

Geekonomics: Perfectly good paper, perfectly good ink....

Milton Friedman once claimed that “Only government can take perfectly good paper, cover it with perfectly good ink and make the combination worthless.” Friedman’s cynicism is frequently misplaced. But when it comes to the design and application of government procurement policy in South Africa, this view is absolutely appropriate. There is too much paper, too much ink and very slow delivery.

The need to overhaul government financial management and procurement processes has been recognized since the early days of the new dispensation. The Public Finance Management Act (PFMA) of 1999 was an important step forward in the application of effective and efficient financial management practices in South Africa. The PFMA required that all government departments maintain a ‘fair, equitable, transparent, competitive and cost effective’ procurement system. Subsequent regulations were promulgated to entrench these principles and to eliminate fraud from the procurement process.

The result is a system of ‘world class’ procurement legislation and regulations (and a new set of buzzwords, such as ‘supply chain management’). Most of these changes were needed and good. For example, the supply chain management function was decentralized to Accounting Officers within departments to allow them to procure their own goods and services.

This guest Geekette is of the opinion that this ‘world class’ procurement policy lacked one important principle: simplicity. In practice, government procurement has become remarkably complex, slow and inconsistent. The experiences of big companies, such as those involved in the bid for the Gautrain or national gambling and lottery licenses, are well-known. But it is the small companies that government is so desperate to promote that suffer most at the hands of government’s new cohort of supply chain managers.

For SMMEs, the entry costs associated with government work are remarkably high. In most cases, government departments require bidders to collect hardcopies of tender documents from their offices, attend a compulsory briefing session, obtain a mass of official clearances (from other government departments and agencies), and submit numerous (five at least) copies of the technical proposal, again in hardcopy. It is bizarre, that in the age of the internet, government requires potential contractors to visit their offices three times, just to complete the paperwork. This makes it extremely difficult and costly for small businesses to compete for work in jurisdictions outside of their immediate location.

These up-front costs are exacerbated by preferential procurement requirements, which currently only reward direct ownership in the business. This makes ‘fronting’ an easy and attractive option for government tenders. The recent Broad Based Black Economic Empowerment (BBBEE) codes of good practice are meant to deal with this problem – but after considerable effort we conclude that these codes are indecipherable by geeks, other mere mortals and SMMEs. The main impact of these guidelines is likely to be the enrichment of a new generation of consultants specializing in interpreting BBBEE codes. And higher rather than lower costs for SMMEs and government departments.

But this is not all. Despite the pressure put on business to adopt and apply the BBBEE guidelines, Government has not done so itself. Even the Department of Trade and Industry, the architect of broad-based black economic empowerment, continues to use narrow equity criteria in the award of government tenders. This is because the Preferential Procurement Policy Framework Act has not been amended to reflect Government’s own guidelines.

If a small business does find a way over these hurdles to get a bid in on time, it must then prepare for a long wait. The lead time from when a bid is submitted to when it is adjudicated and awarded can be anywhere from 3 to 9 months. In some instances, the tender is cancelled before it

is awarded. Delays and cancellations hinder business planning and make cash-flow management extremely difficult for SMMEs. This is frustrating and damaging for the bidders but it is equally harmful for government departments which require the capital equipment, goods and services to deliver on their outputs.

The problem here often lies in the constitution, management and membership of tender adjudication committees. A simple task, like getting senior committee members to meet, can become a time-consuming affair. Moreover, supply chain management units often lack the capacity to deal with the amount and complexity of paperwork involved. Weaknesses in supply chain management regularly highlighted in Auditor General Reports include irregular expenditure, poor contract management, inadequate monitoring and the nonexistence of a departmental supply chain management framework.

The cause of these problems is two fold. Firstly, existing supply chain management rules and regulations place too many onerous requirements on departments. Secondly, there is little recognition that good supply chain management requires a mix of finance, information technology, legal and specialist procurement skills. This is not a one man job!

It is time for a review of government procurement processes to ensure that they are simple, fair, equitable, transparent, competitive and cost-effective. Otherwise the supply chain will continue to suffocate under large amounts of perfectly good paper and perfectly good ink.

The real Geeks are on holiday. This column was written by Amanda Jitsing, an economist at Development Network Africa. Visit our blog and let us know your thoughts on trade and industrial policy in South Africa: <http://www.dnafrika.com/blog.php>

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