarded a maximum of 10 points for specific goals. The term specific goals, refers to the advancement of black people.
 - (ii) Contracts with a Rand value equal or below a prescribed amount should score a maximum of 20 points for specific goals.
 - a. Any other tenders higher in price must score fewer points.
 - b. A contract must be awarded to the tenderer with the highest score. If not then justifiable reasons must be provided.
 - c. Contract awarded because of false information should be cancelled.”

A tenderer whose specific goals are not measurable and quantifiable may not be awarded the tender contract. The specific goals mentioned in the Preferential Procurement Policy Framework Act, 2000 indicate that all tenderers that intend to do business with the government have to disclose how they intend advancing black people. The point system provided for by the Preferential Procurement Policy Framework Act, 2000 indicates that the points are allocated for the advancement of black people. Any tenderer who fails to indicate how he/she intends to advance black people when bidding for a state tender, will be awarded a lower score which will render the bid unsuccessful.

4.2.1 The Preferential Procurement Regulations, 2001

The Preferential Procurement Regulations provide guidelines on how the Preferential Procurement Policy Framework Act, 2000 has to be implemented.

4.2.1.1 The preference point system

When determining successful bidders, points are awarded on a preference point system. The preference point system that will be used in determining the successful tender should be stated in the tender documents. The tenderers need to know the point system to be used when they make tender proposals. The point system covers different tenders categorised in accordance with value. The preference point system has been categorised into four categories.

□ **The 80/20 preference point system**

The 80/20 preference point system is used to determine the successful bidder for procurement with a Rand equal to or above R30 000-00 but not more than R500 000-00. The following formula is used to determine the successful tender of the value less than R30 000-00 on an 80/20 preference system:

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

P_s = Points scored for price of tender under consideration

P_t = Rand value of offer of tender under consideration

P_{\min} = Rand value of lowest acceptable tender

If the person or enterprise tendering is a BEE, 20 points are awarded. The tenderer whose tender scores the highest points on the 80/20 preference point system, is awarded the tender.

□ **The 90/10 preference point system**

The 90/10 preference point system is used to determine tenders with the Rand value of more than R500 000-00. The following formula is used to determine the successful tender:

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

P_s = Points scored for price of tender under consideration

P_t = Rand value of offer of tender under consideration

P_{min} = Rand value of lowest acceptable tender

If the person or enterprise tendering is a BEE, 10 points are awarded. The tenderer whose tender scores the highest points on the 90/10 preference point system, is awarded the tender.

□ **The 80/20 preference point system for the sale and letting of assets**

The 80/20 preference point system for the sale and letting of assets is used to determine tenders for the sale and letting of assets with the Rand value equal to R30 000 and above but not more than R500 000-00. The point system is used to determine tenders in relation to the letting and the sale of assets. The following formula is used to determine the successful tender:

$$P_s = 80 \left(1 + \frac{P_t - P_h}{P_h} \right)$$

P_s = Points scored for price of tender under consideration

P_t = Rand value of offer of tender under consideration

P_h = Rand value of highest acceptable tender

If the person or enterprise tendering is a BEE, 20 points are awarded. The tenderer whose tender scores the highest points on the 80/20 preference point system for the sale and letting of assets, is awarded the tender.

□ **The 90/10 preference point system for the sale and letting of assets**

The 90/10 preference point system for the sale and letting of assets is used to determine tenders for the sale and letting of assets with the Rand value of more than R500 000-00. The following formula is used to determine the successful tender:

$$P_s = 90 \left(1 + \frac{P_t - P_h}{P_h} \right)$$

Ps = Points scored for price of tender under consideration

Pt = Rand value of offer of tender under consideration

Ph = Rand value of highest acceptable tender

If the person or enterprise tendering is a BEE, 10 points are awarded. The tenderer whose tender scores the highest points on the 90/10 preference point system for the sale and letting of assets, is awarded the tender.

4.2.2 Evaluation of tenders on functionality and price

When inviting tenders, the tender documents should stipulate how points will be allocated for functionality and price based on the following guidelines:

- “If price and functionality will be used, the invitations to tender must have this information.
- Points allocated for functionality and price should not be more than 80 for tenders with the Rand value equal to or below R500 000.
- For tenders above R500 000-00 the points for functionality and price must not be more than 90.
- Preference should be given to BEE enterprises.
- Only tenders with the highest score should be selected.
- It is possible to award a tender to a tenderer with a lower score if reasons for doing so are satisfactory.
- Tenders with false information can be cancelled.”

4.3 The Broad-Based Black Economic Empowerment Act, 2003 (Act 53 of 2003)

According to the Broad-Based Black Economic Empowerment Act, 2003 (Act 53 of 2003), the term ‘black’ in the context of black economic empowerment refers to Africans, Coloureds and Indians. The Broad-Based Black Economic Empowerment Act, 2003 defines black economic empowerment as “... the economic empowerment of all black people including women, workers, youth, people with disabilities and

people living in rural areas through diverse but integrated socio-economic strategies”. The Broad-Based Economic Empowerment Act, 2003 states the following strategies that are to be used in the economic empowerment of black people, women, workers, youth, people living with disabilities and people living in rural areas:

- “Increasing the number of black people that manage, own and control enterprises and productive assets;
- Facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;
- Human resource and skills development;
- Achieving equitable representation in all occupational categories and levels in the workforce;
- Preferential Procurement; and
- Investment in enterprises that are owned or managed by black people.”

□ **Objectives of the Act**

The Broad-Based Black Economic Empowerment Act, 2003 was established to assist the national government, provincial governments the municipalities to achieve the following objectives:

- To transform the economy of the country that will enable black people to participate meaningfully.
- To ensure that ownership and management structures in the skilled occupations and enterprises include all races. (please correct punctuation accordingly)
- To ensure that communities, workers, cooperatives and other collective enterprises own and manage existing and new enterprises;
- To ensure that black women own and manage existing and new enterprises;
- empowering rural and local communities;
- To ensure that black economic enterprises have access to finance.

□ **The Black Economic Empowerment Advisory Council**

The Broad-Based Black Economic Empowerment Act, 2003 stipulates that the Minister of Trade and Industry should establish the Black Economic Empowerment Advisory Council made up of the following personalities:

- The President of the Republic of South Africa;
- The Minister of Trade and Industry or the Director-General;
- three Cabinet Ministers appointed by the President or three Director-Generals of the said Cabinet Ministers;
- The President of the Republic of South Africa can appoint 10 to 15 members from stakeholders.

The Broad-Based Economic Empowerment Act, 2003 mentions the following functions of the Black Economic Empowerment Advisory Council:

- “to advise government on black economic empowerment;
- to review progress in achieving black economic empowerment;
- to advise on draft codes of good practice with the Minister intends publishing for comment;
- to advise on the development, amendment or replacement of the strategy for the implementation of the Act;
- to advise on request on draft transformation charters; and
- to facilitate partnerships between organs of state and the private sector that will advance the objectives of the Act.”

4.4 Strategy for broad-based black economic empowerment

The Broad-Based Black Economic Empowerment Act, 2003 empowers the Minister of Trade and Industry to establish a strategy for the implementation of black economic empowerment. The strategy must provide a uniform approach for all organs of state, public entities, private sector, non-governmental organisations, local communities and other stakeholders to broad-based black economic empowerment. The strategy should include the plan for financing broad-based economic empowerment. The South Africa’s Economic Transformation: A Strategy for Broad-based Black Economic Empowerment of 2003 provides the following objectives, key principles, and policy instruments for Broad-Based Black Economic Empowerment:.

□ **Objectives of the strategy for broad-based economic empowerment**

The objectives for the implementation of the strategy for broad-based economic empowerment are found in Section 11 of the Broad-Based Black Economic Empowerment Act, 2003. The strategy for broad-based black economic empowerment is intended to:

- Ensure that the number of blacks who own and control enterprises is increased;
- Ensure that the number of blacks in the priority sector as the government has identified is increased;
- Ensure that black owned enterprises increases;
- Ensure that the number of blacks in executive positions in enterprises is increased;
- Ensure that the proportion of the ownership and management of economic activities vested in community and broad-based enterprises and cooperatives are increased,
- Ensure that economic growth is accelerated; and
- Ensure that the income level of blacks is increased and reduce income inequalities between races.

□ **Key principles for Broad-Based Black Economic Empowerment**

The South Africa's Economic Transformation: A Strategy for Broad-based Black Economic Empowerment of 2003 states the following key principles for broad-based black economic empowerment:

- **Black Economic Empowerment is broad-based:** The term broad-based is used to indicate that the Black people who are to benefit from BEE are indigenous Africans, Coloureds and Indians and that BEE will include human resource development, employment equity, enterprise development, preferential procurement, investment, ownership and control of enterprises and economic assets.

- **Black Economic Empowerment is an inclusive process:** The State does not see itself as the only entity that should drive black economic empowerment. The term inclusive means that all stakeholders should take part. The stakeholders in black economic empowerment are the state, the private sector, non-governmental organisations, public entities, state institutions supporting democracy and labour unions. \
- **Black Economic Empowerment is associated with good governance:** Good governance is essential for the success of black economic empowerment. Without good governance black economic empowerment is doomed. Good governance should start from the government itself to avoid problems like corruption and nepotism. The people that the state appoints to implement BEE should be people of good standing with a good corporate record. The beneficiaries of BEE must also be developed so that they can manage the projects cost-effectively without compromising quality.
- **Black Empowerment is part of the growth strategy:** The economy of South Africa can grow if all stakeholders play part even those people who have not been identified as beneficiaries of BEE. People benefiting from BEE must ensure that their participation in the economy contribute to economic growth. Economic growth will be achieved if the number of participants in the economy grows. BEE is intended to increase the number of participants in the economy.

□ **Policy instruments to achieve BEE**

The South Africa's Economic Transformation: A Strategy for Broad-based Black Economic Empowerment of 2003 mentions legislation and regulation, preferential procurement, institutional support, financial and other incentive schemes as instruments that will be used for BEE.

- **Legislation**

The government has passed a number of legislation that provides a legal framework to empower black people. The National Small Business Act, 1996 (Act 102 of 1996) makes provision for the establishment of small, medium and micro-enterprises. In 2000 the Preferential Procurement Act, 2000 (Act 5 of 2000) was passed in

Parliament enabling the government to channel state tenders to designated groups. The intention of government with this Preferential Procurement Act, 2000 is "... promoting its 1996 White Paper guidelines for tender awards based not just on things like price, capacity or track record but also on race, disability, gender and the policy requirements of the 1995 Reconstruction and Development Programme" (Pereira 2001:9). The Competition Act, 1998 (Act 89 of 1998) was passed in 1998 and it outlines forms of acceptable competition in the private sector and protects small enterprises against big companies. The Employment Equity Act, 1998 (Act 55 of 1998) that outlawed all forms of unfair discrimination and enforced affirmative action was passed in 1998. The National Empowerment Fund was created in 1998 intended to fund black economic empowerment. The Broad-Based Black Economic Empowerment Act 2003 (Act 53 of 2003) was passed in parliament in 2003. This Act provides a framework on how the government should implement black economic empowerment. The government supports black economic empowerment through the channeling of state tenders and also through funding, hence the creation of the National Empowerment Fund in 1998.

- **Regulation**

The government uses the following regulatory instruments when state tenders are awarded to BEE companies:

- **The balanced scorecard**

The balanced scorecard is "... a set of measures that gives top managers a fast but comprehensive view of the business. The balanced scorecard includes financial measures that tell the results of actions already taken And it complements the financial measures with operational measures on customer satisfaction, internal processes, and the organization's innovation and improvement activities- operational measures that are the drivers of future financial performance" (Harvard Business Review, 1998: 125). According to Creelman (1998:4), a balanced scorecard is "... a framework which has the overarching goal of transforming an organization's strategy and vision into operational objectives measures, targets and initiatives."

According to Kaplan and Norton (2001: 2003) the balanced scorecard is important in an organization as it is informed by the vision and strategy of the organisation.

According to Olive et al, (1999:16), the scorecard is balanced if it "... indicates the results achieved ... and expected results... is intended to link short term operational control to the long term vision and strategy of the business."

The balanced scorecard is important to an organisation that need to improve because it provides important information to managers on whether customers are satisfied or not, areas in need of development, and the capacity of the organisation to move forward. The Harvard Business Review (1998:132) mentions the following perspectives that need to be included in a balance scorecard:

- **Customer perspective:** This perspective is on how customers see the organisation.
- **Financial perspective:** This perspective is on the profitability of the organisation.
- **Internal perspective:** Internal measures for the balanced scorecard should stem from the business processes that have the greatest impact on customer satisfaction- factors that affect cycle time, quality, employee skill and productivity.
- **Innovation and learning perspective:** This perspective is on whether the organisation can continue to improve and create value.

In order to assess its performance as far as BEE is concerned, the national and provincial departments as well as municipalities should use the balanced scorecard. The accounting officers or authorities responsible for tenders should understand the balance scorecard and its components. They should be in a position to advise the bidding companies about their progress as far as BEE is concerned. The following are the core elements of the balance scorecard that the South African government uses to award BEE tenders:

- **Direct empowerment (30%)**

In this component 30% is awarded for the number of blacks who owns the company or enterprise. The higher the number of blacks in the management of the company or who owns the company, the higher the score.

- **Human resource development and employment equity strategy (30%)**
 Any enterprise bidding for a government tender has to indicate how much of its monthly payroll is allocated for human resource development. The higher the percentage allocated to human resource development the higher the score will be awarded to the enterprise out of the total of 30%. For or employment equity 20% is allocated and 10% for skills development. Employment equity is the advancement of previously disadvantaged people to senior positions within an enterprise. The advancement should also be in accordance to gender. If the bidding company shows with records how it is advancing black people and women, more points will be allocated.
- **Indirect empowerment (30%)**
 An enterprise bidding for a government tender has to show how it uses its internal procurement to advance black people. An enterprise bidding for a government tender must have its own preferential procurement policy. If there are records that show that the bidding enterprise is committed to giving black people preference in its procurement, 20% will be awarded to the enterprise on the balanced scorecard. If the bidding enterprise shows records that it is investing in other black owned enterprises, 10% will be awarded to the enterprise.
- **The residual (10%)**
 The balance scorecard does allow the inclusion of any information that is related to BEE not covered under the direct and indirect empowerment components. The residual component is open and the bidding enterprise is to include anything relevant to BEE and 10% is allocated.
- **The Total Score**
 The total score is out of 100. A total score of 65 (please make sure that the regulations refer to percentages and not numeric numbers only) and above means that an enterprise is a good contributor to BEE. The total score of 40% to 64.9% means that an enterprise is a satisfactory contributor to BEE. The total score of below 40% means that an enterprise is a limited contributor to BEE.

- **Preferential procurement by government**

The government is a buyer of goods from the private sector. Through preferential procurement, the government awards tenders for the procurement of goods or

rendering of services to black owned enterprises. Through the use of preferential procurement, the government is in a position to ensure that state tenders are channelled to blacks. As part of its strategy, the government intended to increase the number of black enterprises that will benefit from state tenders.

- **Partnership and Charters**

The state cannot carry black economic empowerment alone. The private sector is also a stakeholder. The government formed public-private-partnerships with the private sector to ensure that the private sector plays its role in the economic empowerment of black people. The BEE charters determine the public-private partnerships to ensure that the BEE objectives are achieved. The enterprises intending to do business with the government are expected to develop their own BEE charters that the government will use in determining successful bidders for state tenders.

- **Financing black economic empowerment**

Section 11 of the Broad-Based Economic Empowerment Act, 2003 stipulates that the strategy for BEE should include "... a plan for financing broad-based black economic empowerment". The strategy for BEE stipulates that in financing BEE the following need to be taken into account:

- **Maintaining macro-economic balance**

The government need to ensure that it maintains the macro-economic balance. In maintaining the macro-economic balance, the government should ensure that it does not enter into huge debts when acquiring funds to finance BEE.

- **Increasing the growth rate**

The government has to ensure that domestic and international investments in the country are not compromised. BEE should lead to a high domestic and international investment in the country.

- **Intensifying economic transformation**

Economic transformation is necessary. The success indicators of economic transformation are the increase of blacks participating in the economy of South

Africa. Reduction of unemployment is also a success indicator of an economy that is doing well.

- **Diversifying the size and type of enterprise**

The South African financial institutions have been reluctant to finance small businesses. The task facing the government is ensuring that small businesses have access to finance.

- **Commercial risk must remain with the private sector**

The State commits itself to facilitating access to capital and collateral without assuming commercial risk. Funding of BEE does not mean that the government will take financial risks. Financial risks will remain with the enterprises. If the government can assume financial risks for BEE enterprises, it will incur huge debts that will result in macroeconomic imbalances.

- **Financing Mechanisms**

The government cannot rely on financial institutions to finance BEE. The government has to ensure that funds are made available for BEE. In order to finance BEE, the government uses grants and incentives, state-facilitated lending and financing of BEE projects. The Industrial Development Corporation has been established to assist BEE companies with finance.

- **Black Empowerment Entities**

In order to assist the government in identifying black economic enterprises, the enterprises have been categorised as:

- Black Enterprise where 50,1% of the enterprise is black owned;
- 🚩 Black Empowered Enterprise where 25,1% of the enterprise is black owned;
- 🚩 Black Woman-owned Enterprise where the black women own 25,1% of the enterprise;

- ✚ Community or Broad-Based Enterprise where the community or black women, people with disabilities, youth and workers are shareholders; and
- ✚ Co-operative or Collective Enterprise formed by an association of persons. The Cooperative or Collective Enterprise is jointly owned.

The Constitution of the Republic of South Africa, 1996 supports black economic empowerment. BEE legislations like the Preferential Procurement Policy Framework Act, 2000 and the Broad-Based Black Economic Empowerment Act, 2003 and other BEE legislations give guidelines as to how black economic empowerment should be implemented. Black economic empowerment is not optional. If BEE legislation is correctly implemented, the number of black people participating in the economy of the country will increase. The public sector and the private sector should work together in order to make BEE a success.

5. RESEARCH METHOD

In this rubric the data collection method used, sampling and how data was analyzed will be discussed. The rubric will discuss information obtained from Statistics South Africa, the South African Revenue Services and the Free State Provincial Government Departments. The findings of the study will also be discussed.

5.1 Collection of Data

According to Cohen et al, (2000: 44), the research data collection methods are "... those techniques associated with the positivistic model-eliciting responses to predetermined questions, recording measurements, describing phenomena and performing experiments." After the setting of the topic to be studied, the researcher has to decide on the method to be used to collect data. The researcher has to decide which research design will be appropriate for the topic under study. The researcher can use the Qualitative or Quantitative Research Design to collect data.

5.1.1 Data collection method

According to Douglas in Cohen et al, (2000: 22), the Quantitative Research Design is based on the assumption that rules govern human behaviour and that scientific methods should be used to investigate human behaviour. The Research design used in the study is Quantitative Design. Structured self-completion questionnaires were used to collect data. Questions used in the questionnaire were structured dichotomous questions where the respondents were required to respond with yes or no. Rating scales were used in some questions where the respondents were required to rate responses. Some questions required actual data and where actual data is unavailable, estimation was required. Due to the nature of questions asked (questions requiring actual data), questionnaires were submitted to respondents in time and were collected from the respondents after five days.

5.1.2 Sampling

Cohen et al, (2000: 92) define sampling as a smaller group of the population. The term population refers to all people from whom the researcher can get information on the topic under study. In this study, the population under study is the employees of the

Free State Provincial Government Departments. The Free State Provincial Government has eleven departments. Since the focus of the study is on procurement, employees responsible for purchasing were targeted. In order to get accurate information regarding the topic under study, the sampling method used is purposive sampling. In this study, the Heads of the Provincial Government Departments or the Chief Financial Officers of the Provincial Government Departments are in a position to provide accurate data regarding tendering. In this case:

$$n = 11$$

where

n = sample size

11 = departments of the Free State Provincial Government

5.1.3 Data analysis

In order to analyse collected data, simple addition, subtraction, division and multiplication formulas were used. The following formula was used:

$$n = \frac{t2}{t1} \times 100$$

where

n = sample size

$t1$ = total number of respondents

$t2$ = total number of respondents to a particular question

100 = the total number is converted to a percentage

The total obtained after the use of the formula is then converted to the bar and pie graphs.

5.2 The Free State Population

The information from this section was obtained from Statistics South Africa. The information is valuable as it gives an overall picture of the Free State population under study with regard to employment. According to the mid-year population estimates from Statistics South Africa (2006:10), the Free State population is 2,938236 million.

5.2.1 Employable Free State residents

The following table shows the number of employable Free State residents as at June 2006 as estimated by Statistics South Africa (2006: 9):

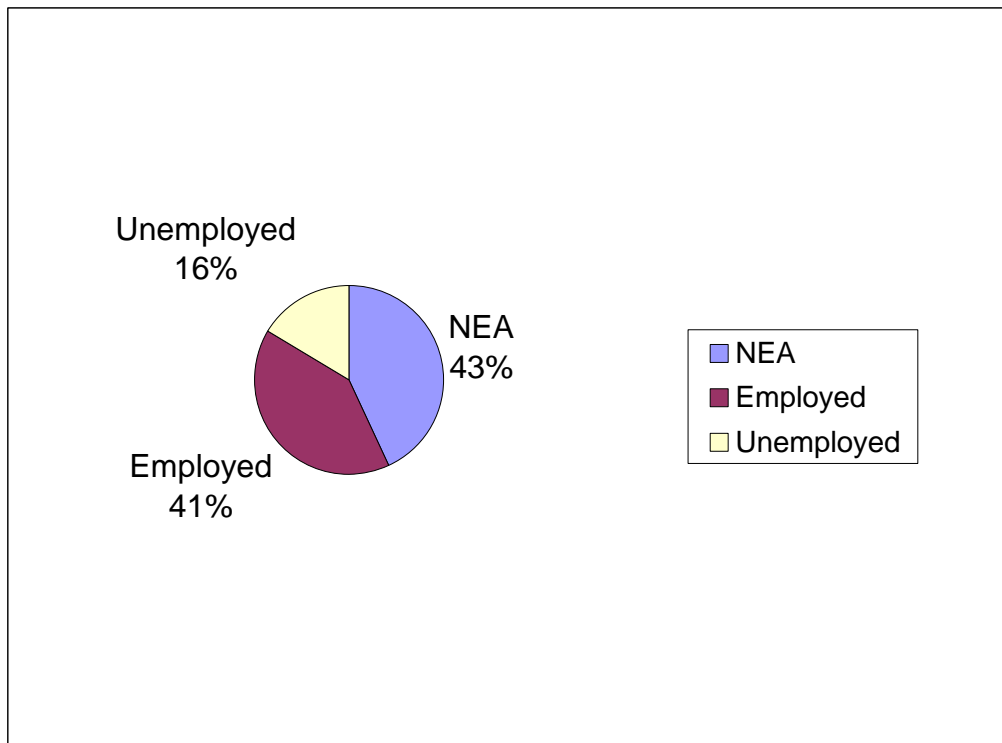
Table 1: Provincial mid-year population estimates of employable Free State residents by age and sex, 2006

Age	Male	Female	Total
15-19	156700	153500	310200
20-24	146700	144200	290900
25-29	129800	129600	259400
30-34	115300	119400	234700
35-39	90600	96200	186800
40-44	78000	84100	162100
45-49	72100	76000	148100
50-54	60300	65400	125700
55-59	46400	53000	99400
60-64	40800	45600	86400
Total	936700	967000	1 9037 700

Source: Statistics South Africa 2006:9.

The following illustration shows the Free State labour market status as at 2004. The people who are not economically active (NEA) make up 43%, those employed 40% and unemployed 16,3%.

Figure 1: Labour market status, Free State, September 2004

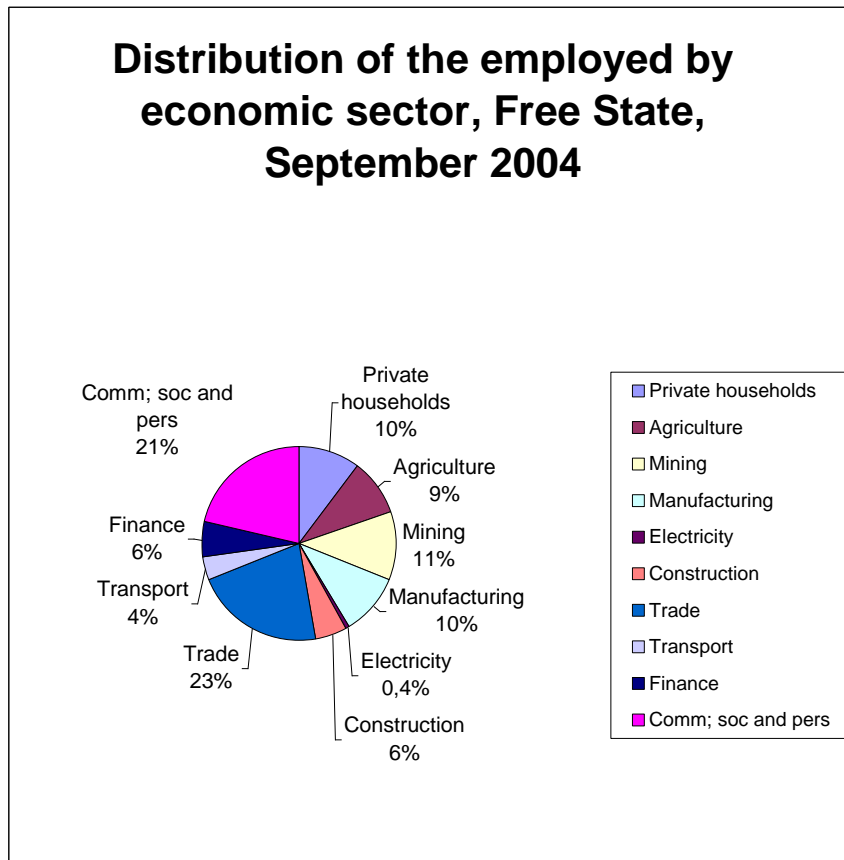


Source: Statistics South Africa 2006:87

5.2.2 Sources of employment in the Free State

The following illustration shows that 21,5% of the working people in the Free State are in the wholesale and retail industry, 21,3% are working in the community, social and personal services, 11,4% in the quarrying and mining industry, 10,4% in manufacturing and 0,4% are working in electricity, gas and water industry.

Figure 2: Distribution of the employed by economic sector in the Free State as at 2004



Source: Statistics South Africa 2006:89

5.2.3 Income of the employed

According to Statistics South Africa (2006:90) 26,4% of employed black Africans earn between R501-R1000 per month whilst 24,8% of Coloureds earn between R1 001 – R2 500 and 46,9% of whites earn between R2 500- R8 000.

5.3 Tax registration

The BEE legislation stipulates that companies making bids for government tenders must register with the South African Revenue Services for tax. Bidding companies have to submit tax clearance certificates from the South African Revenue Services indicating that no tax monies are owed. Companies whose tax payments are in order, receive tax clearance certificates as proof. Companies whose tax payments are not in order will not receive tax clearance certificates. Companies that fail to submit tax

clearance certificates will not get government tenders and their bids will be disqualified as they will not meet the requirements. The South African Revenue Services has records of all registered companies in South Africa. The information in this section is obtained from the South African Receiver of Revenue and it provides light on the activities of BEE companies regarding applications for tax clearances and tax payments. The companies that continued to pay tax are regarded as active and those that applied for tax clearances but are not paying tax are regarded as inactive.

5.3.1 Companies registered with SARS

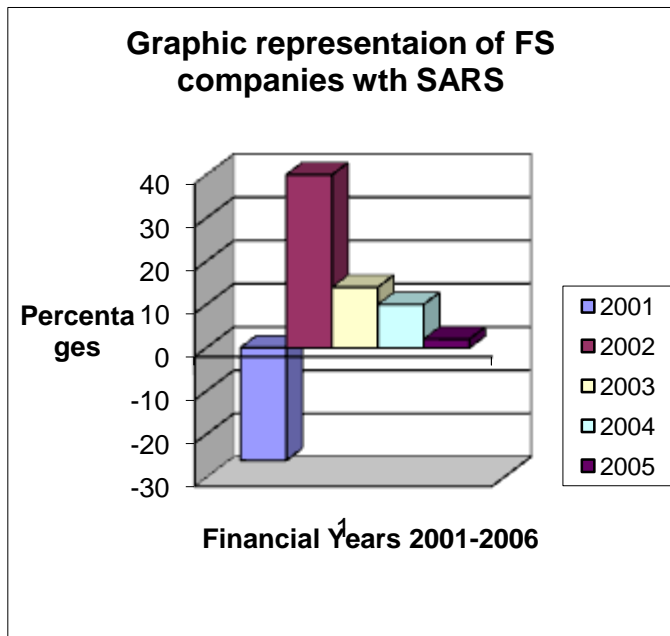
From the data collected from SARS through a questionnaire, the number of Free State owned companies that registered with SARS for tax clearance in the financial years under study is presented in the following table:

Table 2: Free State owned companies registered with SARS during the 2000 to 2006 financial years

2000	2001	2002	2003	2004	2005	2006
677	501	702	800	877	891	984

The table indicates that in the year 2000, 677 Free State owned BEE companies were registered with SARS. In 2001 the number dropped by 176 from 677 to 501. In 2002 the number increased by 201 to 702. In 2003 the number increased by 98 to 800. In 2004 the number increased by 77 to 877. In 2005 the number increased by 14 to 891. In 2006 the number increased by 93 to 984. The decrease and the increase of Free State owned companies registered with the South African Revenue Service for the 2000 to 2006 financial years can be graphically presented as follows:

Figure 3: Free State companies registered with SARS during the 2000 to 2006 financial years.



5.3.2 Companies owned by Black persons in the Free State

The following table shows the percentage of companies owned by Blacks in the Free State in the 2000 to 2006 financial years registered with the South African Revenue Services. The total number of black owned companies is a percentage of the number of Free State companies registered for tax presented in 5.3.1 above. The table has been drawn using the data obtained from the South African Revenue Services through a questionnaire.

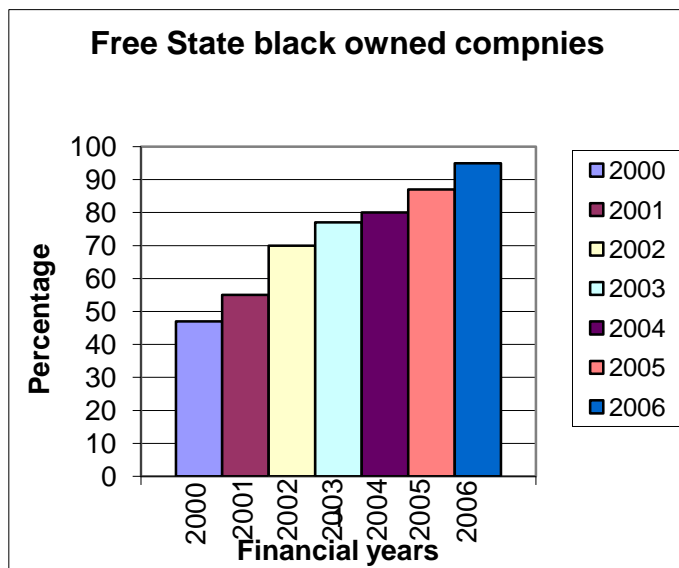
Table 3: Companies owned by Black persons in the Free State

2000	2001	2002	2003	2004	2005	2006
47%	55%	70%	77%	80%	87%	95%

In 2000, of the 677 Free State companies registered with SARS, 47% of them were black owned. In 2001, of the 501 Free State companies registered with SARS, 55% of them were black owned. In 2002, of the 702 Free State companies registered with

SARS, 70% of them were black owned. In 2003, of the 800 Free State companies registered with SARS, 55% of them were black owned. In 2004, of the 877 Free State companies registered with SARS, 80% of them were black owned. In 2005, of the 984 Free State companies registered with SARS, 95% of them were black owned. The number of black owned Free State companies registered with SARS for the 2000 to 2006 financial years can be graphically presented as follows:

Figure 4: Number of Free State BEE companies during the 2000 to 2006 financial years



5.3.3 Black owned Free State companies in business in the 2000 to 2006 financial years

The following table shows the number of black owned Free State companies that were in business in the 2000 to 2006 financial years:

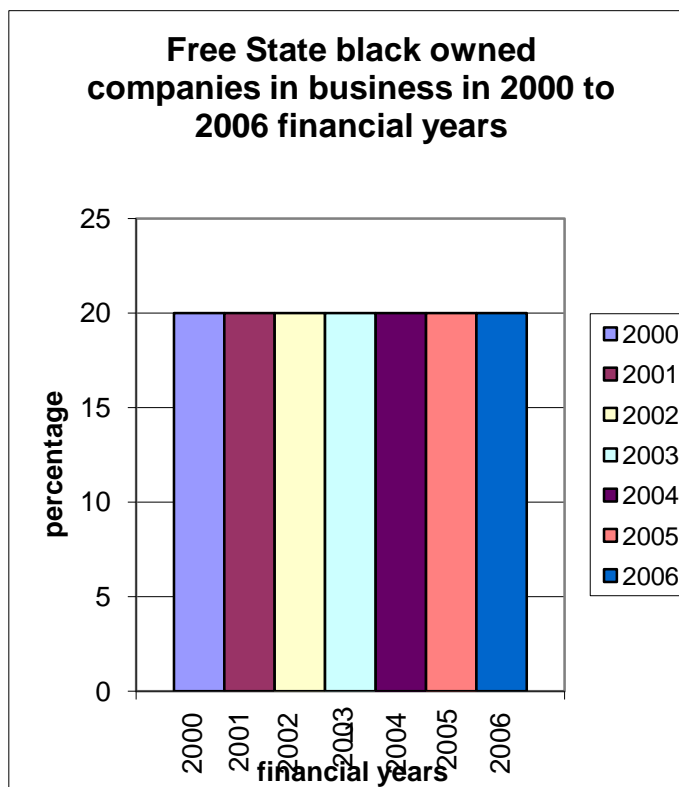
Table 4: Black owned Free State companies in business during the 2000 to 2006 financial years

2000	2001	2002	2003	2004	2005	2006
63	55	98	123	140	155	187

Of the 319 black owned Free State companies registered for tax clearance with SARS in the 2000 financial year, 63 of them were in business at the end of 2000. Of the 276

black owned Free State companies registered for tax clearance with SARS in the 2001 financial year, 55 of them were in business at the end of 2001. Of the 492 black owned Free State companies registered for tax clearance with SARS in the 2002 financial year, 98 of them were in business at the end of 2002. Of the 616 black owned Free State companies registered for tax clearance with SARS in the 2003 financial year, 123 of them were in business at the end of 2003. Of the 702 black owned Free State companies registered for tax clearance with SARS in the 2004 financial year, 140 of them were in business at the end of 2004. Of the 776 black owned Free State companies registered for tax clearance with SARS in the 2005 financial year, 155 of them were in business at the end of 2005. Of the 935 black owned Free State companies registered for tax clearance with SARS in the 2006 financial year, 187 of them were in business at the end of 2006. The number of black owned Free State companies registered with SARS for the 2000 to 2006 financial years that were still in business at the end of the 2000 to 2006 financial years can be graphically presented as follows:

Figure 5: Free State BEE companies in business in 2000 to 2006 financial years.



The graph indicates that per financial year, only 20% of black owned companies in the Free State are able to get business contracts.

5.3.4 Black owned Free State companies not in business

The data collected from SARS indicates that of all 319 black owned Free State companies registered for tax in the 2000 financial year, 15% did not get government business contracts. Of all 276 black owned Free State companies registered for tax in the 2001 financial year, 13% did not get business contracts. Of all 492 black owned Free State companies registered for tax in the 2002 financial year, 24% did not get business contracts. Of all 616 black owned Free State companies registered for tax in the 2003 financial year, 30% did not get business contracts. Of all 702 black owned Free State companies registered for tax in the 2004 financial year, 35% did not get business contracts. Of all 776 black owned Free State companies registered for tax in the 2005 financial year, 38% did not get business contracts. Of all 935 black owned Free State companies registered for tax in the 2006 financial year, 46% did not get business contracts.

5.4 Responses from the Provincial Departments

Eleven questionnaires were issued to eleven Free State Provincial Departments. The responses in this section were obtained from six of the eleven Free State Provincial Government Departments that responded to the questionnaires. The questionnaires were submitted to the Chief Financial Officers of the different Provincial Departments.

5.4.1 Strategic Planning

Pfeiffer (1991: x) defines strategic planning as “...the process by which an organization envisions its future and develops the necessary procedures and operations to achieve that future...and requires the setting of clear goals and objectives and the attainment of those goals and objectives within specified periods of time in order to reach the planned future state”. Clarke (2007: 389) states that a strategic plan should have the following elements:

- An analysis of the present position of the organization;
- A process of establishing direction and goals for the future;

- A process of establishing systems and procedures that will lead to the achievement of the goals;
- An implementation phase and
- An assessment phase.

The definition of Pfeiffer of a strategic plan and the elements of a strategic plan mentioned by Clarke indicates that during strategic planning, the goals of the organization are established and procedures that will lead to the achievement of the goals are determined. In this study, the question on strategic planning was asked to determine whether Black Economic Empowerment forms part of the goals of the Free State Provincial Departments. The responses of the departments to this question indicate that not all departments have BEE as one of their goals in their Strategic Plans.

5.4.2 BEE targets in terms of Strategic Plan

Pfeiffer (1991: x) states that during the strategic planning process, attainable targets are set. The question on BEE targets was asked in order to determine whether the departments have included BEE targets in their Strategic Plans. Since not all departments have included BEE as a goal in their Strategic Plans as stated in 5.4.1, not all departments have BEE targets in their Strategic Plans. The term target as used here refers to the number of BEE contracts a department intends to award per financial year and the amount of money allocated for such contracts. The responses of the departments to the question on BEE targets and their achievements during the financial years under study clearly indicates that the approach of the departments towards BEE did not include target setting.

5.4.3 Provision for tenders and quotations in the annual Departmental budgets

The question on the provision for tenders and quotations in the budgets of the departments was asked to determine whether the departments are budgeting for BEE. The responses of the departments to the question indicate that 67% of the departments have part of their budgets allocated specifically for BEE. For the 33% that did not have budget allocations for BEE, their budgets included all projects with BEE included.

5.4.4 The amount of the budget allocated for tenders and quotations

The question on the amount of the budget allocated for tenders and quotations was asked to determine how much of the budgets of the departments was allocated for tenders and quotations. The question was divided into four categories of below 5%, between 5%-10%, between 10%-15% and above 15%. The responses of the departments to the question indicate that during the 2000 to 2005 financial years, the departments were not sure of the amount but for the 2006 financial year 50% of the departments indicated that allocation for tenders and quotations made up more than 15% of their budgets.

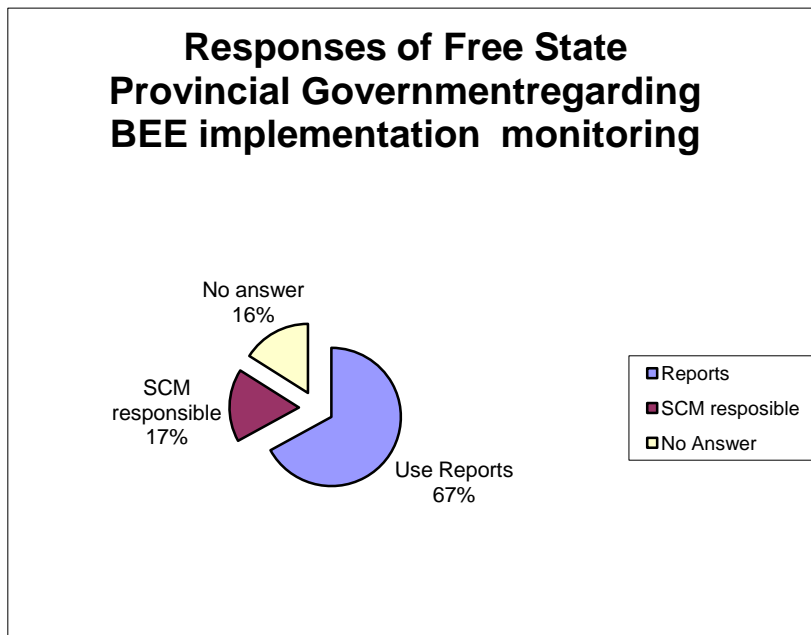
5.4.5 Availability of the BEE implementation Action Plans

According to Pearce and Robinson (1997: 301), action plans forms part of strategy implementation of Strategic Plans. Wheelen and Hunger (2000: 218-220) states that action plans should include "...specific actions to be taken to make the program operational; dates to begin and end each action; person responsible for carrying out each action; person responsible for monitoring the timelines and effectiveness of each action; expected financial and physical consequences of each action and contingency plans". Action plans are used when an organization works towards the achievement of its goals. The question on the availability of the BEE implementation action plans was asked to determine whether the departments had BEE implementation action plans. The responses of the departments indicate that not all departments had BEE action plans. The departments that had action plans were requested to provide copies of them but could not. The departments were also requested to indicate whether they experienced problems in implementing their action plans but there was no response to the question.

5.4.6 Monitoring of BEE implementation

The question was asked to determine how the departments monitored the implementation of BEE. The responses of the departments indicate that monthly, periodic and quarterly reports were used to monitor BEE. The Supply Chain Management personnel are also responsible for monitoring BEE. The responses can be graphically presented as follows:

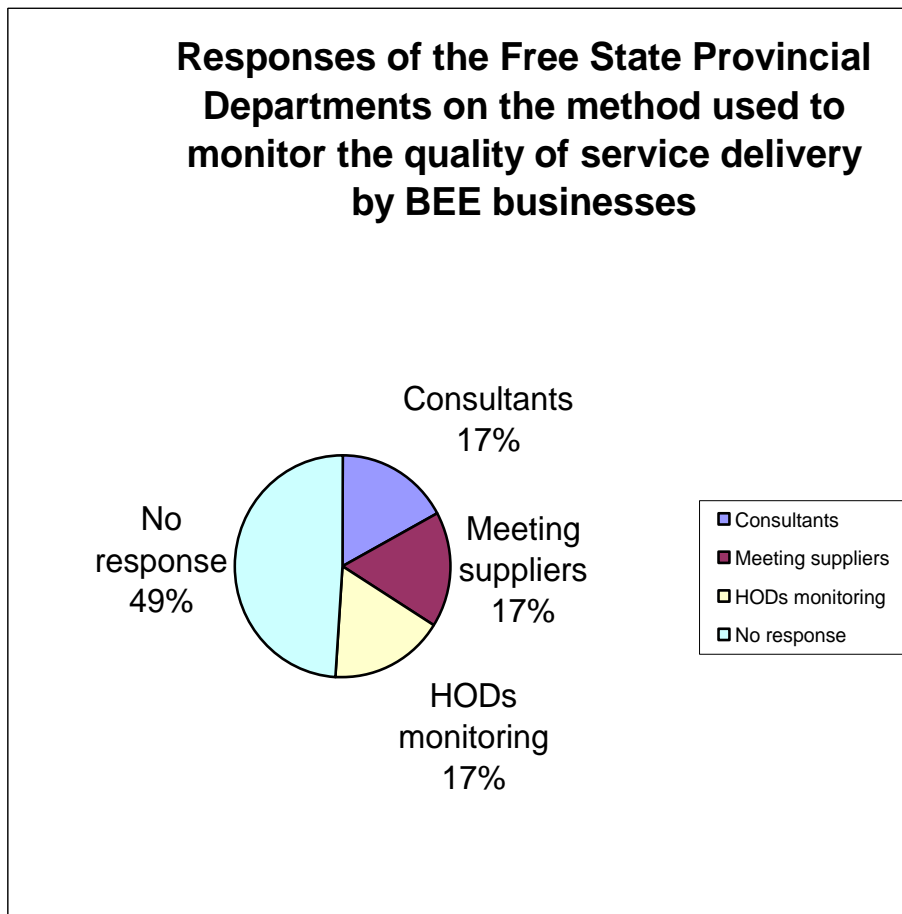
Figure 6



5.4.7 Monitoring of BEE businesses

The question on the monitoring of BEE businesses that have been awarded BEE contracts was asked to determine whether the departments monitored contracted BEE businesses. The departments were required to choose between three types of responses being not at all, sometimes and always. The responses of the departments to the question indicate that monitoring of BEE companies that have been awarded contracts was not done regularly. The departments were also required to indicate how contracted BEE businesses were monitored. The responses from the departments indicate that the departments monitored BEE businesses by means of the appointment of consultants and through meetings with service providers. Head of Departments were responsible for the monitoring of the quality of service delivery/goods and checking before payment was made. The responses of the departments to the question can be presented graphically as follows:

Figure 7



5.4.8 Policy on awarding of tenders and quotations

The question on the policy on awarding of tenders and quotations was asked to determine whether the departments have policies on the awarding of tenders and quotations. The responses of the departments indicate that all departments had policies on the awarding of tenders and quotations.

5.4.9 Method used to award tenders and quotations

The question on the methods used to award tenders and quotation was asked to determine the method the departments used to award tenders and quotations to successful bidders. The departments used the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) and their databases where BEE companies have been registered when tenders and quotations were awarded to successful bidders.

5.4.10 Number of tenders and quotations awarded to new tenderers

The question on the number of tenders and quotations awarded to new tenderers (tenderers being awarded tenders for the first time) was asked to determine the number of tenders the departments awarded to new BEE tenderers during the 2000 to 2006 financial years. The departments could not respond to the question for the 2000 and 2001 financial years. For the 2002 to 2005, one department indicated that it awarded four tenders per financial year to new tenderers whilst five did not respond. For the 2006 financial year, two departments awarded 205 tenders to new tenderers. One department indicated that 70% of tenders it awarded in 2006 were to new tenderers. One other department stated that it awarded 30% of its tenders in 2006 to new tenders. Two departments did not respond.

5.4.11 Obstacles impacting on the awarding of tenders and quotations

The question on the impact of obstacles on the awarding of tenders and quotations was asked to determine how the identified obstacles affected the departments during the tendering process. The obstacles that were identified for purposes of this research was corruption, fronting, poor business management, lack of skills, ill-prepared bids, not knowing tendering procedure and red tape. These obstacles have been identified and included in the questionnaire because of the negative impact they can have on the awarding of tenders. The responses of the departments on how the obstacles had affected them during the financial years under study, is presented in the following table:

Table 5

Corruption			Fronting			Poor business management skills		
Not Affected	Not clear	No response	Not affected	Affected	No response	Not affected	affected	No response
33%	17%	50%	67%		33%	17%	50%	33%
Ill-prepare bids			Tendering procedures			Red-tape		
Not	Affected	No	Not	Affected	No	Not	Affect	No

affected		response	affected		response	affected	ed	response
17%	66%	17%	0%	67%	33%	16.5%	16.5%	77%

5.4.12 Number of tenders/quotations that could not be completed

For the 2000 to 2005 financial years the departments could not respond to the question due to the fact that the departments did not use a BEE register. For the 2006 financial year, 30% of the departments indicated that they did have tenders and quotations that could not be completed but could not provide the number of such tenders and quotations. The reasons that led to the non-completion of work have been given as lack of capacity of BEE businesses in terms of finance, experience, poor business management skills, poor marketing skills, contributed to the non-completion of work.

5.4.13 Capacity building

Though the departments are not obliged to assist the BEE businesses in building their capacity, the success of BEE as a government program rests with government. The responses of the departments on the question on capacity building of BEE businesses shows that 50% of the departments used seminars, learnerships, assistance in the completion of bidding documents, periodic contracts and onsite assistance to build the capacity of BEE businesses. The rest of the departments indicated that they are not assisting BEE business in capacity building.

5.5 Summary of Findings

In this section, the findings of the study will be presented. The findings are based on the information obtained from Statistics South Africa regarding employment and unemployment of black people in the Free State. The findings are also based on the information obtained through a questionnaire from the South African Revenue Services regarding the registration of BEE companies for tax clearances and tax payments as well as the information collected from the Free State Provincial Government Departments.

□ BEE targets

Not all departments had BEE targets for the 2000 to 2006 financial years. If BEE had formed part of the Strategic Plans of the departments, it was going to be easy to check whether the departments had achieved the set BEE goals or not. Targets would have indicated the number of BEE companies the departments intend to contract for specific financial years. The departments that stated that they had BEE targets for the financial years under study could not provide information regarding the achievement of the targets.

□ **Budgeting for BEE**

Budgeting for BEE in this study refers to the amount of money that a department put aside specifically for BEE contracts. Not all departments allocated part of their budgets for BEE. The departments that had budget allocation for BEE contracts, had allocated 15% of their annual budgets.

□ **Tender and quotations awarding method**

In the awarding of tenders and quotations, the Free State Provincial Departments use the Preferential Procurement Policy Framework Act, 2000. The Preferential Procurement Policy Framework Act, 2000 is discussed in rubric 4 of this study. The Departments used their databases whenever tenders were awarded.

□ **Impact of corruption, fronting, poor business management skills**

Corruption did not affect all the departments. The impact of fronting on the awarding of tenders and quotations is not clear as the departments indicated that they were not able to detect it during the tendering processes. Poor businesses management skills of BEE businesses and red tape did not affect all the departments.

□ **Records of tenders of between R200 000 and R500 000**

For the financial years under study, not all departments could provide information on tenders between R200 000 and R500 000 that were awarded to BEE companies. Where the departments indicated that such records were made, it was difficult for the departments to avail such information because a BEE register was not used.

□ **Records of tenders and quotations not completed**

The departments do not have records of the tenders and quotations that could not be completed during the 2000 to 2005 financial years. For the 2006 financial year, 50% of the departments had such records. Finance and experience were identified as reasons that contributed to the contracted BEE businesses not completing their work.

□ **Sustainability of BEE businesses**

Poor quality of work, cash flow problems and the competition between the BEE businesses and the big companies, affected the sustainability of BEE businesses.

□ **Capacity building**

Not all Free State Provincial departments assisted the BEE businesses in building their capacity during the financial years under study. For the departments that assisted the BEE businesses in capacity building, it was in the form of seminars and learnerships.

6. RECOMMENDATIONS AND CONCLUSION

The following recommendations are based on the responses of the Free State Provincial Departments and the findings of the study.

□ Inclusion of BEE in Departmental Strategic Plans

The Free State Provincial Government Departments should include BEE in their departmental Strategic Plans. The inclusion of BEE in the Strategic Plans will be useful as the Departments will be able to monitor BEE implementation. The Strategic Plans will assist the national and provincial governments in tracking BEE progress. In including BEE in the Strategic Plans, the departments will be able to come up with BEE implementation strategy.

In the Strategic Plans, the Departments should set measurable BEE targets for themselves. The targets should be for the duration of the Strategic Plan. The Departments should set targets for themselves that need to be achieved annually. Targets are useful because the Departments will be able to measure their performance as far as BEE implementation is concerned. Without targets it is difficult for the Departments to measure themselves as far as BEE implementation is concerned.

□ BEE budget allocations

In their Medium Term Expenditure Framework budgets, the Free State Provincial Government Departments should make budget allocations for BEE. The Departments should determine how much they intend spending on BEE. Budget allocations will be helpful to the Departments because they will be able to determine how much money they spend on BEE annually.

□ BEE Records

BEE records can be useful to the Free State Provincial Government, and the National Government. BEE records will assist the Departments in monitoring their BEE progress. The Departments will be able to report their BEE progress to the Provincial Government. The BEE records will be helpful to the Provincial Government when reporting BEE progress to the National Government. The Free State Provincial Government Departments should use BEE registers where all tenders and quotations

awarded to BEE businesses during a financial year are recorded. The BEE records should show the frequency at which BEE businesses are offered BEE contracts. The records should also show new tenderers who are being given BEE contracts for the first time per financial year and those that have not been given tenders. The records should indicate the monetary value of tenders awarded to BEE tenderers. BEE records should show tenders that have not yet been completed.

□ **Disclosure of BEE businesses ownership**

In order to prevent fronting, the Department should come up with a tool that will make the BEE businesses to disclose their ownership. BEE businesses should be able to provide documents of their business management skills before being contracted.

□ **Capacity building programmes for BEE businesses**

The success of BEE depends on the capacity of BEE businesses. Though the Free State Provincial Departments are not obliged to assist BEE businesses in building their capacity, the departments should come up with capacity building programmes for them. These programmes should be continuous and binding to all BEE contractors intending to bid for tenders and quotations. Certificates should be awarded to participating BEE businesses as proof.

BEE cannot continue indefinitely. The National Government, the Provincial Governments and the Local Governments will one day have to bring BEE to an end. When that time comes, the national, the provincial and the local governments should be able to take stock of BEE progress. BEE as a special programme of government to empower black people, needs to be monitored and controlled. BEE needs to be regularly checked to ascertain whether it is still on track. BEE reporting should be regular. Records on BEE need to be kept. The National Government, the Provincial Government, and the Local Governments need to have statistics on the number of tenders and quotations awarded at a particular time and the monies involved. The National Government, the Provincial Governments and the Local Governments should have information on the frequencies at which tenders and quotations are awarded to BEE companies. They should have information on BEE companies that have not been awarded tenders and reasons for that should be provided. BEE

information should be readily available. Due to the Free State Provincial Government Departments not having BEE records, it is difficult to determine the impact of tenders and quotations the Free State Provincial Government awarded to BEE businesses during the 2000-2006 financial years had on black economic empowerment.

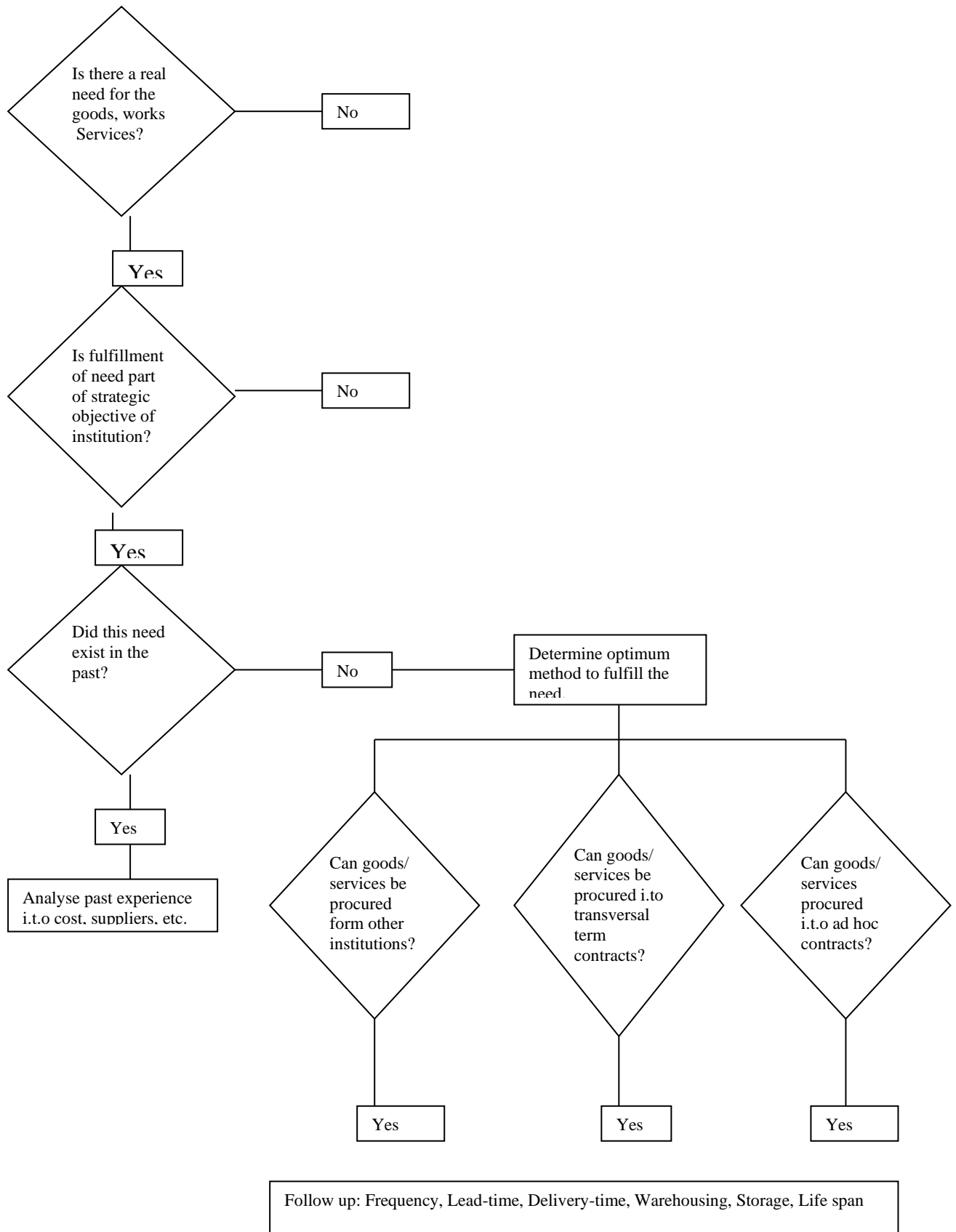
Annexure “A”

Revised Balanced 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			15%	
Skills development	Skills development expenditure as a proportion of total payroll			15%	
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			15%	
Residual 10%					
Socioeconomic development				5%	
Total Score out of 100%					

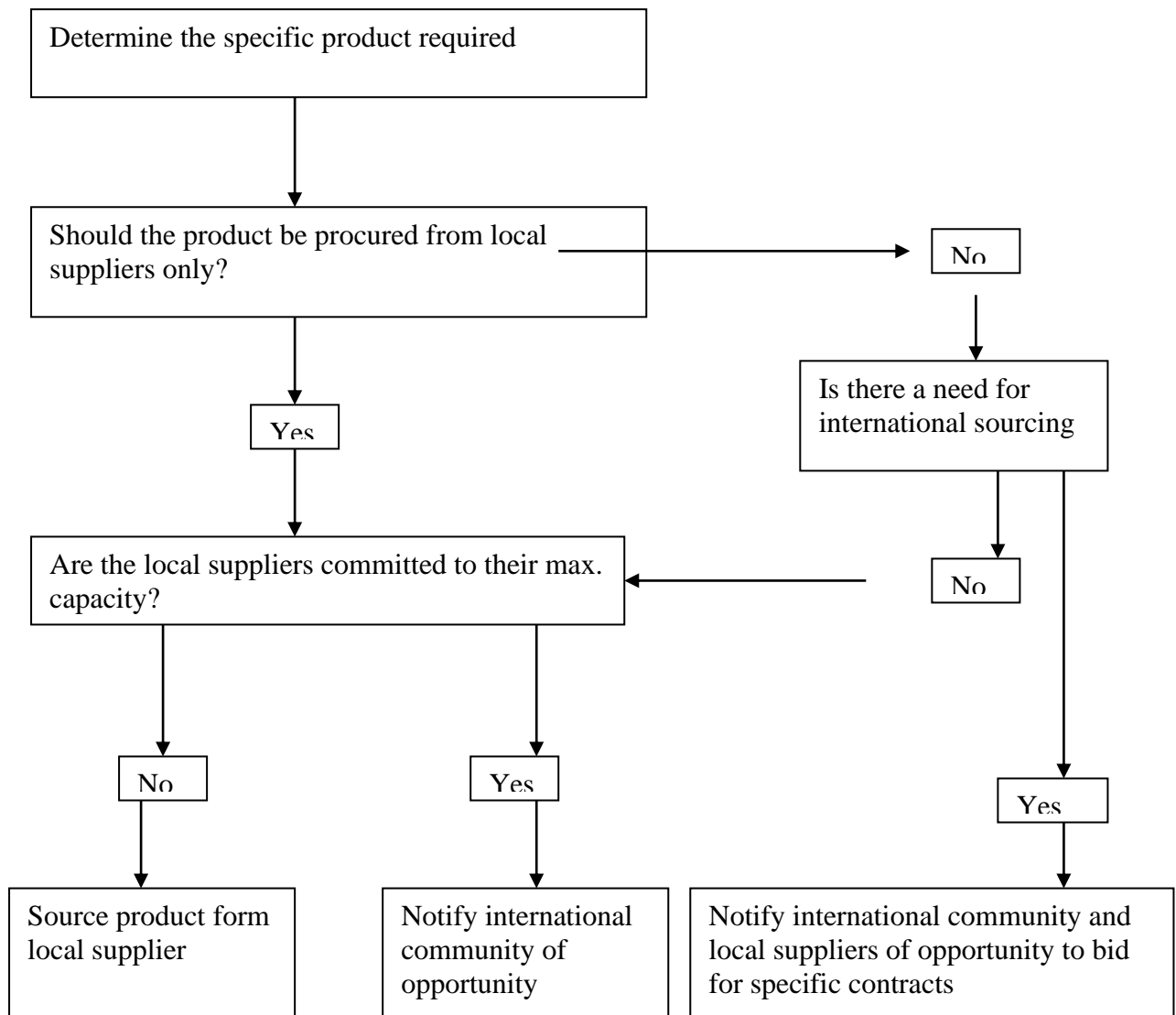
Annexure “B”

Flowchart of the demand management process



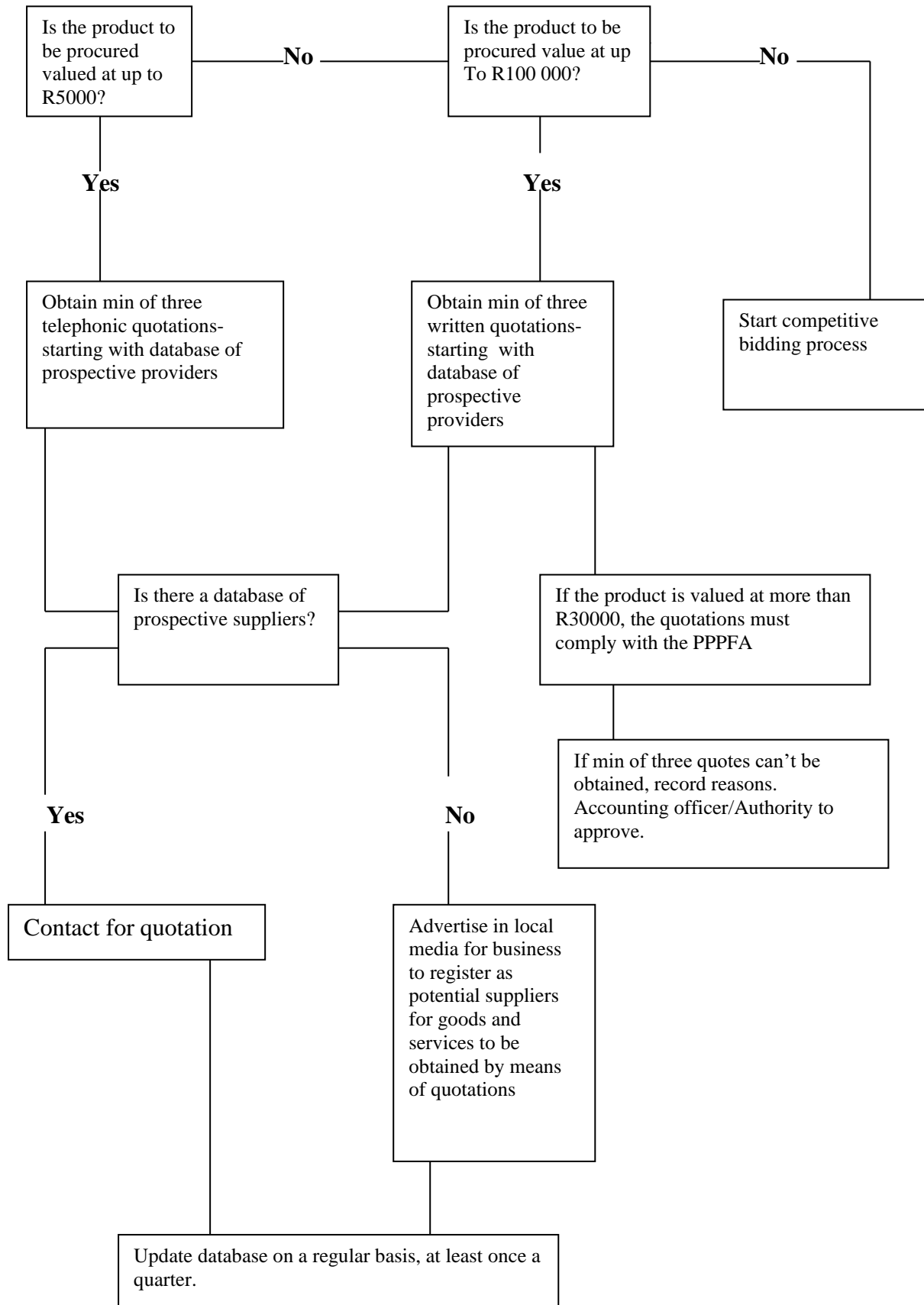
Annexure “C”

LOCAL VERSUS INTERNATIONAL SOURCING



Annexure “D”

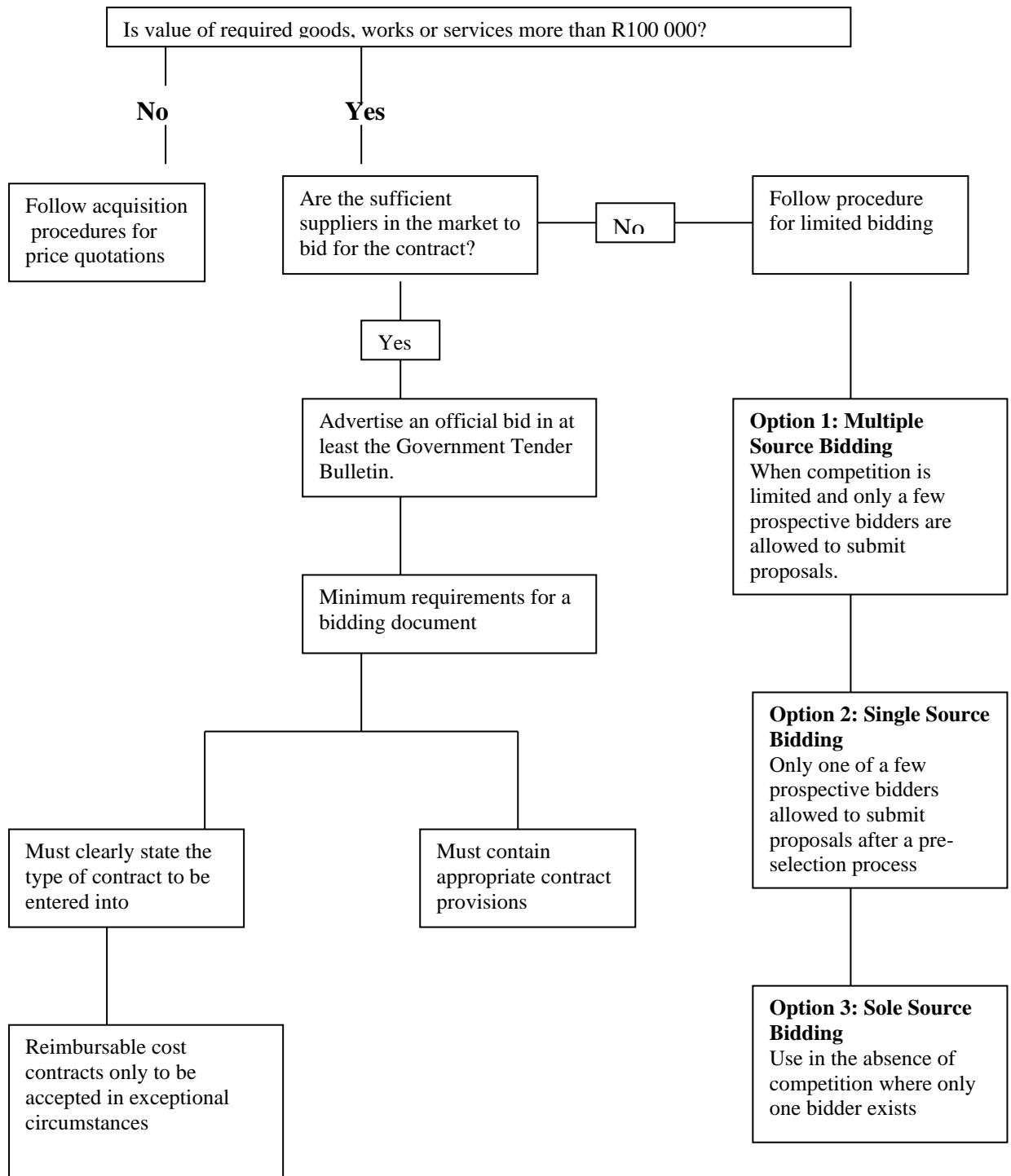
ACQUISITION PROCEDURES FOR PRICE QUOTATIONS



Annexure “E”

ACQUISITION PROCEDURES FOR COMPETITIVE BIDDING

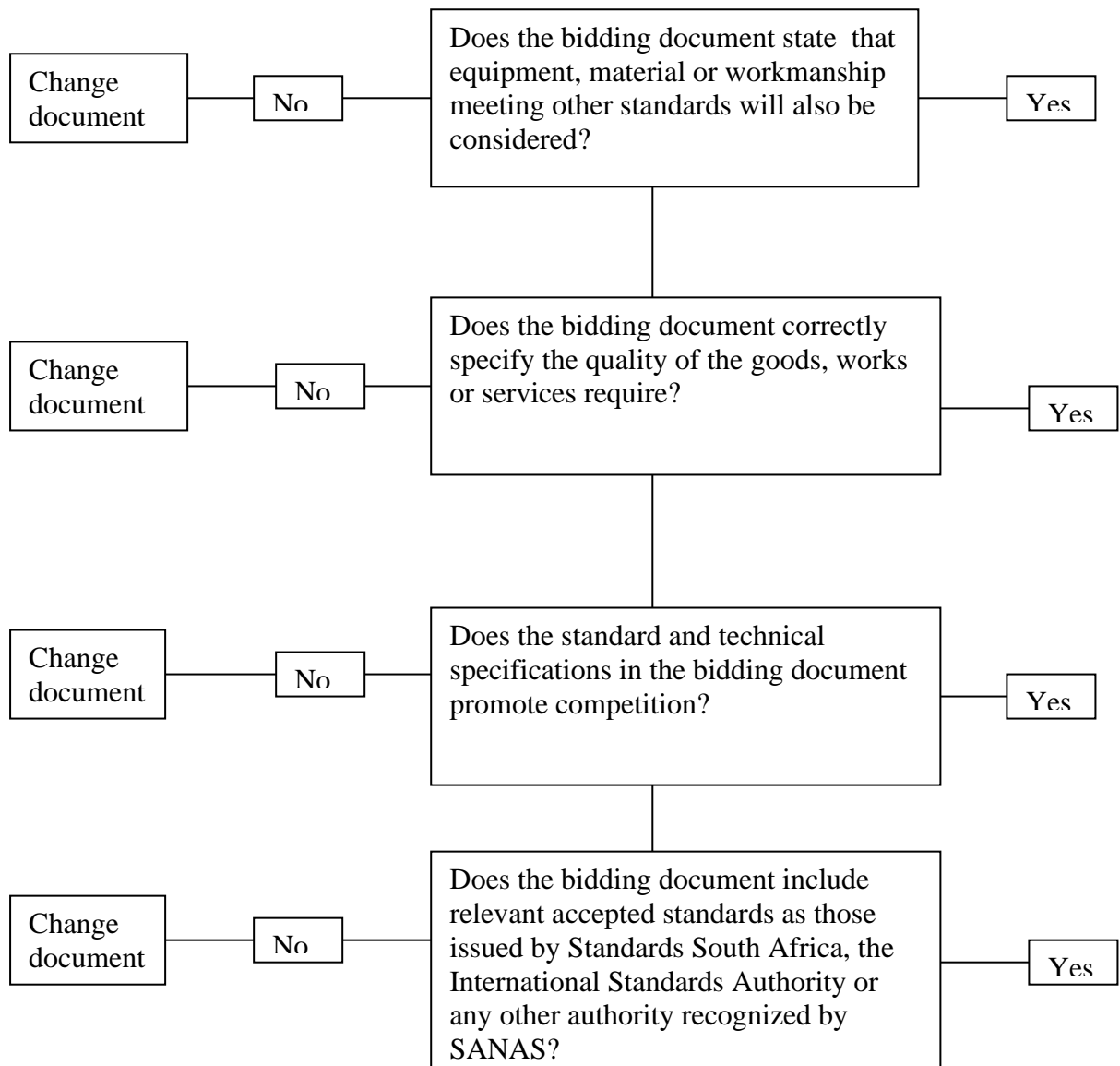
Objective: To provide all prospective bidders with timely and adequate notification of an institution’s requirements and an equal opportunity to bid for the required goods, works or services.



Annexure “F”

STANDARD SETTING

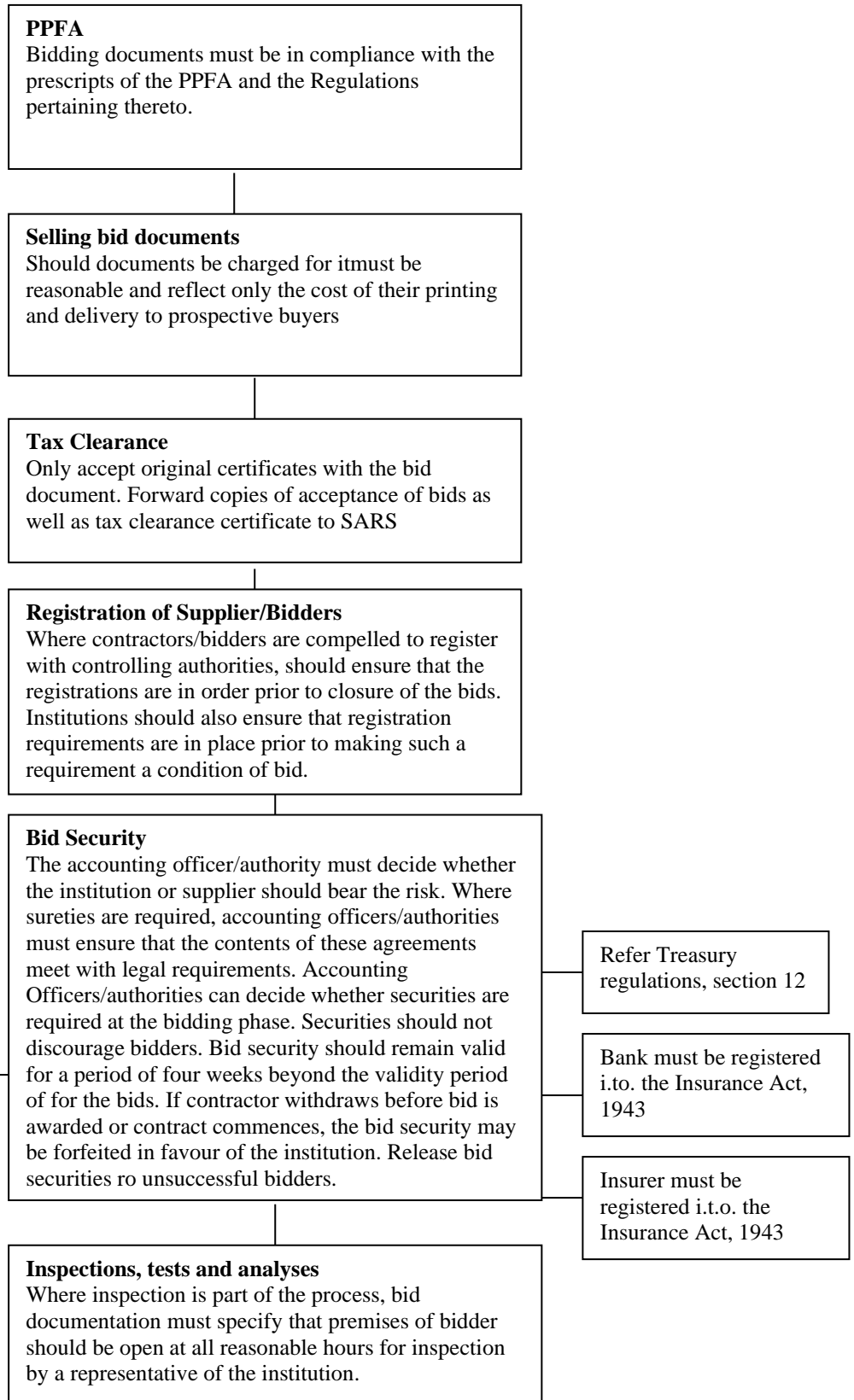
Bidding document should ensure that all prospective bidders have an equal opportunity in being awarded the contract. As such, it should ensure that the bidding document is very specific and clear and that little is left to the interpretation of the applicant. The following check list could be used to assist in this regard.



Annexure “G”

CONDITIONS OF THE BID

All contracts must be based on the General Conditions of Contract (GCC), issued by the National Treasury.



Annexure “H”

CONDITIONS OF THE BID, continued

Use of brand names

Avoid reference to brand names, catalogue number or similar classifications.
If unavoidable add ‘or equivalent’ after such reference.

Pricing-General

Bidders must quote unit prices or lump sum prices.
Price must include all duties, taxes, percentage fees for cost re-imbursable contracts and other levies.

Pricing-Turnkey contracts

Bidders must quote price of installed plant at site, including all costs for supply of equipment, marine and local transportation and insurance, installation and commissioning as well as associated works and all other services included in the scope of contract such as design, maintenance, operation, etc. Should include all duties, taxes and other levies.

Price-adjustment due to escalation and fluctuation in ROE

The accounting officer must decide whether to allow for price adjustment as part of the contract.
Price adjustment should be specified in the bid documents, including formula and time frames at which intervals such price adjustments should be considered.

Annexure "I"

Bid Invitation of Department of Local Government and Housing: Free State Provincial Government: Sunday Times (7 January 2007)

Free State Province
Department of Local Government and Housing
CALL FOR PROPOSALS

1. BIDS ARE INVITED FOR THE FOLLOWING PROJECTS

No.	BIDS CALLED FOR	BID NUMBER
1	Revenue collection mechanisms for Xhariep District.	LGH 29/2006/2007
2	Hands-on-technical support for municipalities on implementing the Performance Management System (PMS) and assisting administrative and political leadership in implementing the system	LGH 30/2006/2007
3	Impact Assessment Study on local government matters	LGH 31/2006/2007
4	Event management for the Local Government Debt Collection Summit	LGH 32/2006/2007
5	Monitoring evaluation and quality control of all infrastructure projects	LGH 33/2006/2007

2. BIDS DETAILS AND SPECIFICATIONS

a. Bid documents will be available in Room 1007, Lebohang Building, Corner of Markgraaf & St Andrews streets, Bloemfontein, from 15 January 2007, 07:30 - 16:00 at a cost of R 200 per Bid document, non-refundable.
Mr R.B. Masia can be contacted on 051 403 3319

3. FORWARDING ADDRESS FOR BIDS AND CLOSING DATE

Bids must be packaged individually and clearly numbered according to their relevant Bid numbers e.g. LGH 7/12/2004/2005 and deposited in the Bid Box in the lift foyer, 7th Floor Lebohang Building, Cnr Markgraaf & St Andrew Streets, Bloemfontein for attention of R.B. Masia.

CLOSING DATE FOR ALL BIDS: 31 January 2007, at 11:00am

4. THE DEPARTMENT RESERVES THE RIGHT TO ACCEPT OR REJECT ANY PROPOSAL.

Prospective bidders must comply with all bids conditions
 The adjudication of bids will be based on the following criteria: Points will be allocated according the following points system:

BID Numbers	Price	Equity
3 & 4	80 points	20 points
	50% will be allocated for functionality	Free State Based 4 points No Franchise 16 points
1 & 2 & 5	90 points	10 points
	50% will be allocated for functionality	Free State Based 2 points No Franchise 8 points

5. Briefing session

All prospective bidders must attend a compulsory session on 24th January 2007 at 10H00 in Louis Botha Hall, Lebohang Building, Cnr Markgraaf and St Andrews Street, Bloemfontein.

5.1 **Time for specific briefing sessions are as follows:**

- 10h00-10h30: Revenue collection mechanisms for Xhariep District. Bid: **LGH 29/2006/2007**
- 10h45-11h15: Hands-on-technical support for municipalities on implementing Performance Management System (PMS) and assisting administrative and political leadership in implementing it. Bid number: **LGH 30/2006/2007**;
- 11h30-12H00 for Bid to Conduct Impact Assessment Study. Bid number: **LGH 31/2006/2007**
- 12H15-12H45 for Bid to appoint an events management company for Local Government Debt Collection summit 2007. Bid number: **LGH 32/2006/2007**
- 13H00 - 13H30: Monitoring evaluation and quality control of all infrastructure projects. **LGH 33/2006/2007**

6. Queries

Queries on any of these advertisements could be forwarded to:

Mr Petrus Botha on Tel 051-407 6703 or 072 077 6005 or Fax: 051-407 6732. Bid: **LGH 29/2006/2007**
 Mr Lesley Khiba on Tel 051-407 6714 or, 051-407 6732, for Bid number **LGH 30/2006/2007**
 Mr Lesley Khiba on Tel 051-407 6700, 0795177028, or Fax 051-407 6732, for Bid number **LGH 31/2006/2007**
 Ms Matseleng Mbele on Tel. 051-407 6721, 083 509 1032 or Fax 051-407 6732, for Bid number **LGH 32/2006/2007**

Alternatively you can contact (Mongezi Mabozo and Bertus Coetzee) at 051 407 6727 or 051 407 6713 for Bids numbers 1 to 4.

Mr Sheppard Gadzikwa on Tel 051-407 6775, 0836773656, or Fax 051-407 6779, for Bid number **LGH 33/2006/2007**

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