

The use of Targeted Procurement as an Instrument of Poverty Alleviation and Job Creation in Infrastructure Projects

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1. Introduction

Expenditure in any sector of a nation's economy will create employment opportunities. Some industries for a given capital flow are more efficient at generating employment opportunities than others. Industries where the potential for the effective substitution of labour for capital equipment and local resources for imports exist, can expect to achieve enhanced performance in the provision of employment opportunities.¹

The construction industry is an efficient industry for generating employment for a given capital flow. For this reason it is frequently targeted for employment and poverty alleviation programmes. Work on construction projects is temporary by its very nature. It nevertheless generates significant opportunities for unskilled and semi-skilled workers. Although the jobs which are created thereby are not necessarily permanent, the total volume of work available to the poorer sectors of society is increased.

The choice of technology and construction method has a marked influence on the number of employment opportunities which are generated and where such employment is located. Internationally it has been recognised that small scale enterprises are more liable to choose employment intensive solutions rather than large scale enterprises and that the location of construction activities in the hands of small scale contractors places a significant portion of the expenditure in the hands of the local communities. Furthermore, small scale enterprises are increasingly seen as the creators of new jobs and are regarded as being particularly effective in the economic implementation of employment intensive activities. Thus initiatives aimed at small scale enterprises facilitate employment creation.

The Development Policies Department of the International Labour Organisation (ILO) suggest that "employment-intensive works programmes should lead to the development of local productive capacity, through cost-effective instruments targeted at the poor and be placed in the perspective of longer-term economic growth. Investment policies should then be steered toward employment creation and social objectives, and most importantly, be accompanied by measures to ensure cost-effectiveness, quality results and local capacity building in both public and private sectors".² This article suggests that Targeted Procurement (www.targetedprocurement.com), a system of procurement which has been developed in South Africa, can be an important instrument of government policy in infrastructure projects.

2. Background

Implementation mechanisms

In several countries in Africa and Asia long term national programmes of labour-intensive road construction and maintenance have been established. These national programmes have resulted in the creation of employment and the efficient production of as good a quality of construction and maintenance as is allowed by the funding available. This has usually, however, been executed on a pilot project basis. These programmes have resulted in the development and establishment of the skilled personnel required to supervise the site works, to liaise with the beneficiary communities and to plan and administer these programmes.

¹ Watermeyer RB. Job creation in Public Sector Engineering and Construction Works Projects : Why, What and How? Commonwealth Engineers' Council 50th Anniversary conference, : Engineering to survive - human shelter and the relief of poverty : sustainable solutions, Fourways, South Africa, August 1997.

² Tajman D and de Veen J. Employment Intensive Infrastructure Programme : Labour policies and practices. Development Policies Department, International Labour Office, Geneva, 1998.

The World Bank has recently completed a comprehensive report which identifies six basic delivery/implementing mechanisms³, viz.:

- I The **force account model** ("in house" workforce) whereby a government body hires labour directly (either as individual workers or as worker teams) and provides the necessary supervision, administration and management required to execute the works.
- II The **conventional model** whereby a conventional contractor hires labour directly and provides the supervision, administration and management required to execute the works.
- III The **sub-contracting model** whereby a large contractor or firm sub-contracts the portions of the projects that are labour-based to small contractors and assumes overall responsibility for the supervision, administration and management required to execute the works.
- IV The **government-run model** whereby the responsibility for all aspects of contractor development, including small contractor administration and payment, and the overall responsibility for the supervision, administration and management required to execute the works, lies with a government agency.
- V The **agency model** whereby the responsibility for all aspects of contractor development including small contractor administration and payment and the overall responsibility for the supervision, administration and management required to execute the works, lies with an independent non-profit management agency or with a for-profit consulting firm.
- VI The **development team model** whereby the responsibility for all aspects of contractor development and the management of the works is divided amongst the Client Body (Employer), a Construction Manager and a Materials Manager.

Models II and III promote the use of labour-based construction practices amongst established contractors; models IV to VI promote the expansion of such methods among small-scale contractors. Model V is commonly encountered in French speaking nations in West Africa where it is referred to as the Agetip model (non-profit contract management agency). Generally, model IV involves fixed rate contracts. Model VI was developed in South Africa and pioneered through Soweto's Contractor Development Programme.⁴ It is sufficiently flexible to be used either to develop and support small scale contractors, particularly in the early stages of their development, or to implement "labour pool worker programmes" in the same manner as is done in the force account model, but with private sector firms (construction or consulting) assuming responsibility for the supervision, administration and the management of the labour, and the risk of cost overruns or failure to achieve the required quality or programme objectives being shared between the parties.⁵

In force account operations (Model I), government has direct control over the outcomes of employment-intensive projects and is at risk for any failure to achieve programme objectives. The Government's control over the works in all the other models is, however, diminished. Its risk of failure in these models is reduced, the extent of which is dependent upon the model which is selected. The total project costs of each of the models which involve the private sector is in turn directly related to how risk is managed and assigned to the contracting parties and the nature and complexity of the work involved.

The engagement of small scale contractors in construction contracts

Construction can be regarded as the synthesis of the following⁶:

- I Construction management

³ Stock E and de Veen J. Expanding Labour-Based Methods in Road Works in Africa : Approach Paper. World Bank Technical Paper no 347, Washington. 1996.

⁴ Watermeyer, RB and Davis, AD. Professional support structures employed in community-based construction projects in Soweto. IMIESA Journal, May 1993.

⁵ Watermeyer RB and Band NG. The development of Small Scale Enterprises, Skills, Entrepreneurship and Employment Opportunities through the Provision of Housing. National Housing Forum, Johannesburg, November 1994.

⁶ Watermeyer RB, Gounden SM, Letchmiah DR and Shezi S. Targeted Procurement : a means by which Socio-Economic objectives can be realised through Engineering and Construction Works Contracts . JSA Inst Civ Eng, March 1998.

- ! Materials management
- ! Materials supply
- ! Plant and equipment
- ! Labour

Employment-intensive construction is by nature management-intensive and requires that all the aforementioned functional activities be addressed in a project. This is true irrespective of whether or not the construction work is executed by means of force account or large or small scale contractors. Contractors, as is the case with labour units established within governmental agencies, need to have administrative, managerial and technical skills. In addition contractors, if their businesses are to be sustained, need to have commercial skills. Small contractors, particularly newly established businesses, frequently have limited skills and are unable to control cost, time and quality on their projects. Models IV to VI are structured to address these problems.

Numerous pilot projects in a number of countries, using the abovementioned implementation methods, have demonstrated that providing adequate controls and management are put in place, direct labour and small scale contractors can successfully execute labour-based/employment-intensive projects. The challenge, however, lies in expanding these pilot projects into major programmes which can make a significant impact on the employment problem or program objectives.

Many of the aforementioned models attempt to develop small scale contracting capacity to effect employment-intensive works which may previously have been executed using the force account model. Frequently the development of small scale enterprises is seen as a means of expanding programmes in a manner which reduces the management, supervisory and administrative burden placed on government's in-house resources and the risk exposure of cost overruns on programmes.

The quantum of work which can be executed by small contractors in terms of models IV to VI on works of a relatively complex nature, or which have significant specialist or high equipment components, is limited as the breaking down of projects into small contracts is not always justifiable from either a cost or management point of view owing to:

- the division of responsibilities, interdependence of activities, programming, duplication of establishment charges and utilisation of resources
- the lack of skilled management resources;
- the general lack of commercial skills in small scale enterprises; and
- the increased administration of such contracts by public bodies and their agents.

As a result, the use of large scale contractors to engage more labour or to subcontract to small scale contractors has been reconsidered. Unfortunately, onerous conditions have frequently been imposed on contractors which in many instances has impaired their performance and ability to efficiently and effectively deliver infrastructure. This has often translated into increased construction costs and a concomitant erosion of the total volume of potential employment which can be realised through construction projects. In extreme cases, conventional equipment-based construction may have yielded more employment opportunities for the same amount of expenditure.

An alternative strategy

The conventional approach which has generally been adopted in Models II and III has accordingly needed to be re-engineered. An innovative new approach to procurement which addresses the current short comings of Models II and III has been developed in South Africa, viz Targeted Procurement. Targeted Procurement enables Models II and III to be efficiently and effectively implemented with minimal interference on a contractor's ability to perform.⁷

⁷ Watermeyer RB. Mobilising the Private Sector to engage in Labour Based Infrastructure Works : A South African Perspective. Sixth Regional Seminar for Labour Based Practitioners. International Labour Organisation . Jinja, Uganda, September 1997.

3. The use of public sector procurement as an instrument of social policy

Introduction

Marginalised (disadvantaged) people may be found in most societies. Marginalisation is often a result of the denial of access to both employment and business opportunities, based on factors such as gender, race, religion, ethnicity, age and disability. Marginalisation invariably results in disparities in rates of employment and in a skewed distribution of wealth within a nation. This is frequently of concern to governments. Poverty alleviation and job creation is often regarded as being a responsibility of a government. Growth in an economy frequently, but not always, leads to the creation of jobs. Governments are often called upon to address unemployment and underemployment in a visible manner, particularly where growth in the economy is slow or negative.

The approach over the past few decades in achieving socio-economic objectives through construction projects in developing countries has been to establish special programmes. For example, the International Labour Organization and the World Bank have been involved, since 1970, in employment programmes for rural road construction which have sought to substitute labour for equipment in a cost effective manner. Special programmes have, however, only a relatively small impact on the economy as a whole. Expenditure on such programmes is usually only a small fraction of public sector expenditure.

Economic activity is required to provide employment and business opportunities in any given community, albeit marginalised or not. Such activity may be initiated by either the private or public sector, or by the community itself. The private sector may use its own funds, should it, for business reasons or in terms of social responsibility programmes, elect to pursue social objectives for specific communities on its capital projects or consumption needs. Alternatively, governments may offer incentives, such as tax breaks, to encourage this sector to do so. These measures, however, invariably lead to a loss in revenue and require funding for their administration. Governments, on the other hand, may set out to embrace these objectives in a direct manner on some or all of their publicly funded and capital works projects, or may provide seed capital for marginalised communities to do so. In some instances, governments may link social objectives to their procurement needs.

Governments in developing countries, because of budgetary constraints, are often not able to make funds available to communities or to accept a loss in revenue for such purposes. At the same time, governments are often reluctant to increase the size of their own staff to construct and maintain new assets. In such circumstances, the only viable option available is to use procurement as an instrument of policy.

Public sector procurement, if used as an instrument of policy, can, because of its size, have a significant impact on the economy as a whole. For example, procurement by public bodies and nationalised industries in the United Kingdom in 1984 was found to account for approximately 22% of Gross Domestic Product⁸; a recent study conducted in the European Union revealed that civil public procurement in the public sector and certain major utilities accounts for about 11% of EU Gross Domestic Product⁹; and public sector procurement (national and provincial departments and local authorities only) in a developing county such as South Africa was found in 1996 to be 13% of Gross Domestic Product¹⁰.

The use of public sector procurement as an instrument of government policy to achieve certain socio-economic objectives.

A study undertaken for the European Community in 1995 cites five principle domestic (as distinguished from foreign policy) socio-economic or political functions which public sector

⁸ Arrowsmith S. Public Procurement as an instrument of policy and the implementation of market liberalisation. The Law Quarterly Review, pages 235 to 284. April 1995.

⁹ European Commission, The Single Market Review; volume 2 Public Procurement (1997).

¹⁰ Ministry of Finance and Public Works (1997). Green Paper on Public Sector Procurement Reform in South Africa. Government Gazette no 17928, 14 April, Pretoria.

procurement may be used to achieve, in addition to obtaining the required goods and services. These are ¹¹:

1. to stimulate economic activity;
2. to protect national industry against foreign competition;
3. to improve the competitiveness of certain industrial sectors;
4. to remedy regional disparities;
5. to achieve certain more directly social policy functions such as to foster the creation of jobs, to promote fair labour conditions, to promote the use of local labour, to prohibit discrimination against minority groups, to improve environmental quality, to encourage equality of opportunity between men and women, or to promote the increased utilization of the disabled in employment.

However, the use of procurement as an instrument of policy is not without controversy and questions have been raised regarding its legitimacy and effectiveness. All too often, the beneficial effects of policies which are promoted through procurement is doubtful or minimal. Even where benefits can be achieved, these must be weighed against the cost of doing so through procurement, either in terms of a price premium or a compromise on other matters such as time or quality. Enforcement costs must also be considered. ¹² There has in fact been limited research on and a lack of data regarding most programmes to demonstrate the effectiveness of the use of procurement as an instrument of social policy. Frequently, deliverables are ill defined or vague and requirements are not quantifiable or measurable. As a result, the auditing and verification of the effectiveness of the use of procurement as a means to an end is simply not possible.

What has been needed is a cost effective procurement system which provides, encourages and promotes a government's socio-economic objectives in a definable, quantifiable, measurable, verifiable and audible manner, within a fair, equitable, competitive, cost effective and transparent environment, without:

- ! over-taxing the administrative capacity of government;
- ! creating unfair competition within sectors of the economy;
- ! abusing or lowering labour standards;
- ! exposing government to unacceptable risks;
- ! compromising value for money; or
- ! compromising the efficiency and effectiveness of the private sector in their ability to deliver.

Models for the use of public sector procurement as an instrument of social policy

Several models for public sector procurement interventions, based largely on country specific procurement regimes and requirements, have evolved. Procurement interventions for enterprises have usually involved one or more of the following ¹³:

- a price preferencing policy (certain enterprises are granted direct price preferences over their competitors);
- set asides (a specified market segment or sub-segment is set aside for particular enterprises);
- a step-in mechanisms (certain enterprises are granted the opportunity to step in once the cheapest bid has been established provided that they match the terms and conditions of this bidder); or
- the prescribing of fixed contract participation goals (a fixed percentage of the contract price, wherever possible, must, in terms of the contract, be contracted out to specified enterprises).

Procurement interventions on infrastructure contracts which have sought to increase employment have involved:

¹¹ McCrudden, C. Public Procurement and Equal Opportunities in the European Community. A study of contract compliance in member states of the European Community and under European Community Law. Contract File No. SOC 9310257105B04, Oxford University, 1995.

¹² Watermeyer RB, Gounden S, Letchmiah DR and Shezi S. Targeted Procurement : a means by which Socio-Economic Objectives can be realised through Engineering and Construction Works Contracts. JSA Inst Civ Eng, March 1998.

¹³ Gounden SM. The Impact of the National Department of Public Works' Affirmative Procurement Policy on the Participation and Growth of Affirmable Business Enterprises in the South African Construction Sector. Phd Thesis, University of Natal, 2000.

- the prescribing of the amount of the contract price which is to be spent on labour (a fixed percentage of the contract amount must, in terms of the contract, be spent on labour); or
- the prescribing of specific employment-intensive technologies and methods of construction / manufacture (contractors are, in terms of the contract, restricted in their use of plant and equipment and / or are compelled to employ specific technologies / construction methods in order to maximise the use of relatively unskilled, local labour)¹⁴.

The above mentioned prescriptive instruments available to governments are not necessarily efficient. These instruments can constrain the private sector in its ability to deliver and can therefore impact negatively on the time, cost and quality aspects of a contract. Competition within protected markets does not necessarily translate into competitiveness in non-protected markets. The "hidden costs" such as those to administer such schemes and the difference between obtaining the works by the most cost efficient means using for, example equipment-based methods and/or economy of scale (which at best are extremely difficult to assess), can be significant and are most often conveniently ignored. Any cost increases in construction projects not accompanied by the same or better percentage increases in expenditure on labour, will result in the loss of jobs.

An alternative option is to set goals and to offer benefits for achieving, or improving upon such goals. A practical way of doing this is to establish a goal or a target that is to be met in order to achieve socio-economic objectives ("deliverables"). These deliverables should, however, be:

- clearly definable to make them contractually enforceable;
- measurable and quantifiable to allow them to be monitored and evaluated; and
- verifiable and auditable to satisfy public sector requirements for transparency.

Targeted Procurement, a system of procurement which has recently been developed, provides a framework within which:

- goals can be set, monitored and evaluated;
- the scales are tipped in favour of the targeted group;
- incentives can be provided for contractors to embrace a government's socio-economic objectives in the performance of the contract; and
- meaningful participation of targeted groups can be secured.

Targeted Procurement was developed in South Africa, where procurement is regulated by that country's constitution.¹⁵ As a result, Targeted Procurement enables socio-economic objectives to be achieved in a fair, equitable, transparent, competitive and cost effective manner. Targeted Procurement, without resorting to set asides and being prescriptive, enables procurement to be readily used as an instrument of social policy by public bodies both on a large scale and in a focused manner. This it does without compromising the aforementioned requirements for a cost effective and practical procurement system.

The remainder of this article will now consider this system of procurement in further detail.

4. Targeted Procurement: an overview

Targeted Procurement provides employment and business opportunities for marginalised / disadvantaged individuals and communities – referred to as the "Target Groups". It enables social objectives to be linked to procurement in a fair, transparent, equitable, competitive and cost effective

¹⁴ Watermeyer R.B. 1997. Job creation in public sector engineering and construction works projects : why, what and how ? Commonwealth Engineer's Council 50th Anniversary Conference : Engineering to survive - human shelter and the relief of poverty : sustainable solutions. Fourways, South Africa, August .

¹⁵ Section 217(1) of the Constitution of the Republic of South Africa (Act No. 108 of 1996) reads as follows:

"When an Organ of State in the national, provincial and local sphere of government, or any other institution identified in national legislation, contracts for goods and services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective."

manner. Targeted Procurement also permits these social objectives to be quantified, measured, verified and audited.

Targeted Procurement, through a variety of techniques, provides opportunities for participation by targeted enterprises, even to those who may not have all the necessary resources, capacity or expertise to perform contracts in their own right. This is done in a manner which does not guarantee contracts to such enterprises. On small contracts having a value below a predetermined financial threshold, direct preferences are accorded to targeted enterprises to tip the scales in their favour. On contracts above a financial threshold, bidders are required to compete on the basis of both that which is to be constructed or maintained (the product) and the social benefits which target groups (business for targeted enterprises and / or employment for targeted labour) may derive in the execution of the contract (social deliverables).

Technical specifications are used to define the product and to set out the acceptance criteria relating thereto. Resource specifications are used to define social deliverables and the acceptance criteria relating thereto. These specifications not only define the social deliverables which are to be realised in the process of delivery, but also set out the manner in which they can be achieved, measured and monitored. They accordingly enable bidders to quantify the social deliverables which they are prepared to offer during the bidding stage of the procurement process and allow those who administer contracts to audit and verify that such deliverables were in fact delivered in the performance of the contract. Contracts are usually awarded to the most advantageous offer, based on a balance between the tendered price and the tendered deliverables in respect of targeted groups. Sanctions are applied to contractors who, in the performance of their contracts, fail to deliver their contracted social deliverables.

The Targeted Procurement approach of making the social benefits just one of the criteria relevant to the contract award, which must be balanced against other criteria (such as price and quality) ensures that social benefits are obtained with the minimum possible costs to the government. It can also restrict any potential financial premium to within predetermined limits. Furthermore, contractors can be given the flexibility to decide exactly how the targeted groups will be used, rather than the government deciding itself the way in which those groups should be involved. (This has been the case with some public procurement policies in some countries). This enables governments to make use of private sector expertise and knowledge of the markets concerned to use the targeted groups in the most effective way possible.

Targeted Procurement also promotes business linkages between large and small scale enterprises. Such linkages are not, however, confined to physical construction activities but extend into service provision, materials supply and manufacture, transportation etc. Targeted Procurement is sufficiently flexible to be used in goods, services and engineering and construction works contracts.

In South Africa, Targeted Procurement has been used mainly to target those groups of society that were disadvantaged under the apartheid system. It has however also been used within South Africa to support local economic development, to promote growth within the small business sector and to target the unemployed in poverty alleviation programmes. However, it is important to emphasise that this kind of approach can be used by governments to target any kind of community or group or used to underpin a range of socio-economic policies; for example, it is recognised in Namibia as being one of the key implementation strategies for a labour-based works policy¹⁶.

5. Targeted procurement: how it works in practice

Introduction

The output of any conventional procurement system is the acquisition of goods, services or works, the disposal of property, the letting of property and facilities and the granting of rights. The Targeted Procurement system is no different to conventional procurement in this respect. It, however, results in addition in specific social benefits. The targeting of "who ought to benefit" is brought into the procurement process in a regulated manner.

¹⁶ Namibian Government. White paper on labour-based works. 1998

Targeted Procurement is usually activated within conventional procurement systems through the use of resource specifications, the award of contracts in terms of a development objective/price mechanism and the classification of contracts. Targeted Procurement enables Targeted Enterprises and Targeted Labour to participate in contracts.

Small and medium enterprises can be targeted in a generic or area bound (localised) basis. Generic targeting, in turn, can target either all small scale enterprises within a country, or small scale enterprises within demarcated political boundaries or with specific ownership and control by disadvantaged persons eg women. Individuals can be targeted for employment on works and services contracts on the basis of gender, race, ethnicity, locality, age, disability, period of unemployment, etc. Targeted Enterprises, depending upon the targeting strategy which is adopted, can be engaged in the performance of contracts as prime contractors, joint venture partners, subcontractors, suppliers, service providers and manufacturers. Targeted Labour can be engaged as either employees or contract (project specific) workers.

Resource specifications

A specification is a procurement document which defines in a comprehensive, precise and verifiable manner, the essential characteristics of a deliverable. In the conventional procurement system, contract deliverables relate to outputs such as products, goods and assets. Technical and management specifications are used to define these deliverables.

In the Targeted Procurement system resource specifications are used to measure, quantify, verify and audit the engagement by a contractor of Targeted Enterprises and/or Targeted Labour in the performance of a contract. These specifications are accordingly used to measure socio-economic deliverables and are used in contracts together with technical and management specifications.

Resource specifications:

- define the required socio-economic deliverables (resource goals ie the percentage of the contract price which represents the participation of Targeted Enterprises and/or Targeted Labour in the performance of a Contract);
- set out the methods by which deliverables may be obtained and verified; and
- determine the means by which progress towards the attainment of the deliverables are to be quantified at discrete intervals.

Resource specifications enable goals (targets) for the engagement of Targeted Enterprises and Targeted Labour to be set in a quantifiable, measurable and auditable manner. As such they set the framework within which the prime or main contractor structures and marshals his resources in the performance of a contract and require such contractors to do one or more of the following:

- “unpack” or “unbundle” their contract into smaller contracts in order to procure the services of Targeted Enterprises;
- engage with Targeted Enterprises as joint venture partners; and
- structure their resources to provide work for Targeted Enterprises and /or Targeted Labour

The following standardised resource specifications (international and South African) have been developed and published by the South African government (see www.pwdprocure.co.za):

- TP1: Targeting of Affirmable Business Enterprises¹⁷;
- TP2: Structured Joint Ventures (Affirmable Partners);
- TP3: Structured Joint Venture (Targeted Partners);
- TP4: Targeting of Local Resources;
- TP5: Engagement of Targeted Labour; and
- TP6: Targeting of Affirmable Professional Service Providers

¹⁷ The Oxford Dictionary defines “affirm” as to “assert strongly”. An Affirmable Business Enterprise may accordingly be regarded as a business which is to be affirmed or asserted through the procurement process; the reasons for affirmation being user defined eg small businesses, women owned businesses etc.

The target groups in the international versions of these specifications are all user defined and as such must be defined in the contract. This permits users to choose the target group which they wish to target e.g. women, youth, low wage earners, small scale enterprises, local enterprises etc. The specifications also permit the client body to establish the terms and conditions under which Targeted Enterprises and Targeted Labour are to be engaged.

The TP1 to TP3 specifications are applicable to goods, services and engineering and construction works contracts. The TP4 and TP5 are suitable for use on engineering and construction works and services contracts. (Purpose written specifications are usually drafted for concessionary type contracts as these contracts frequently have long contract periods and need to cater for socio-economic deliverables during both the construction and operational phases of such contracts). These standard resource specifications can be used to support a range of socio-economic objectives as set out in Table 1.

Table 1: Resource specifications required to enact certain targeting strategies.

SOCIO-ECONOMIC OBJECTIVE	RESOURCE SPECIFICATION REQUIRED TO ENACT CERTAIN TARGETING STRATEGIES	
	CODE	STRATEGY
Development of sectors of an industry, e.g. small business, women owned business and local industry development.	TP 1	Targeting of Affirmable Business Enterprises
	TP 2	Structured Joint Ventures (Affirmable Partners)
Development of sub-contractors to prime (main) contractors. Development of management capacity of small businesses	TP 3	Structured Joint Ventures (Targeted Partners)
Local economic development Job creation Poverty alleviation Community-based developments	TP 4	Targeting of Local Resources
Job creation Poverty alleviation	TP 5	Engagement of Targeted Labour

The Development Objective / Price Mechanism

In the conventional procurement system, the adjudication of bids is usually based on price. Contracts are normally awarded to the bidder who complies with all the bid requirements, has sufficient capacity to execute the contract, and submits the lowest bid price. The adjudication of bids in the Targeted Procurement system is usually performed using the Development Objective/Price Mechanism. The adjudicator awards points to all responsive bids in terms of their price offer, as well as their development objective offer in accordance with the provisions of Table 2. In this way value for money is not based on price alone.

Development objective points are awarded for the resource goal offered in terms of a resource specification (percentage of the bid value representing the participation of Targeted Enterprises and/or Targeted Labour), or in the case of low value contracts, for their enterprise status. (The Development Objective/ Price Mechanism is a direct preference when it is used to award points for Targeted Enterprise status). In this manner the financial premium payable for incorporating socio-economic objectives into projects is minimised, as bidders compete both on the basis of price and of meeting socio-economic deliverables. Market forces dictate the degree to which contractors can meet socio-economic objectives in the most cost-effective manner. Furthermore, the mechanism caps the maximum premium payable.

The successful tender is the one which is awarded the most points, subject always to technical considerations, previous contractual performance, financial references, unit rates and prices, alternative offers, qualifications etc., being acceptable.

Table 2: The formulation of the development objective / price mechanism

COMPONENT	FORMULA	SYMBOLS
Price	$Np = Y \times A$	<p>Np = the number of bid adjudication points awarded for price; A is calculated from one of the following formulae as provided for in the bid documents:.</p> <ul style="list-style-type: none"> - Lowest price, value or percentage commission $A = (1 - \frac{P - Pm}{Pm})$ or $A = Pm / P$ - Highest price / discount $A = (1 - \frac{Pm - P}{Pm})$ or $A = P / Pm$ <p>Pm = the tendered parameter of the most favourable responsive bid adjusted to a common financial base for comparative purposes, if applicable. P = the tendered parameter of the responsive bid under consideration adjusted to a common financial base for comparative purposes, if applicable. Y = a number (less than 100), usually 90, reflecting the importance of price.</p>
Development objectives (resource goals offered)	$Nc = Z \frac{(D - Ds)}{(X - Ds)}$	<p>Nc = the number of bid adjudication points awarded for socio-economic deliverables / development objectives. D = The tendered resource goal percentage in accordance with the provisions of a resource specification Ds = The specified minimum resource goal percentage stated in the bid documents. (Equal to zero if no minimum resource goal is specified) X = The maximum resource goal percentage stated in the bid documents above which no further adjudication points are awarded. $Z = 100 - Y$</p>
Development objectives (direct preference)	$Nc = Zn$	<p>Nc = the number of bid adjudication points awarded for development objectives. Zn = the amount of adjudication points stated in the bid documents for enterprises who enjoy a specified status (Zn must be less than or equal to $100 - Y$)</p>

A 90/10 formulation for the development objective price mechanism is usually employed; 90 points being for price and 10 points for development objectives.¹⁸ This restricts the theoretical cost premium to a maximum of approximately 11%, depending upon which formula is used. (In South Africa, this formulation has been found to achieve very satisfying socio-economic results, the average cost premium paid on engineering and construction works contracts being less than 1%^{19,20}).

Direct preferences are usually provided for in contracts involving the disposal of property and the letting of property and facilities in order to attain social objectives. In some instances, particularly in the case of concessionary contracts where there are many other factors to consider in the adjudication of bids, resource goals may be set at a fixed value. In such cases, the Development Objective / Price Mechanism falls away.

¹⁸ The South African government adopted a Ten Point Plan (Interim strategies) Plan prepared by the Procurement Task Team as its interim procurement policy in November 1995. This plan provided for an 88/12 formulation for goods and services and 85/15 for building and construction works. In July 1996, the Minister of Finance changed the formulation for building and construction works contracts to 90/10. The Constitution of the Republic of South Africa (Act No 108 of 1996) in section 217 requires that national legislation must prescribe a framework within which a procurement policy providing for the following may be implemented:

- *“categories of preference in the allocation of contracts: and*
- *the protection or advancement of persons, or categories of persons historically disadvantaged by unfair discrimination.”*

The constitution required that this framework be in place by 4 February 2000. The Department of Public Works and the Department of State Expenditure recommended to parliament that, based on their experience, a 90/10 formulation should be adopted. The Preferential Procurement Policy Act (Act No 5 of 2000), which was signed by the president on 3 February 2000, requires that for contracts with a monetary value below a prescribed amount, a maximum of 10 points may be allocated for specific preferencing goals provided that the lowest acceptable tender scores 90 points for price; and for contracts with a monetary value equal to or below a prescribed amount, a maximum of 20 points may be allocated for specific preferencing goals provided that the lowest acceptable tender scores 80 points for price. The Minister of Finance, at the time of writing this article had not established the threshold values referred to in this Act.

¹⁹ Gounden SM. The Impact of the National Department of Public Works' Affirmative Procurement Policy on the Participation and Growth of Affirmable Business Enterprises in the South African Construction Sector. Phd Thesis, University of Natal, 2000.

²⁰ Watermeyer R.B. The Use of Procurement as an Instrument of Local Economic Development. Institute of Municipal Engineers of South Africa's Biannual Conference, Kempton Park, October 1999

The Classification of Contracts

Procurement contracts may be generically categorised on the basis of the activities associated therewith, eg as goods, services and engineering and construction works contracts. Contracts may be further classified on the basis of the scale and nature of resources which are required as being international, major or minor and on the basis of who the contracting entities are, i.e. as being prime, structured joint venture contracts or development contracts. (See Table 3).

The manner in which contracts classified on the basis of “who the contracting entities are”, can best be understood by considering engineering and construction works contracts which are a combination of goods and services. Such contracts are a synthesis of the four basic functional activities, viz labour; materials; construction and materials management; and plant and equipment. The classification of contracts as being prime, structured joint venture or development depends upon the manner in which these functional activities are structured in the tendering entity as outlined in Table 3.

Table 3: Contract Classification

CONTRACT		DEFINITION	FUNCTIONAL RESPONSIBILITIES (Labour; materials; construction and materials management; and plant and equipment)
TYPE	CLASS		
Prime	International	Contracts in which the bulk of goods and services are likely to be provided by foreign contracting entities and the domestic content is likely to be relatively insignificant.	The contracting entity is responsible for all four functional activities.
	Major	Contracts, which are of significant, scope and size to warrant the attainment of socio-economic objectives by means of resource specifications.	
	Minor	Contracts which generally have low financial values and in which direct preferences are utilised to achieve socio-economic objectives.	
Structured Joint Ventures		A contract awarded to a joint venture which is structured to meet specific objectives of the client body.	The four functional activities are shared between the parties which constitute the contracting entity in response to the client body's requirements to do so.
Development (engineering and construction works only)		A contract in terms of which the client body appoints third parties to provide certain resources which a contractor lacks.	The contracting entity is responsible for some of the functional activities and the client body provides third party management support for the remainder through the appointment of a construction and/or materials manager.

The classification of contracts enables standard targeting strategies to be developed (see Table 4) and procurement as an instrument of social policy to be implemented in a systematic and uniform manner. (see www.pwdprocure.co.za). The classification of contracts is a useful means by which elements of the Targeted Procurement system can be linked together in a single descriptor. For example:

- a contract classified as a Prime (Major) contract will require the contracting entity to engage targeted enterprises and / or targeted labour through resource specifications in the performance of the contract; the successful bidder being selected in terms of the development objective / price mechanism on the basis of tendered price and tendered resource goal;
- the contracting entity in a contract classified as a Structured Joint Venture will be a joint venture formed in compliance with the requirements of a resource specifications; the successful bidder being selected in terms of the development objective / price mechanism on the basis of tendered price and tendered resource goal;
- a Prime (Minor) contract is a contract in which enterprises enjoying a particular status are targeted in terms of the direct preference form of the development objective / price mechanism; and

- Targeted Procurement will not be utilised in contracts classified as a being Prime (International) contracts.

Table 4: Targeting framework for infrastructure projects

CLASSIFICATION	APPLICABILITY	TARGET GROUP	STANDARDISED RESOURCE SPECIFICATION
Prime (International)	All contract types	none	none
Prime (Major)	Goods Services E&C works	Affirmable Business Enterprises performing in various capacities viz. : as prime contractor; joint venture partners; subcontractors; suppliers; manufacturers; and/or service providers.	Targeting of Affirmable Business Enterprises (TP1).
	Services E&C works	Local Resources (i.e. local enterprises; suppliers; manufacturers and labour)	Targeting of Local Resources (TP4).
	Services E&C works	Targeted labour.	Engagement of Targeted Labour (TP5).
Prime (Minor)	Goods Services E&C works	Affirmable Business Enterprises .	none
Structured Joint Venture	Goods Services E&C works	Affirmable Joint Venture Partners at prime contract level and Affirmable Business Enterprises acting as sub-contractors, suppliers, manufacturers, and service providers.	Structured Joint Ventures (Affirmable Partners) (TP2)
	Goods Services E&C works	Targeted Enterprises .	Structured Joint Ventures (Targeted Partners) (TP3)
Development	E&C works	Emerging / fledgling / embryonic enterprises or aspirant entrepreneurs who do not have the capabilities or resources to contract as Prime Contractors.	Provision of construction and materials management services, as appropriate

NOTE : Affirmable Business Enterprises, Targeted Labour, Targeted Enterprises and Affirmable Joint Venture Partners are user defined.
E&C works = engineering and construction works

Targeting strategies

Table 4 sets out a targeting framework for contracts, based on the classification of contracts. Specific targeting strategies (eg Prime (Major) using the TP1 specification) for a selected contracting strategy (eg traditional preplanned or design and build²¹) can be developed to realise particular policy objectives. Targeted Procurement through resource specifications and the classification of contracts provides those responsible for inviting bids with a comprehensive “tool box” to do so.

²¹ A contracting strategy is the strategy adopted to procure goods, services, or engineering and construction works, in the most timeous and cost effective manner. In Traditional Pre-planned contracts the contractor undertakes only construction on the basis of full designs issued by the client body. In Design and Build contracts the contractor undertakes all design and construction in accordance with the client body’s brief and a detailed tender submission, usually for a lump sum price.

The client body must determine the targeting strategy which is to be used for a particular contract prior to inviting bids as the selected targeting strategy needs to be activated in the procurement documents. (Bidders are not made responsible for establishing targeting strategies). Client bodies at the outset of a project or programme establish the social objectives which they wish to pursue and select a limited range of targeting strategies associated with such objectives. Those responsible for preparing, compiling procurements documents and inviting bids must do so based on the targeting strategy which is most suited to the works which are to be executed.

6 Targeted Procurement: what it does

Job creation and poverty alleviation, as previously outlined in this article, is linked to choices in technology and the development and promotion of small scale enterprises.

The White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (1995) makes the observation that “small enterprises usually regard market constraints and the inability to sell their products and services as one of the most serious obstacles to the starting of business and growth beyond mere subsistence level”. This finding is not inconsistent with research conducted elsewhere in the world. Targeted Procurement can provide market access for small businesses and as such creates business opportunities for this sector. The degree to which small businesses can access these opportunities is, however, dependent upon how supply side constraints are addressed.

Targeted procurement can also be used to create a demand for employment intensive work methods and labour-based technologies in order to increase employment per unit of expenditure.

Unbundling of contracts (breaking contracts down into smaller contracts)

Small scale enterprises can participate in public sector procurement in one of two ways. They can either contract directly with a public body or participate as a subcontractor, supplier or service provider to a prime contractor in the delivery chain.

Targeted Procurement enables contracts to be unbundled and made accessible to targeted enterprises in a number of ways, viz.:

- by procuring works in the smallest practicable quantities (Prime (Minor));
- by requiring joint venture formation between large businesses and small scale enterprises (Structured Joint Venture); and
- by providing third party management support to enterprises which are not capable of operating as prime contractors (Development Contracts).

It should be noted that the targeting strategies which make use of resource specifications require prime contractors to “unpack” their contracts into smaller contracts and to procure the services of small scale enterprises to perform such contracts and to administer them. These specifications in effect require contractors to do one or more of the following:

- subcontract portion of the contract to targeted enterprises;
- obtain manufactured articles from manufacturers who are targeted enterprises;
- obtain supplies and materials from suppliers who are targeted enterprises; or
- engage professional, technical or managerial service providers who are targeted enterprises.

Targeted Procurement is effective in establishing new business linkages, particularly between large and small businesses.

Increasing employment opportunities generated per unit of expenditure

Changes in methods and technologies which increase the labour component in the construction and the manufacture of materials, yield the greatest increase in the number of employment opportunities generated per unit of expenditure. This requires established companies to reduce their reliance on capital intensive technologies. Employment-intensive methods and technologies are usually readily

implemented by small scale enterprises, who being small, have limited access to capital and invariably operate and conduct their businesses in a more employment-intensive fashion and favour light equipment-based forms of construction.

The choice of technology is generally made during the basic design phase of construction works contracts, whereas the choice of construction method/method of manufacture is usually decided upon during the implementation phase. Two alternative procurement approaches to implementing employment-intensive works methods can be adopted.

Method 1: Lay down the use of specific employment-intensive technologies and methods of construction/manufacture in the tender document (a variation to this approach is to specify the minimum amount of wages which are required to be paid in respect of a particular contract);

Method 2: Afford tenderers the opportunity to choose the technology/construction method/method of materials manufacture which they wish to use in order to maximise the participation of labour in construction works and in so doing win bids.

Suitable resource specifications can be used in both methods to ensure that the deliverables are attained. Either method may be used to increase the quantity of employment generated per unit of expenditure. Method 1 achieves this objective by restricting the use of certain types of plant/manufacturing methods and by specifying particular technologies. Method 2, on the other hand, by means of development objective/price mechanisms and resource specification, enables tenderers to tender the amount of targeted labour, which they undertake to engage in the performance to the contract. Method 2, accordingly, permits tenderers to use their knowledge, skill and creativity in arriving at an optimum economic mix of equipment, technology and labour in order to meet objectives and win bids.

The economic viability of Method 1 is, however, dependent on the ability of the designer/specifier to forecast cost. Any potential price premium in Method 2 can be readily assessed during the adjudication of bids. Method 2 therefore has the distinct advantage that bid prices will usually fall within acceptable limits and economic justification of decisions relating to employment generation will not be necessary.

Engaging marginalised communities in infrastructure projects

The targeting of communities in construction projects is invariably linked to employment-intensive works and the purposeful flow of income to the poorest sectors of a community. Targeted Procurement enables communities to participate in construction projects in a number of ways without having to necessarily create projects or special programmes. The resources of targeted communities (labour, enterprises, materials and equipment) can be targeted in any contract for the provision of infrastructure without having to restructure projects to accommodate community contracting or having to channel funds through communities in order to do so.

7 Targeted Procurement: monitoring and evaluating outcomes

The monitoring of the attainment of socio-economic deliverables cannot commence until:

- all aspects of the deliverables have been clearly defined and accepted by all the parties to a contract;
- the criteria for measuring and quantifying the attainment of deliverables is understood; and
- the method by which the deliverables can be audited and verified is laid down.

Targeted Procurement provides a framework within which all of the above can be achieved before the award of a contract is made. This enables monitoring for compliance in respect of development objectives to commence as soon as the contract is effected.

Any evaluation of the degree of success achieved in providing deliverables is dependent on effective monitoring. Evaluation is an ongoing process and should not be deferred. This is necessary to ensure that any inadequate provision of deliverables is detected at an early enough stage to remedy the situation. Targeted Procurement because of its inherent systems facilitates this.

Each resource specification has a resource goal associated with it. Resource goals may in broad terms be considered as being the percentage of the contract price expended on the engagement of targeted enterprises and / or targeted labour. As such, they represent the participation (market share) of targeted enterprises and / or targeted labour in the performance of a contract for a given targeting strategy (see Table 5). In each specification, resource goals are computed in terms of a prescribed formula and are expressed as a percentage of the total value of the goods and services provided, or works performed in terms of the contract at the time of the award of the contract.

Table 5 : Method of measurement provided in the resource specifications to establish target group participation

RESOURCE SPECIFICATION	RESOURCE GOAL	MEANS BY WHICH GOAL CREDITS ARE CALCULATED
TP1: Targeting of Affirmable Business Enterprises (ABE)	Contract Participation Goal	Combination of : <ul style="list-style-type: none"> • Monetary value of work performed as an ABE Prime Contractor plus 10% of work subcontracted to non-ABEs. • 50% of monetary value of expenditure on ABE Suppliers and 100% on all other ABEs. • Monetary value of work performed by Joint Ventures multiplied by the Participation Parameter. • 10% additional credits, if any.
TP2: Structured Joint Ventures (Affirmable Partners)	Joint Venture Participation Goal	Sum of : <ul style="list-style-type: none"> • Monetary value of individual Affirmable Joint Venture Partner's Participation Parameter multiplied by the Award Value of the bid. • Bonus credits in respect of monetary value of goods supplied by an ABE manufacturer and services by as ABE service provider and 50% of monetary value of expenditure on an ABE supplier subject to a maximum value of 10% of the Award Value of the bid.
TP3: Structured Joint Ventures (Targeted Partners)	Joint Venture Participation Goal	Sum of monetary value of individual Targeted Joint Venture Partner's Participation Parameter multiplied by the Award Value of the bid.
TP4: Targeting of Local Resources	Local Resource Goal	Sum of : <ul style="list-style-type: none"> • Monetary value of work performed by a Local Enterprise at prime contract level with its own employees and resources. • Monetary value of expenditure on Local Enterprises multiplied by weighting factors, if any. or sum of : <ul style="list-style-type: none"> • Monetary value of work performed by Local Enterprises, multiplied by weighting factors, if any. • 50% of monetary value of expenditure on Local Suppliers, multiplied by weighting factors, if any. • Monetary value of wages and allowances paid to Targeted Labour, multiplied by weighting factors, if any.
TP5: Engagement of Targeted Labour	Targeted Labour Goal	Monetary value of wages and allowances paid to Targeted Labour, multiplied by weighting factors, if any.

Note: The participation parameter is used to measure the contribution made by targeted partners in a joint venture.

Resource goals can be readily measured, audited and verified during the performance of a contract as the rules for the granting of credits towards the fulfilment of such goals and the conditions under which additional and bonus credits, if any, are awarded are set out in the relevant specifications. Contractors are required to complete comprehensive Resource Goals Implementation Plans, usually prior to the issuing of the first payment certificate. These plans set out in detail the manner in which a contractor undertakes to achieve his resource goal during the performance of the contract. Such plans enable the client's representative to monitor the contractor's compliance with the specifications and his progress towards the attainment of his contracted resource goal; to assess the impact of variations on the reduction of the scope of work on the resource goals and to revise such goals, if necessary.

Contractors are required to enter into written contracts with targeted enterprises and targeted labour and to provide Declaration Affidavits in certain instances so that the status of targeted enterprises can be verified. Where joint ventures are entered into to secure the participation of targeted enterprises, contractors are required to complete Joint Venture Disclosure Forms to enable the client's representative to monitor the workings of targeted partners.

The resource specifications place the onus on the client to enforce compliance. In order to enable the client to do so, the contractor is required to furnish timeous returns. The specifications accordingly require the contractor to submit a schedule with his programme of work which indicates expected commencement and completion dates of work and services performed by targeted enterprises. They furthermore require the contractor to prepare a report which sets out what targeted enterprises have done, the estimated value of work performed by targeted enterprises (cumulative and for payment period), the names, identity numbers, etc. of targeted labour employed including the monetary value of wages and allowances paid to such labour, and to attach such reports to his payment certificate. When the services of targeted enterprises and targeted labour are no longer required, the contractor is required to certify the amount paid to targeted enterprises and targeted labour. Targeted enterprises and targeted labour in turn have to certify that they have received these amounts. The issue of any final certificate or certificate under which retention monies are reduced, is dependant upon the aforementioned certification taking place.

The resource goals can be used as indicators of economic empowerment through the provision of employment and/or business opportunities. A set of standard indices (see Table 6), calculated in accordance with certain standard formulae, has been developed to evaluate the range of socio-economic objectives, using the resource goals achieved through Targeted Procurement in the execution of contracts.²² These indices represent the flow of money to targeted enterprises and targeted labour. At the same time the direct financial premium associated with the development objective / price mechanism can be readily measured and reported on ie the difference between the awarded tender price (tender with highest number of adjudication points) and the price of the lowest responsive tender, expressed as a percentage of the value of the contracts awarded.

Progress towards the attainment of specific programme or policy goals can be evaluated if indices (see Table 6) are calculated at discrete time intervals and compared against each other. Short, medium and long term goals can be set. Training and development programmes can then be structured to ensure that the targets set for each time interval are achieved.

Table 6: Targeted Procurement indices

INDICATOR	DEFINITION	TARGETING STRATEGIES CONTRIBUTING TO THE INDEX
ABE Index:	The estimated total value of work undertaken expressed as a percentage of the total value of contracts awarded where ABEs are targeted.	<ul style="list-style-type: none"> • Prime (Minor) contracts. • Prime (Major) contracts where use is made of the TP1 specifications.
Targeted Enterprise Index:	The estimated total value of work undertaken by Targeted Enterprises expressed as a percentage of the total value of relevant contracts awarded where Targeted Enterprises are targeted.	<ul style="list-style-type: none"> • Prime (Minor) contracts. • Prime (Major) contracts where use is made of the TP1, TP4 or other specifications which target enterprises. • Structured Joint Ventures where use is made of the TP2, TP3 or other specifications which require joint venture formation. • Development Contracts.
Targeted Labour Index:	The estimated total value of work undertaken by Targeted Labour expressed as a percentage of the total value of relevant contracts awarded where Targeted Labour is targeted.	<ul style="list-style-type: none"> • Prime (Major) contracts where use is made of the TP4 and TP5 specifications.
Empowerment Index	The total value of work undertaken by Targeted Enterprises and Targeted Labour expressed as a percentage of the total value of contracts awarded where Targeted Procurement is used.	<ul style="list-style-type: none"> • Prime (Minor) contracts. • Prime (Major) contracts where use is made of TP1, TP4, TP5 or other specifications. • Structured Joint Venture where use is made of the TP2, TP3 or other specifications. • Development contracts

The indices can be used to compare the outcomes of different programmes, different sectors, different regions and different implementers. They also enable governments to make decisions

²² Watermeyer RB, Gounden S, Letchmiah DR and Shezi S. Targeted Procurement : a means by which Socio-Economic Objectives can be realised through Engineering and Construction Works Contracts. JSA Inst Civ Eng, March 1998.

regarding the funding of programmes, which have specific objectives, e.g. poverty alleviation, job creation, etc.

A data capture software programme, the Geographical Targeted Procurement Management System (GTPMS) has been developed to enable data to be captured in a systematic manner. It is based on the collection and processing of information relating to all contracts awarded and completed, or cancelled. Standardised reports are produced in the form of charts and tables. The system allows the user to browse and search the database and seek responses to user-defined queries.

8 South African case studies

In South Africa there are several socio-economic policies which are being implemented using Targeted Procurement. One of these is an Affirmative Procurement Policy which utilises Targeted Procurement to redress the skewed business ownership patterns in South Africa arising from the system of apartheid. The main target group identified in this policy is small businesses which are owned managed and controlled by black South Africans. The market share (Affirmable Business Enterprise Index) of such businesses was found to be less than 0.5% in 1993 and a mere 2.5% in 1995 prior to the introduction of the Affirmative Procurement Policy on all contracts awarded by the National Department of Public Works in August 1996. The indices recorded since the introduction of the policy are as set out in Table 7.²³

The Affirmative Procurement Policy has not only resulted in increased participation by the target group but also in the formalisation of this sector, more structured relationships within the industry and an increase in government's tax base.

Table 7: Outcomes of the Affirmative Procurement Policy obtained on contracts awarded by the National Department of Public Works in South Africa

PERIOD	AFFIRMABLE BUSINESS ENTERPRISE INDEX (%)	DIRECT FINANCIAL PREMIUM (%)*
August 1996 to June 1997	22.29	0.32
July 1997 to December 1997	25.67	0.40
January 1998 to July 1998	28.39	0.12
Study period (August 1996 to July 1998)	26.84	0.32

* The direct financial premium measures the difference in price between the bid with the highest number of adjudication points (successful bid) and the most favourable offer (lowest acceptable bid)

The Southern Metropolitan Local Council (SMLC) of the Greater Johannesburg Metropolitan Council implemented during the 1996/97 financial year a number of projects, involving the laying of sewer and water pipelines and roads and storm water, using the TP5 specification and development objective / price mechanisms. Targeted labour was defined as South African citizens residing within the geographical area over which the SMLC has jurisdiction and who earned less than US\$ 1.50 per hour. The average targeted labour goals of the successful tenderers in the first nine contracts awarded amounted to 13%; the associated direct financial premium being a mere 0,5 %. In comparison, the Bloekombos project, a pilot project which was undertaken on work of a similar nature under the auspices of the National Co-ordinating Committee for Labour Intensive Construction in the Western Cape, prior to the April 1994 election in South Africa, in terms of the Framework Agreement for Public Works Projects using Labour Intensive Construction Systems, found that approximately 12% of the construction cost was spent on labour drawn from the targeted group. The accepted cost premium for projects of this nature was between 10 and 15%.²⁴ The Bloekombos project incorporated prescriptive clauses in the contract which restricted the contractor's use of construction plant and demanded that particular earthworks activities be undertaken using hand methods of excavation.

The Midrand Metropolitan Local Council in South Africa, adopted a local economic policy in June 1998 in order to realise socio-economic deliverables through the creation and maintenance of public

²³ Gounden SM. The Impact of the National Department of Public Works' Affirmative Procurement Policy on the Participation and Growth of Affirmable Business Enterprises in the South African Construction Sector. Unpublished Phd Thesis, University of Natal, 2000.

²⁴ Watermeyer RB. Mobilising the Private Sector to engage in Labour Based Infrastructure Works : A South African Perspective. Sixth Regional Seminar for Labour Based Practitioners. International Labour Organisation . Jinja, Uganda, September 1997.

assets and the provision of municipal services. The Council used the system of Targeted Procurement to implement the policy. Low wage earners residing in the area and local small black owned businesses were targeted. Targeted labour indices of 23.1% and targeted enterprise indices of 33.0% were attained in the first year of operation; the direct financial premium being less than 1.0% in both instances.²⁵

Targeted Procurement has also been successfully used to direct capital flows into under developed / disadvantaged rural communities on conventional construction projects. An excellent example of this is the Malmesbury prison complex in South Africa, i.e the project which gave birth to Targeted Procurement in South Africa in 1996. Malmesbury is a small rural town approximately 70 km from Cape Town. Those involved in the development of the Targeted Procurement procedure were unaware of any target group businesses in Malmesbury and considered that a 10% goal might be achieved if contractors who fell into the target group were drawn from the Cape Town area. 30% of the value of the two contracts i.e US\$ 13 million was channelled into this community through targeted enterprises. The Malmesbury Prison Contract proved to be more efficient at channelling money into communities than some focused poverty alleviation programmes in South Africa involving the construction of community buildings.²⁶

9 Critical success factors

General

The achievement of socio-economic objectives is not a simple process, even when a well-developed instrument guides the implementation thereof. In order to successfully use Targeted Procurement as an instrument of social policy, it is necessary to consider firstly those external factors over which the implementing agents (ie the decision makers / senior managers in a client body) have no control at both a project and programme level.

External factors include:

- Government's commitment to the attainment of stated objectives from the highest levels.
- Endorsement and support from policy makers, senior administrators and those accountable for procurement activities.
- Motivation amongst target groups to take advantage of the opportunities presented.
- Human resources who are conversant with and competent in implementing policies.

It is also necessary to consider those factors which are within the control of implementing agents, viz:

- Comprehensive and unambiguous supporting documentation and work procedures to enable specific objectives to be achieved.
- Effective monitoring and reporting systems.
- A means by which the bona fides of any target group can readily be established.

If the procurement system is to be effective and efficiently executed it is necessary to:

- systematically measure the achievements towards socio-economic objectives;
- evaluate the cost effectiveness of the measures which are adopted on an ongoing basis;
- ensure that clear and unambiguous deliverables are in fact being achieved;
- strictly monitor outcomes and compliance with stated requirements;
- enforce requirements; and
- provide for remedies for non-compliance which are sufficiently punitive to encourage compliance.

This requires dedication and commitment on behalf of officials and their consultants to meeting project and programme socio-economic deliverables.

²⁵ Watermeyer R.B. The Use of Procurement as an Instrument of Local Economic Development. Institute of Municipal Engineers of South Africa's Biannual Conference, Kempton Park, October 1999

²⁶ Soderlund and Schutte's Review of the Malmesbury Prison Complex and Associated Housing Estate prepared for the National Department of Public Works, September 1998.

Addressing supply side constraints facing small scale enterprises

Targeted Procurement creates the demand for Targeted Labour and the demand for services and products of Targeted Enterprises. Targeted Procurement accordingly provides access to markets for both Targeted Enterprises and Targeted Labour. Supply side interventions are, however, required to ensure that the demand is balanced by the supply. This is important where Targeted Enterprises are targeted, particularly if such enterprises fall into the small business sector and growth in new entrant small businesses is encouraged.

Accordingly, interventions may be necessary to ensure meaningful and effective small scale enterprise participation in the market. In construction contracts supply side interventions should, *inter alia*, address:

- skills development;
- access to information;
- legislative and regulatory impediments;
- availability of appropriate and labour-based technologies; and
- access to finance difficulties in hiring / purchasing plant and small equipment.

Constraints facing entrepreneurs may be categorised as being:

- **internal constraints**, such as deficiencies in numeracy and literacy, managerial, administrative and commercial skills and technical knowledge which inhibit business efficiency and over which an entrepreneur has direct control provided that support structures are in place;
- **external constraints**, such as market distortions, prevailing socio-economic structures, e.g. laws, regulations, procurement procedures, perceptions and access to finance and opportunities, all of which are beyond the entrepreneur's control.

Broadly speaking, internal constraints can be addressed through the provision of training and mentorship and exposure to business practices such as through joint venture relationships. External constraints require financial assistance and a restructured procurement environment which is an enabling and sustainable one. All too often, new entrants or fledgling contractors are trained and developed only to be returned to the ranks of the unemployed through lack of continuity of work.

A detailed examination of these constraints and the possible methods to address them is outside the scope of this article. These issues, however, need to be borne in mind by any government seeking to make use of Targeted Procurement to affirm small scale enterprises. Governments will frequently be required to provide and / or facilitate the necessary institutional arrangements to adequately address the aforementioned supply side constraints.

Promoting choices in technology

Targeted Procurement when used to promote social objectives associated with employment creation cannot be divorced from choices in technology. Choices in technologies are frequently required to increase demand, particularly where increases in employment per unit of expenditure and the use of local resources are targeted.²⁷ The availability, or lack thereof, of appropriate specifications and suitable technology choices can have a marked influence on the degree to which socio-economic objectives can be attained in construction works contracts by means of Targeted Procurement. The success or otherwise of some of the targeting strategies is very dependent upon technical choices being made available to bidders.

The challenge facing engineers is, in the first instance, to understand the potential which construction projects have for delivering socio-economic deliverables, and thereafter to use their skill, knowledge and creativity to realise these deliverables.²⁸ What is urgently needed is the:

- dissemination of technical information to enable informed design decisions to be made;
- development of suitable on-site/point of manufacture acceptance tests;

²⁷ Watermeyer RB. Evaluating employment and community opportunities presented by building and construction projects. Employment Intensive Construction, Fifteenth Annual Transportation Convention, University of Pretoria, June 1995 / Volume 5, ATC Research Forum, ISSN 1019 - 1909, 1995

²⁸ Watermeyer RB. Socio-economic Responsibilities: the Challenge facing Structural Engineers. The Structural Engineer. September 1999.

- the development of fitness for purpose criteria for innovative labour-based technologies and the methods and instruments by which such criteria can be met for given performance levels; and
- research and development to enable innovative labour-based technologies to become accepted as conventional technologies.

The challenge to governments is to establish the institutional arrangements to develop technical standards and a technical assessment organisation to assess innovative labour-based technologies.²⁹

10 Conclusions

Socio-economic objectives such as those pertaining to poverty alleviation and job creation can be realised should targeted enterprises and targeted labour be engaged in infrastructure projects. Targeted Procurement provides a measurable, quantifiable, auditable and verifiable framework for the targeting of enterprises and labour and enables opportunities to be offered to such groupings in a competitive, transparent, focused and cost effective manner.

Targeted Procurement ensures that inefficiencies in the delivery of social deliverables are minimised as bidders are required to compete on the basis of a balance between cost and social deliverables. This releases more finance into the construction industry, increases economic activity and hence increases employment in general – a win/win situation. This is important as losses due to inefficiencies can cause a decrease in the number of jobs created or the flow of money to the beneficiaries of a poverty alleviation programme as economic activity is reduced.

Targeted Procurement enables productive linkages to be established between small and large businesses. It also creates a demand for the services and products of small scale enterprises and as a result overcomes one of the major constraints to small scale enterprise development viz. access to markets.

The use of targeted procurement in South African since 1996 has established the viability and effectiveness of this innovative approach to poverty alleviation and job creation. Targeted Procurement is an attractive policy instrument as it is based on sound logic, viz competition, cost effectiveness, transparency, quality and value for money. It allows social objectives to be met without compromising time, cost and quality within current contracting arrangements for the provision of infrastructure. It has the added advantage that it can be used in almost any infrastructure project to achieve socio-economic objectives.

Targeted Procurement provides a framework within which programme monitoring and evaluation can take place. This allows any inadequate provision of socio-economic deliverables to be detected at an early enough stage to remedy the situation. More importantly, Targeted Procurement facilitates the gathering of data which can be used to defend a policy position and provides a means by which a policy may be assessed, modified where necessary, or fundamentally changed if it is inappropriate.

²⁹ It should be noted that most national standards bodies provide secretarial services and don't as such develop standards. The industry writes and develop standards under the auspices of the standards body. Accordingly national standards for innovative technology are sometimes quite impossible to achieve until such time as the product technology has been widely utilised and is known. There is accordingly a need for bodies such as an Agrément Board to assess such technologies. The Agrément certification concept has its origin in France. The French building industry in the 1960, identified the need for an organisation that would protect the public against unsuitable building methods. As a result, they invested in certifying products by means of technical examinations that guarantee the use of satisfactory and durable building techniques. Agrément certification enable innovative construction products to be assessed. The South African Agrément Board has recently, developed and accepted fitness-for-purpose criteria for bituminous road products and associated evaluation and test procedures. In the near future innovative bituminous binders, asphalt surfacings, surface seals, cracks and joint sealants and cold-mix materials will be able to obtain Agrément certification and be used with confidence in South Africa on public and private contracts.