Public and Private Sector Procurement from SMME’s as a stimulant for economic growth

Gary Joseph
9th October 2013
- Founded in January 2011

- Corporate-led and -driven member organization, with Members’ commitment to:
  
  - Adopting supplier diversity as a strategic business objective
  - Setting targets & proactively open up procurement opportunities for black suppliers
  - Investing in black suppliers for competitiveness and better positioned to do business
  - Leveraging resources, lessons and experiences

- Members are:
Procurement and SMME Trends

- Average BEE spend reported by Top 50 JSE Listed is 44% of discretionary procurement at an average value of R1.83 billion
  - Only 9% for small business (QSE & EME)
  - 6% for Black-Owned and 1% for Black Women Owned.
  - Shows a bias towards larger business in procurement practices. Also points to a lack of access to small black business
  - Similarly, global procurement strategies reflect a similar bias
- 2.8 M SMME’s contributes about 40% of GDP and more than 50% of employment
- About 2.1 to 2.5 million SA citizens generate or receive their income from SMME’s
- However, 5 out of 7 small business started in SA fail in the first year
Procurement Perceptions

- We can’t find these SMME’s
- They do not have the capacity and capability to supply according to our requirements
- SMME’s are risky and unreliable suppliers
- They don’t have the financial muscle to compete
- Our role is to procure for our internal customer and not to develop suppliers
- There is no benefit that we derive by buying from SMME’s
International Experiences

• United Kingdom
  – small businesses are of much greater benefit to local communities than large firms
  – For every £1 spent with a small or medium-sized business, 63p was re-spent in the local area, compared to 40p in every £1 spent with a larger business

• United States
  – Minorities businesses firms are being established and growing and employing minorities at a faster rate than other sectors of the population
  – Doing business with small and minority businesses is advantageous due to them being:
    • Agile and adaptable
    • More innovative in order to compete with more established players
    • More in touch with community needs and purchasing trend, thereby liberating new market opportunities
    • More customer focussed and service orientated
Governments can signal private enterprise to intensify commitment to development by compensating for risks or by creating attractive business opportunities.

Private sector responds to these inducements by restructuring business driven projects to complement public ones without compromising its objective.

Public and private enterprises have separate comparative advantages and roles to play in smoothing the way for development. There is, however, a potential for synergy between them that can be triggered by cooperation.

Profit motivation need not exclude business activity from contributing to positive development outcomes if it is pursued within a carefully designed system supporting development-friendly business activities.

**Government Service Mandate**

**Private Sector Profit Motive**

**Outcome:** Government and private enterprise cooperatively engaged in development efforts.

Jointly Focus on Local Economic Development & BBBEE Areas:
- Preferential Procurement
- Supplier Development
- Enterprise Development
- Skills Transfer
- Socio-economic upliftment

**How can this be done effectively??**

We need to change our perception of SMME’s and reform the way in which we procure to deliberately make opportunity more accessible!!
Government Procurement Policy

• Government’s 5 Pillars of Procurement
  1. Value for Money
  2. Open and Effective Competition
  3. Ethics and Fair Dealing
  4. Accountability and Reporting
  5. Equity

The government has implemented the Preferential Procurement Policy Framework Act as the foundation on which all procurement activities are to be based. Its aim is to:

a) advance the development of SMMEs and HDIs;

b) promote women and physically handicapped people;

c) create new jobs;

d) promote local enterprises in specific provinces, in a particular region, in a specific local authority, or in rural areas; and

e) support the local product.

– No public procurement system should be operated if it is not founded on this pillar.
What can Private Sector do?

Implement Supplier Diversity Best Practice Framework that is integrated into its overall business strategy!

<table>
<thead>
<tr>
<th>Must Haves</th>
<th>Critical Elements</th>
<th>Potential benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>A sound case for doing it, supported by a vision and policy statement</td>
<td>1. DEVELOP A SUPPLIER DIVERSITY MISSION AND POLICY STATEMENT</td>
<td>• Developing new markets and competitive forces</td>
</tr>
<tr>
<td>supported by a vision and policy statement signed off by the CEO</td>
<td>2. DEVELOP A SUPPLIER DIVERSITY ACTION PLAN</td>
<td>• Reduced procurement, production and distribution costs</td>
</tr>
<tr>
<td>An adequate budget to support development, outreach, and training at all</td>
<td>3. RUN EFFECTIVE INTERNAL AND EXTERNAL COMMUNICATIONS AND OUTREACH</td>
<td>• Increased corporate opportunities for responsible social investment in local value chains</td>
</tr>
<tr>
<td>levels</td>
<td>4. ESTABLISH A PIPELINE OF OPPORTUNITIES FOR BLACK SUPPLIERS</td>
<td>• Meeting local procurement and local content requirements</td>
</tr>
<tr>
<td>Recognised champions and performance requirements and incentives</td>
<td>5. ESTABLISH EFFECTIVE BLACK SUPPLIER DEVELOPMENT PROCESSES</td>
<td>• Enhanced brand recognition and reputation</td>
</tr>
<tr>
<td>Agreed metrics for measuring progress and reported regularly at EXCO or</td>
<td>6. MAINTAIN EFFECTIVE TRACKING, MEASURING AND REPORTING SYSTEMS</td>
<td>• Legitimacy and license to operate; and</td>
</tr>
<tr>
<td>Board level</td>
<td></td>
<td>• Contribution to local enterprise development and jobs</td>
</tr>
</tbody>
</table>
THANK YOU

“Overcoming poverty is not a task of charity, it is an act of justice. Like Slavery and Apartheid, poverty is not natural. It is man-made and it can be overcome and eradicated by the actions of human beings. Sometimes it falls on a generation to be great. YOU can be that great generation. Let your greatness blossom.”

(Nelson Mandela)