

## **CHAPTER 1**

### **INTRODUCTION AND GENERAL ORIENTATION**

#### **1.1 INTRODUCTION**

In this chapter, the background and the rationale for the study, which will form the basis of understanding of the research is outlined. Statement of the problem and an indication of the research question are outlined together with the objective of the study.

Municipalities are under increasing pressure to tackle the issues around supply-chain management. This pressure comes from the service providers and the general public. The media is also becoming more interested in stories about procurement and tendering in municipalities. The pressure on municipalities is becoming more sophisticated. While some municipalities are taking these issues seriously at various stages of their processes, some are struggling to take significant strides in terms of making their procurement and supply-chain processes watertight.

The researcher investigated supply-chain management practices in Capricorn District Municipality and Aganang Local Municipality. The first part of this research maps the regulatory framework to examine whether municipalities comply with the procurement and supply-chain management legislation and other regulations. The second part of the research looks at the implementation of the procurement policies in the said municipalities. Lastly, conclusions are drawn and recommendations offered with a view to providing these municipalities with possible strategies and mechanisms to improve the situation to protect procurement and supply-chain management against fraud and corruption.

#### **1.2 BACKGROUND**

##### **1.2.1 Capricorn District Municipality**

Capricorn District Municipality (CDM) is a category C municipality established in terms of the provisions of the Constitution of South Africa (Act 108 of 1996), Municipal

Demarcation Act (Act No. 27 of 1998), Municipal Structures Act (Act No.17 of 1998) and the Municipal Systems Act (Act No.32 of 2000). Capricorn District Municipality was constituted in 2000 after the December local government elections. It took over some of the functions and responsibilities of the then Northern District Council. The District Municipality's physical location is in Polokwane, the capital of Limpopo Province. Capricorn District Municipality's area of jurisdiction is approximately 23 688 km<sup>2</sup> with a population of about 1.154 million people and about 208 190 households. CDM directly serves communities in five Category B Municipalities: Aganang, Blouberg, Lepelle-Nkumpi, Molemole and Polokwane.

**Table 1: Population per Local Municipality in Capricorn District**

Municipality	Population	No. of Households	Average Household Size	% of district population	Population density
Aganang	147 682	32 185	4.59	12.79	0.71
Blouberg	161 322	33 939	4.75	13.97	0.28
Lepelle-Nkupi	227 970	51 244	4.45	19.74	0.74
Molemole	109 441	27 889	3.92	9.48	0.36
Polokwane	508 277	124 977	4.07	44.02	1.28
<b>Total</b>	<b>1 154 692</b>	<b>270 234</b>	<b>4.36</b>	<b>100</b>	<b>0.66</b>

Source: Statistics South Africa, 2001 Census

### 1.2.2 Aganang Local Municipality

Aganang Local Municipality is located on the northwestern side of Polokwane Municipal Boundary. It is one of the local municipalities that form part of Capricorn District Municipality. Aganang Municipality covers an area of 1,852.22 km<sup>2</sup> with approximately 96 villages.

Of the five local municipalities that form Capricorn District, Aganang is the fourth-most densely populated. It contributes about 12.7% of the District's total population. The population increase in Aganang is estimated at 0,04% per annum and 2,4% within a five year period, as compared to the 1996 Census.

Aganang Local Municipality is one of the predominantly rural local municipalities in the Limpopo province and has approximately 96 settlements. Aganang municipality is one of

the municipalities which were placed under Project Consolidate. Project Consolidate is a hands-on programme of support and engagement for local municipalities. It is a two-year engagement programme, which allows national and provincial government, together with key partners in the private sector, to find new impact-orientated modes of engaging, supporting and closely working with local government. It is aimed at providing targeted focus and capacity building to those municipalities which have the greatest need.

### **1.3 STATEMENT OF THE PROBLEM**

In virtually all the municipalities the following problems can be identified:

- (i) procedures are not followed in the procuring of goods and services
- (ii) tenders and other bids are perceived to be favouring certain individuals or companies;
- (iii) municipalities are unable to deal with the problem of corruption;
- (iv) there is lack of capacity to deal with procurement and supply-chain management challenges;
- (v) of these problems, compliance with the relevant supply-chain management policies is the main problem.

The issues raised affect many municipalities. This means that there are serious issues that need to be addressed such as the focus and the implementation of supply-chain management policies.

### **1.4 RESEARCH QUESTIONS**

- (i) Why do many local municipalities still largely use the conventional procurement systems?
- (ii) Why are fraud and corruption so rife in municipalities, whereas there are supply-chain management regulations and procedures?

- (iii) Why are municipalities not complying with the national procurement and supply-chain management targets?
- (iv) What are the problems experienced in the implementation of South African supply-chain management regulations and policies and to what extent do these problems impact on service delivery?

## **1.5 OBJECTIVES OF THE STUDY**

The objectives of this research are as follows:

- (i) to investigate possible purchasing and tender irregularities in Capricorn District and Aganang Local municipalities;
- (ii) to investigate whether the evaluation and adjudication processes are in accordance with the applicable legislation;
- (iii) to recommend possible strategies and mechanisms to improve the situation in procurement and supply-chain management, to prevent fraud and corruption.

## **1.6 HYPOTHESES**

The following hypotheses will be tested empirically:

- (i) There is a general lack of systems and mechanisms to monitor and evaluate the application of procurement and supply-chain management processes in local municipalities.
- (ii) The lack of anti-corruption strategies is the root cause of procurement-related corruption in municipalities.

## **1.7 SCOPE AND LIMITATION OF THE RESEARCH**

Aganang Local and Capricorn District Municipalities were selected, as it is the researcher's belief that these two municipalities might reveal the same characteristics as other municipalities, and as such the findings may be relevant to other municipalities in

Limpopo Province which experience similar problems. The researcher would, however, be very careful of over-generalisation because areas and municipalities could differ from one another.

It was anticipated that officials might simply refuse to divulge information since the researcher is an employee of the Capricorn District Municipality within which Aganang local municipality falls. Upon reflection, the timing of the research was unfortunate, in that it occurred at a time when municipalities were approaching local government elections and officials might be sceptical of sharing information.

The researcher had to apply strategies to overcome the anticipated limitations in order to proceed in conducting the research. This was in the form of informal conversations with the targeted respondents, and included approaching senior officials who had resigned from the municipality. The researcher also used ‘inter-governmental relations’ tactics to dig for information. This was done under the pretext of knowledge and information sharing.

## **1.8 CHAPTER OUTLINE**

### **Chapter 1: Introduction and General Orientation**

Chapter one outlines the background and the rationale for the study, which will form the basis of understanding of the research. Statement of the problem and an indication of the research question are outlined together with the objective of the study.

### **Chapter 2: Literature Review**

This chapter provides a brief review of the existing literature that represents the most authoritative scholarship on the research problem that the researcher identified with and is relevant to the research topic.

### **Chapter 3: Research Design and Methodology**

This chapter outlines the research design and methodology that were followed in the research process in order to investigate the problem identified in chapter one. The chapter also identifies the target group, sampling method, size of the population and finally the research techniques.

### **Chapter 4: Data Analysis**

This chapter discusses how the collected data was analysed. The researcher determines and selects from the general field exactly that data which is required with regard to procurement procedures in municipalities. The researcher then filters the massive amount of data available, using the data filtering technique until only that which is critical to the research remains. Both quantitative and qualitative analysis will be used for the purpose of this research.

### **Chapter 5: Conclusion and Recommendations**

The study summarises all the discussions above, linking the aims and the objectives of the study, data collected and the reviewed literature. In this chapter, the main conclusions of the study are drawn and recommendations are made against issues raised. Issues for further research are also identified.

## **1.9 CONCLUSION**

The government has taken considerable strides in terms of putting regulatory mechanisms in place to promote efficiency and effectiveness in supply-chain management practices. Although the regulatory framework has gone through significant changes and improved considerably, what is still missing is a change in the mindset of the officials involved in supply-chain management and a paradigm shift in the way of doing things.

One of the key leadership tasks is to build the capacity and capability of the council for a modern, strategic approach to procurement. That means ensuring that a corporate procurement strategy and the necessary people, processes and technology are in place and are making a difference. Strong procurement management in municipalities is a tool for achieving political, economic and social goals.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

This chapter provides a brief review of the existing literature that represents the most authoritative scholarship on the research problem that the researcher identified with and is relevant to the research topic. The researcher highlights issues relating to conventional ways of procuring goods and services and supply-chain management, which are an integral part of financial management, and intended to introduce international commercial best practice.

The South African procurement and supply chain management legislative framework aims at creating the basis for viable local government, making individual municipalities responsible for the delivery of services that the public expect and ensure that taxpayers receive value for money. In order to deliver public services, municipalities will from time to time engage suitable service providers to conduct business on their behalf or to deliver certain goods and services. It is for this reason that municipalities should have sound procurement procedures and systems to deal with issues pertaining to the purchasing and acquiring of goods and other services. Supply- chain management seeks to breach the gap between traditional methods of procuring goods and services and at the same time addressing procurement-related matters that are of strategic importance.

#### **2.2 PROCUREMENT REFORMS IN SOUTH AFRICA**

Procurement reforms in government started in 1995 and were directed at two broad focus areas, namely the promotion of principles of good governance and the introduction of a preference system to address certain socio-economic objectives. The procurement reform processes were supported by the introduction of a number of legislative measures,



including the adoption of the Public Finance Management Act, 1999 (Act 29 of 1999) and the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000).

A Green Paper on Public Sector Procurement Reform in South Africa was published in April 1997. The Green Paper recognised that public sector procurement could be used by government as a mechanism to achieve certain broader policy objectives such as black economic empowerment, local economic development spin-offs for small and medium-sized business, skills transfer and job creation. To achieve this, institutional and economic reform were necessary within two broad themes, namely, to establish principles of good governance in the area of supply-chain management and to introduce a preference system to achieve certain socio-economic policy objectives.

The procurement reform initiatives were given further impetus when the “Report on Opportunities for Reform of Government Procurement in South Africa” was presented to Cabinet in November 2000. Cabinet endorsed the thrust of the report and directed that the Minister of Finance, in consultation with other relevant Ministers, address the details where necessary. As the procurement reform measures in the national sphere of government were adopted by the other organs of state, divergent interpretations of government’s procurement objectives and strategies became evident. To assist the National Treasury in guiding a more uniform implementation approach, a Joint Country Procurement Assessment Review (CPAR) was conducted during 2001/02 with the World Bank. The CPAR revealed a number of deficiencies that needed to be addressed.

### **2.3 REGULATORY FRAMEWORK**

The following is a brief overview of the various Acts and regulations that make up the regulatory framework with regard to supply-chain management.

Section 217 of the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996), which reads as follows:

- (1) When an Organ of State in the national, provincial or local sphere of government, or any other institute 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.
- (3) Subsection (1) does not prevent the Organs of State or institutions referred to in that subsection from implementing a procurement policy providing for
  - (a) categories of preference in the allocation of contracts; and
  - (b) the protection or advancement of persons, or categories of persons, or unfair discrimination.

Section 83 of the Municipal Systems Act 2000 (Act No. 32 of 2000) allows municipalities to provide municipal services themselves or by way of service delivery agreements. This Act stipulates requirements for service delivery agreements through selection and pre-qualification processes which:

- (i) are competitive, fair, transparent, equitable and cost effective;
- (ii) allow all prospective service providers to have equal and simultaneous access to information relevant to the bidding process;
- (iii) minimise the possibility of fraud and corruption; and
- (iv) make the municipality accountable to communities, residents and role-players about process when selecting a service provider and the reason for any decision in this regard.

The Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) and its regulations are applicable to local government. It provides that all local municipalities implement a preference system in the allocation of contracts for categories of service providers to advance the interests of persons disadvantaged by unfair discrimination. The specific goals and objectives of the preferential procurement policy should, according to the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000), include provisions for encouraging and supporting contracting with persons, or categories of persons, historically disadvantaged (HDI) by unfair discrimination on the basis of race, gender or disability. It may also aim at implementing the programmes of the

Reconstruction and Development Programme (RDP) as published in *Government Gazette* No. 16085 dated 23 November 1994.

The Municipal Finance Management Act, 2003 (Act No. 56 of 2003), as a further extension of the Public Finance Management Act, 1999 (Act 29 of 1999), aims to assist municipalities to maximise their capacity to deliver services. The Act is clear on measures for combating fraud, corruption, favouritism and unfair and irregular practices, and seeks to promote the ethical behaviour of officials and other role-players involved in supply-chain management.

Municipalities and municipal entities in South Africa must have and implement a supply-chain management policy, which gives effect to the provisions of the supply-chain management provisions within the Act. The supply-chain management policy must be fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework for municipal supply-chain management. The Act places considerable emphasis on efficiency in the provision of services and achieving financial value for money and seeks to buttress this with a strong code of conduct for municipal officials to combat corruption.

The Broad-Based Black Economic Empowerment Act, 2003 (Act 53 of 2003), expands the framework provided in the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) to take into account and to apply codes of good practice for Black Economic Empowerment. Furthermore, it provides for the use of qualification criteria for the issuing of licenses, the sale of state-owned assets and the entering into of public-private partnerships. The Bill and Strategy envisage the strengthening of government's legislative and other policy instruments towards achieving its Black Economic Empowerment (BEE) objectives. This includes the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) and its associated regulations.

Over the past number of years, government has initiated a number of strategies over a broad front to bring about structural change in the economy. In all government

programmes the extent to which black people benefit is a fundamental criterion of operation and success. Consequently, actions and policies that will have the effect of bringing about black economic empowerment will have an impact on many spheres of society and the economy. In this context, government's supply-chain management activities have a major role to play as collective instruments of policy.

Government will use a 'balanced scorecard' to measure progress made in achieving Black Economic Empowerment by enterprises and sectors. The use of a common scorecard by different stakeholders provides a basic framework against which to benchmark the Black Economic Empowerment process in different enterprises and sectors. The scorecard will measure three core elements of Black Economic Empowerment:

- (i) Direct empowerment through ownership and control of enterprises and assets;
- (ii) Human resource development and employment equity;
- (iii) Indirect empowerment through preferential procurement and enterprise development.

Government has set up supply-chain management as a point of departure and an improvement on the previous processes of procurement, a departure from the past rigid, rule-bound, inflexible process that was inefficient, and which in the final analysis was basically focused on the lowest quote even though the rest of the factors critical to government policy were not fulfilled. The supply-chain management approach is aimed at enabling government to utilise its financial resources to have an impact on fighting poverty and fulfill its commitment to black empowerment and the promotion of small, medium and micro-enterprises.

On 30 May 2005 new Supply-Chain Management Regulations were published in the Government Gazette and became operational as from 1 July 2005. These regulations now

set the prescribed regulatory framework within which such a municipal supply-chain management policy must be developed.

The Supply-Chain Management Regulations further provide that every municipality and municipal entity must have an approved supply-chain management policy. This policy must provide for the procurement of goods and services by way of a range of processes including petty-cash purchases; formal, written price quotations; and competitive bidding processes for procurement of short and long-term contracts.

To expedite decision-making, provision is made for the delegation of powers and duties and for sub-delegation. No decision making in terms of any supply-chain management powers and duties may be delegated to an advisor or consultant. This means that advisors and consultants may assist in the evaluation process but they may not take final decisions. The supply-chain management regulations are very clear about the role of political office bearers in procurement processes. Councillors are not allowed to take part in procurement activities. The council of a municipality must play an overseeing role for that purpose; reports must be submitted to the council by the accounting officer to enable the council to play such a role.

#### **2.4 IMPORTANT ROLE PLAYERS IN THE SUPPLY-CHAIN MANAGEMENT PROCESSES IN MUNICIPALITIES**

The Municipal Supply Chain Management Regulations (30 May, 2005) serves as a formal requirement to accounting officers to ensure implementation of the SCM process as an integral part of their financial systems. In terms of the Municipal SCM Regulations, municipalities must establish supply-chain management units to develop and implement their Supply-Chain Management policies. Where possible, these must operate directly under the supervision of the Chief Financial Officer. The regulations require training of officials involved in implementing the policy, which should be done in accordance with the treasury guidelines on training.

The supply-chain management regulations further provide for a committee system for competitive bids, consisting of a bid-specification committee, a bid-adjudication committee and a bid-evaluation committee. The main function of the bid-specification committee is to compile the specifications for the procurement of goods or services by the municipality. Specifications must be drafted in an unbiased manner to allow all potential suppliers to offer their goods or services. Specifications must take account of any accepted standards such as those issued by Standards South Africa, the International Standards Organisation, or an authority accredited or recognised by the South African National Accreditation System with which the equipment or material or workmanship should comply.

Where possible, specifications should be described in terms of performance required rather than in terms of descriptive characteristics for design. The specification committee should not create trade barriers in contract requirements in the form of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labeling of conformity certification. Specifications may not make reference to any particular trademark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible way of describing the characteristics of the work, in which case such reference must be accompanied by the words “equivalent”.

The bid-specification committee must be composed of one or more officials of the municipality, preferably the manager responsible for the function involved, and may, when appropriate, include external specialist advisors. No person, advisor or corporate entity involved with the bid-specification committee, or director of such a corporate entity, may bid for any resulting contracts.

According to the Municipal Supply Chain Management Regulations (30 May, 2005), the roles of the bid-evaluation committee must include among other things the evaluation of bids in accordance with the specifications for a specific procurement and the points system; the evaluation of each bidder’s ability to execute the contract; checking in respect of the recommended bidder whether municipal rates and taxes and municipal service

charges are not in arrears; and submit to the adjudication committee a report and recommendations regarding the awarding of the bid or any other related matter. The bid-evaluation committee must, as far as possible, be composed of officials from departments requiring the goods or services; and at least one supply-chain management practitioner of the municipality.

The Supply-Chain Management Regulations provide that the bid-adjudication committee must consider the report and recommendations of the bid-evaluation committee; and depending on its delegations, make a final award or a recommendation to the accounting officer to make the final award or make another recommendation to the accounting officer how to proceed with the relevant procurement.

The bid-adjudication committee must consist of at least four senior managers of the municipality which must include the chief financial officer or, if the chief financial officer is not available, another manager in the budget and treasury office reporting directly to the chief financial officer and designated by the chief financial officer; and at least one senior supply-chain management practitioner who is an official of the municipality and a technical expert in the relevant field who is an official, if such an expert exists.

The accounting officer must appoint the chairperson of the committee. If the chairperson is absent from a meeting, the members of the committee who are present must elect one of them to preside at the meeting. Neither a member of a bid-evaluation committee, nor an advisor or person assisting the evaluation committee, may be a member of a bid-adjudication committee. If the bid-adjudication committee decides to award or recommend a bid other than the one recommended by the bid-evaluation committee, the bid-adjudication committee must furnish the reasons for the deviation.

The accounting officer appoints the members of the committees, taking into account section 117 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), which provides that councillors are barred from serving on any municipal tender

committees. The accounting officer may appoint a neutral independent observer to attend and oversee the process to ensure fairness and promote transparency. These provisions strengthen the notion that the accounting officer takes responsibility and accountability for the procurement process, and that the elected council makes the policy and oversees the process, but that individual councillors are specifically barred from getting involved in, or interfering with the process.

Among the responsibilities within supply-chain management is for the municipality to maintain a database to support the monitoring of the extent to which government's procurement reform objectives are met; monitor the manner in which policy is implemented in respect of government's procurement reform objectives, the manner in which targets are set and attained, value for money obtained and delivery mechanisms. One of the functions within the performance review could be to identify and evaluate issues around the effects of the procurement policy on the poor and how the policy can be adapted to benefit the poor in the long run.

## **2.5 ELEMENTS OF SUPPLY-CHAIN MANAGEMENT**

According to Municipal Supply Chain Management Regulations, which came into effect on 30 May 2005, the following elements should be the corner stone of all the procurement processes:

- **Demand Management**

This is the beginning of the supply chain and it involves understanding future needs; identifying critical delivery dates; the frequency of need; linking the requirement to the budget; doing an expenditure analysis; determining the specifications; .doing a commodity analysis; and doing an industry analysis.



This is a cross-functional exercise that brings the supply-chain practitioner closer to the end user and ensures that value for money is achieved.

- **Acquisition Management**

Acquisition management is basically what is commonly known as Procurement. Acquisition management in that it must ensure that goods and services are procured by the municipality in accordance with authorised processes only and that expenditure on goods and services is incurred in terms of an approved budget. Officials involved in acquisition management must also ensure that the threshold values for the different procurement processes are complied with and that bid documentation, evaluation and adjudication criteria, and general conditions of a contract, are in accordance with any applicable legislation.

Gildenhuys (1993:600) asserts that democratic values serving as guidelines for public financial management may create administrative 'red tape'. Unnecessary red tape should be avoided as far as possible. It must, however, always be borne in mind that stock is purchased with taxpayers' money and account must be given in public of such activities. A set of formal purchasing procedures should exist and be published for the information of the public to eliminate the suspicions of unsuccessful bids and in order to account for the purchasing of stock in public. Purchasing procedures should be formulated in such a manner that irregularities would be eliminated. Regular auditing should be done to ensure the regularity of all purchases.

According to Schwella, *et al.* (1996:144), the efficiency of acquiring public stock depends firstly on democratic control and public accountability; secondly, on a transparent set of procedures; thirdly, on effective, efficient, responsive and equitable application of procedures; and fourthly, on spreading acquiring authority throughout an organisation with widely varying requirements.

According to Gildenhuis (1997a:179), stock must be ordered on a regular basis according to the prescribed procedures. Not all the stock which will be needed for one year is ordered the moment a supplying contract has been concluded. As a result, certain stock items are ordered repeatedly at fixed intervals during a contract period usually one year necessitating specific procedures. An official order form should be issued to the supplier to whom the contract has been awarded.

Schwella, *et al.* (1996:145) further maintain that a set of formal acquisition procedures should exist and be published for public consumption to eliminate suspicion on the part of unsuccessful tenderers and to account for the acquisition of public stock. Acquisition should be formulated to eliminate irregularities and regular auditing should be carried out to ensure regularity.

Regular payment of suppliers' accounts is imperative because sometimes provision is made in the tender contracts for discount when accounts are paid within a specified period. The best possible use should be made of these discount offers. Provision is also often made for a discount on the price of products if a specified minimum is ordered.

Gildenhuis (1997a:182) further asserts that when buying stock, governments should ensure optimum value for money. It is the duty of each chief financial officer to develop a procurement system, which complies with the value-for-money principle. Procurement usually takes place by calling for tenders. A distinction must be drawn between calling for tenders, awarding tenders and the eventual buying of stock. Each government should develop procurement measures appropriate to its own peculiar circumstances. Calling for tenders for the supply of goods and services are prescribed practices in the public sector. Legislation forces governments to call for tenders for the supply of goods and services. There are two ways in which goods and services may be procured: firstly by formal contract for a specified period, entered into when awarding a tender to a supplier according to the prescribed procedures, and secondly the obtaining of written or verbal (telephonic) price quotations for the casual buying of goods. Stock must be purchased

regularly and according to prescribed procedures. Effective issuing procedures are imperative for proper control over the use of stock.

The efficient acquisition of stock requires expertise. Personnel with the requisite training and experience should perform this function. Gildenhuis (1993:601) maintains that the official buyer should be an expert on the commodity markets to give the correct advice on allocating tenders and buying as economically as possible. Acquisition management also involves the administration of bids or tenders, as they are commonly known.

Visser and Erasmus (2002:158) maintain that the calling for tenders to secure supplies of goods and services is an integral part of procurement, as legislation compels public institutions to procure goods and services through that process. A thorough knowledge of the different phases of the tendering process and the accompanying procedures is, therefore, necessary to ensure that public officials procure goods and services in good time and according to their requirements.

Gildenhuis (1997b:182) maintains that there are various ways in which tenders can be called for and contracts concluded, such as public tenders, limited public tenders, private tenders, negotiated contracts, serial contracts and divided contracts. Usually a closing date and deadline are set for presenting tenders. Only tenders received on or before the closing date and hour should be considered. Governments should not be compelled to accept the tender with the lowest price. When it come to standards and specifications, these must be set out clearly and in such a manner that even emerging businesses can easily understand the technical procurement process (Kanyane, in Mafunisa & Maserumule, 2004:52).

- **Logistics Management**

Logistics management entails among other things the coding of items; setting of inventory levels; placing of orders; receiving and distribution of material;

stores/warehouse management; expediting orders; transport management; and vendor performance.

Every municipality must establish an effective system of logistics management in order to provide for the setting of inventory levels; placing of orders; receiving and distribution of goods; stores and warehouse management; expediting orders; transport management; vendor performance; and maintenance and contract administration.

When ordering stock or goods, certain procedures need to be followed. Gildenhuis (1997b:192) suggests the following procedures to be followed when ordering stock:

- (i) An official order form should be issued to the supplier to whom the contract has been awarded.
- (ii) When the ordered stock is delivered, it should be accompanied by a delivery note from the supplier, containing all details of the stock.
- (iii) Upon receipt of the ordered stock, it must be checked against the order form, the delivery note and the tender documents. It is important to ascertain whether the stock received is that which was ordered.

Logistics management also involves the management of standing orders and urgent orders. Hugo, *et al.* (2002:168) define a standing order as an agreement with a particular supplier to deliver goods over an agreed period of time at a fixed price, or for prices to escalate at a pre-determined rate. It is usually part of the agreement that a certain minimum quantity of goods be bought in the relevant period, or that for the duration of the agreement fixed quantities be bought within certain periods.

There is a high tendency in municipalities, provincial government and national government to process orders in a rushed mode. This inconveniences and affects the day-to-day planning of the Purchasing Officers. Hugo, *et al.*(2002:169) have the following to say about urgent orders: “Orders marked ‘urgent’, or those having to be placed by telephone, are an indication of insufficient planning. It is not denied that circumstances

necessitating urgent orders may arise, but the practice is unacceptable when it occurs frequently. Urgent orders are detrimental to supplier relations since unnecessary pressure is placed on suppliers. Urgent orders can cause mistakes and omissions, and often evade the purchasing procedure and control system, and create the image of poor management.”

- **Disposal Management**

Section 40 of the Municipal Supply Chain Management Regulations which came into effect on the 30<sup>th</sup> May 2005, maintains that disposal management involves the management of all the functions related to disposal or letting of assets, including unserviceable, redundant or obsolete assets. The assets could be disposed of by way of transferring the asset to another organ of state at market-related value or, when appropriate, free of charge; selling the asset; or destroying the asset.

- **Risk Management**

According to Section 41 of Municipal Supply Chain Management Regulations risk management includes the identification, consideration and avoidance of potential risks in the supply-chain management system. Risk management must include:

- (i) the identification of risks on a case-by-case basis;
- (ii) the allocation of risks to the party best suited to manage such risks;
- (iii) acceptance of the cost of the risk where the cost of transferring the risk is greater than that of retaining it;
- (iv) the management of risks in a pro-active manner and the provision of adequate cover for residual risks; and
- (v) the assignment of relative risks to the contracting parties through clear and unambiguous contract documentation.

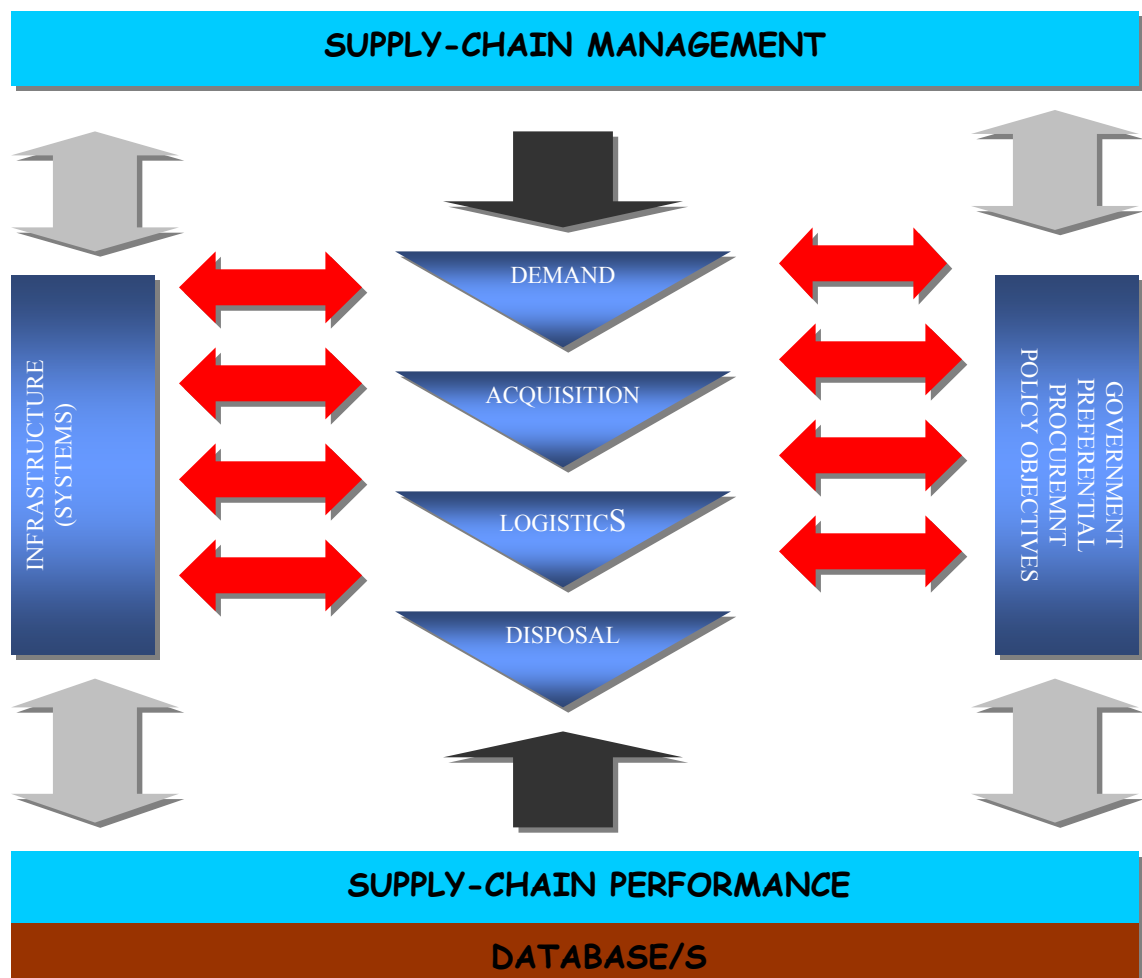
- **Performance Management**

Monczk *et al.* (2005:247) states that many organizations, large and small, have not developed objective or rigorous supplier measurement systems, during either supplier

selection or continuous post selection measurement. While many reasons exist for this shortcoming, a primary one is that executive managers have historically not perceived the importance of suppliers. Even today wide differences exist in the quality and capability of supply chain measurement.

According to section 42 of the Municipal Supply Chain Management Regulations which came into effect on the 30<sup>th</sup> May 2005, Supply-chain management must entail an internal monitoring system in order to determine, on the basis of retrospective analysis, whether the authorised supply-chain management processes were followed and whether the desired objectives were achieved.

*Fig 2.1 The following diagram illustrates the Supply Chain Management Model*



Source: National Treasury, 2004: Supply Chain management A Guide to Accounting Officers/Authorities

## **2.6 CHALLENGES FACING SUPPLY-CHAIN PRACTICES IN MUNICIPALITIES**

In the nature of government operations, business is conducted through a series of processes and transactions involving different persons at different stages. In the process, different units have to work together. At the same time, contacts are established between officials in different departments and units. While this may assist in the expeditious processing of government business, it may also have the unintended consequence of fostering relationships conducive to fraud and corruption, which are a major challenge facing municipalities today.

### **2.6.1 Corruption in Procurement**

Although differences may exist in the nature and scope of corrupt behaviour, and the extent to which anti-corruption measures are enforced, the phenomenon can be found at all times and within virtually every government organ. It can also be found within the private sector.

The term “corruption” is used as a shorthand reference to a large range of illicit or illegal activities. Although there is no universal or comprehensive definition as to what constitutes corrupt behaviour, the most prominent definitions share a common emphasis on the abuse of public power or position for personal advantage. *The Concise Oxford Dictionary* defines corruption as “perversion or destruction of integrity in the discharge of public duties by bribery or favour”. The *Merriam Webster’s Collegiate Dictionary* defines it as “inducement to wrong by improper or unlawful means”.

Klitgaard *et al.* (2000:46) further maintain that important conditions must be in place to fight corruption in procurement, including a well-delineated civil service system (merit-based and adequately paid) and law-enforcement services that can investigate problems.

- **Collusion, Bribes and Bid-rigging**

Klitgaard *et al.* (2000:46) note three types of corruption that are especially likely in procurement: collusion in bidding leading to higher prices; kickbacks from contractors/suppliers which reduce competition and influence selection; and bribes to officials responsible for regulating performance of the winning contractor resulting in possible cost overruns and low quality.

Bribes, bid-rigging and other types of corruption can vary according to the type of procurement process followed, e.g. open tender, restricted tender, negotiated competition, or direct procurement. With open tender, corruption can occur when confidential information on what different suppliers have bid is selectively shared, allowing some bidders inside information. There can also be corruption in the adjudication of tenders, where the assessment of quality and reliability are unfair and influenced by bribes. With negotiated competition there can be opportunities for extortion and bribery during the back-and-forth price discussions with firms.

- **Cover Quoting**

Cover quoting refers to the manipulation of the three-quote procurement system by a departmental official, acting in collusion with a supplier, whereby multiple quotations are submitted as if they were independent quotes. Cover quoting cannot happen in ignorance or be occasioned by negligence. It is pre-meditated and intentional. The official involved in the procurement process would contact one supplier and request that supplier to submit multiple quotations, under the guise of different entities. When received, the officer would process or present these as independent quotations. As this involves dishonesty by the official, it usually goes hand in hand with a corrupt reward. The supplier would, on request of the procurement officer, or alternatively at his own suggestion, submit multiple quotes using names and letterheads of actual and fictitious entities that he controls or has



manufactured. This enables him to artificially inflate prices, as he is assured that one of his three quotes is the lowest, regardless of how expensive it may be.

As the supplier controls all three quotations the competitive nature is eliminated, including the natural checks and balances, which keep prices reasonable. As the supplier can now achieve bigger profits, he can afford to share these proceeds with the official who allowed the practice.

- **Fronting**

Fronting is one common thorn tormenting the public procurement fraternity. Thompson (1995:192) defines fronting as the side that is seen first or that goes first or as the outward appearance of a person or a person that is used as a cover for some questionable activity. In this respect fronting is a practice that takes place at many levels in our personal and social lives, and in some respects we may even be unconscious of our demeanours.

Fronting is when black people are listed as directors of companies, but do not take part in the decision-making process or ownership of the business. They are simply the black faces of companies that want to present a facade that suggests that the business supports Black Economic Empowerment.

To this day, there are many men in business all over South Africa who use their wives and people with disability as fronts to protect them against possible bankruptcy or to win government tenders. This practice is becoming more common in all government spheres and is further encouraged by the provisions of the Preferential Procurement Framework Act, (Act No.5 of 2000). The Act provides that women service providers should receive more preferential points when they tender for government contracts compared to their male counterparts. This has, to a larger extent, encouraged women fronting.

In the post-apartheid context, black fronting refers to the false or inflated use of black names to gain Black Economic Empowerment contracts for white-owned (and to a lesser

extent, other than black-owned) businesses. Economic empowerment for black people is about redressing the inequities of the past so that we are in position in the future to address the needs of a balanced society. It is an essential step that requires a government to build a nation through a more equitable sharing of the economy. But too few people believe in this principle of redress, as they do not perceive themselves as a monolithic group, responsible for having to make sacrifices for the past. Instead, the average non-black seems to feel discriminated against. Such thinking is based on the premise that apartheid is over, the new government is here and we are all one united Rainbow Nation. Set against this backdrop is another factor that produces discontent, and that is of the rapidly emerging super-wealthy black business class, which seems to be making even greater progress through misdirected empowerment benefits.

The researcher observed a lot of people masquerading as contractors, who have no resources to start projects and therefore have to cede their tenders either to big white-owned companies or material suppliers. These people then take over the execution of the projects. These “contractors” take a lump sum and go and sit at home or buy luxury cars. In the end they have not participated in the project execution. There was no skill transfer in the managing of a construction project and they do not invest in their own company assets, which they will use in the next project or hire out to other contractors. The cycle is repeated over and over again and in the end there will be no new black contractors created through government affirmative procurement practices.

- **Moonlighting**

The *Concise Oxford Dictionary* defines moonlighting as doing a second job, especially secretly in addition to one’s regular employment. For the purpose of this research report, moonlighting refers to a situation where employees perform remunerative work outside their employment without permission. The problem of moonlighting is prevalent in the public service, including municipalities.

The Municipal Supply Chain Management Regulations, which came into effect on the 30th May 2005, prohibit persons in the service of the state, like councillors, full-time employees and directors of municipal entities from being eligible to bid or to be awarded a contract to provide goods or services to a municipality. The prohibition also applies to companies if an elected official, public employee or director of a municipal entity is the owner, director or principal shareholder. However, research has proved that many municipal employees are continuing to do business with municipalities and other organs of state without declaring their interest. Some of these officials register companies in the names of relatives and friends.

- **Conflict of Interest**

Conflict of interest is another problem that is weakening the government. Kanyane (2005:62) asserts that conflict of interest arises when the private interests of a government official clash or even coincide with public interests. Such tension raises an ethical dilemma when the private interest is sufficient to influence or appear to influence the exercise of official duties.

It is the responsibility of all public officers to ensure the integrity and impartiality of the procurement process. Conflict-of-interest situations may arise in cases where a public officer exercises his authority, influences decisions and actions or gains access to valuable information, perhaps but not necessarily restricted or confidential.

Conflict of interest may also arise from participation by consulting firms or contractors in government procurement. All parties involved in procurement must be alert to situations which may lead to actual, potential or perceived conflict of interest and ensure that sufficient safeguards are in place to avoid such situations from arising. Public officers involved in government procurement, including in particular the chairperson and members of bid-specification, bid-evaluation and bid-adjudication committees, tender-opening officials and consultants must avoid conflicts arising between their official duties and their private interests.

In cases of conflicting interest, declaration must be made to enable chairpersons of bid committees and other committee members to decide whether the officer should continue to be involved in the specific procurement exercise.

The supply-chain management regulations for municipalities state that awards to a close family member of an employee in the service of the state, or to a person who left an elected or employed position in any sphere of government fewer than 12 months before, must also be disclosed in the annual financial statements of the municipality. Tough provisions also apply to ensure that bidders do not corrupt supply-chain officials, as their bids will be disqualified should they do so. Officials who are responsible for procuring goods and services will need to comply with a strict code of ethics with regard to gifts and other inducements, and must immediately withdraw from the process if a family member has any interest in a bid.

## **2.7 PROFESSIONALISM AND ETHICS IN THE PROCUREMENT BUSINESS**

Mafunisa (2000:81) asserts that professionalism requires public officials to fulfill their roles as efficiently as possible, and to do so with competence and precision. Hanekom (1987:170) also believes that the promotion of professionalism enhances group cohesion. Professionalism could contribute to the development of an enabling tendering environment, where all public sector employees and the general public share the SAME work values to strive towards excellence in the public sector. Professionalism promotes public officials and service providers who are accountable for their actions, which promotes the further development of ethical behaviour.

What we need in the public sector is a set of national core values, fostering integrity, professionalism, responsibility, accountability, honesty and competence, together with a collective national conscience that cuts through the cancer of corruption and unethical behaviour. These core values could be an important guideline for public officials in that

they should ensure that their behaviour is moral and competent at all times. The behaviour of both the service providers and public officials must reflect these national core values at all times.

An aspect of purchasing and supply work, which can be controversial and also damaging to the image of the function, concerns ethical standards of behaviour or conduct in relation to a number of key topics with which personnel may be confronted.

Rumours of unethical behaviour, even if they are not true, can do much harm to the reputation of personnel and the integrity of the function. It is recommended that organisations develop clearly stated codes of conduct, so that the requirements are indicated to personnel inside the function, but also to outsiders in the rest of the organisation and in supplier firms as well (Saunders, 1997:174).

Earle (1992:177) defines ethics as a reflective philosophical endeavour that attempts to make theoretical sense out of our classification of actions into the basic categories of the morally permissible, the morally impermissible and the morally obligatory. In our time, the concept of ethics has broadened to include not only the characteristics of the good person and theoretical knowledge, but also the “best practice”. Today “ethics” refers to a set of moral principles or values. The words “ethical” and “moral” refer to the fact that we judge people’s behaviour as acceptable or unacceptable, good or bad. These judgements about people's behaviour are called moral norms.

Van der Waldt and Du Toit (1999:400) distinguish between management ethics, community ethics and government ethics, but also indicate that they are interdependent. Management ethics refers to the motivational means which directs human behaviour and conduct, and which provides the guidelines in decision-making. Government ethics implies the improvement of standards of living, the improvement of service delivery and refers also to the enhancement of the loyalty of public officials. However, community ethics refers to the reasonable consensus on values and ethical norms within a

community, which can be seen as the foundation of the expectations the community has of public officials and the public sector.

It is clear that ethics can be defined as a set or code of moral principles and values that directs the behaviour of people in terms of what is wrong and what is right. In this sense ethics sets standards about what is good or bad, acceptable or unacceptable.

According to Malan and Smit (2001:259-260) many people are outspoken about the moral decay and ethical erosion in South Africa, and the inability of the government to deal with this. With this in mind it is clear that something has to be done about the ethical erosion.

## **2.8 CONCLUSION**

In conclusion, the government has made considerable strides in terms of putting regulatory mechanisms in place. Although the regulatory framework has gone through significant changes and improved considerably, what is still missing is a change in the mindset of the procurement officials and a paradigm shift in the way of doing things.

## **CHAPTER 3**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter outlines the research design and methodology that was followed in the research process in order to investigate the problem identified in chapter one. The chapter also identifies the target group, sampling method and size of the population. In this chapter the instruments that were used to collect data are explained and discussed. Lessons learnt and the difficulties encountered during the research process are also highlighted in this chapter.

#### **3.2 RESEARCH METHODOLOGY**

For the purpose of this study, both the qualitative and quantitative methods have been used. Qualitative methodology refers to research, which produces descriptive data, generally people's own written or spoken words. Qualitative research is not concerned with the methods and techniques to obtain appropriate data for investigating the research hypothesis, as in the case of quantitative research. Qualitative data are based on meanings expressed through words and other symbols or metaphors (Welman and Kruger, 2001:191).

#### **3.3 RESEARCH DESIGN**

Research design and methodology is a plan or blueprint of how you intend conducting the research (Mouton, 2001:55). The study applied a combination of empirical and exploratory study. Evaluation research as supported by Mouton (2001:158) stating that implementation evaluation research aims to answer the question of whether an intervention (programme, therapy, policy or strategy) has been properly implemented,

whether the target group has been adequately covered and whether the intervention was implemented as designed, was also employed.

### **3.4 TARGET GROUP**

The target population for this study is the employees and councillors of Capricorn District Municipality and Aganang Local Municipality. The researcher also targeted other stakeholders such as service providers. The employees are comprised of both the managerial and the junior level of staff and mainly those who are in one way or another involved in the procurement processes.

### **3.5 SAMPLING**

The study used the stratified random sampling method. The principle of stratified random sampling is to divide a population into different groups called strata, so that each element of a population belongs to one and only one stratum (Bless & Higson-Smith 1995:90). According to Ragin (1994:27) stratified sampling is a form of probability sampling in which a sampling frame is divided into one or more strata from which a sample is drawn using either simple random sampling or systematic sampling strategies.

The strata were drawn from a sample of 40 employees (30 from Capricorn District Municipality and 10 from Aganang). A sample of 10 councillors and 10 service providers was used and this added up to make a total sample of 60.

### **3.6 RESEARCH TECHNIQUES**

#### **3.6.1 Self-administered questionnaire**

Self-administered questionnaires were administered to extract information from the targeted respondents. The questions were semi-structured and respondents had to give one-word answers. Closed and open-ended questions were used (see annexure six [6]).



The process of distributing questionnaires and collecting them took approximately two weeks. Out of the sixty questionnaires distributed, 31 were duly completed and returned. Twenty-nine (29) questionnaires were never returned as the respondents preferred to be interviewed rather than to complete questionnaires.

### **3.6.2 Interviews**

Structured interviews were conducted with selected employees, some councillors and selected service providers of the two municipalities. The interviews took approximately 15 minutes each and the process took one week to complete. As indicated earlier, considering the complexity and the sensitivity of the researched subject many people were very sceptical about giving information and in some cases they preferred not to be interviewed but rather just to complete a questionnaire and vice versa.

### **3.6.3 Documentary Survey**

As this research forms part of the researcher's everyday work, bid-evaluation reports, bid-adjudication reports, departmental reports and bid-adjudication minutes were scrutinised for the purpose of this research.

### **3.6.4 Observation**

As this research forms part of the researcher's everyday work, a considerable amount of data in this research was gathered through observation. As an employee of Capricorn District Municipality, the researcher observed on daily basis the practices of procurement and supply chain management, which included purchasing, tender administration and all processes relating to the awarding of projects.

### **3.7 CONCLUSION**

The interviews held with service providers, officials and councillors were more empowering and gave insight into the challenges facing the municipal supply-chain management systems in the country. The difficulties that were encountered were that this research was conducted during the period of the local elections and it was extremely difficult to get councillors to complete questionnaires. In some cases the researcher did not get information from the questionnaires as expected, and that is why in this case the researcher conducted interviews while administering questionnaires.

The researcher had to visit some of the respondents at their homes to either interview them or request them to complete the questionnaires. The researcher had to conduct telephone interviews with some respondents, as it was not easy to meet them in person.

## **CHAPTER 4**

### **DATA ANALYSIS**

#### **4.1 INTRODUCTION**

In this chapter the researcher analyses the collected data. The researcher determined and selected from the general field exactly that data which was required with regard to supply-chain management practices in municipalities. The researcher then filtered the massive amount of data available, using data filtering technique until only that which was critical to the research remained. Both quantitative and qualitative analyses were used for the purpose of this research.

The analysed data were derived from the following main questions of the study:

- (i) Why do many local municipalities still largely use the conventional procurement systems?
- (ii) Why are fraud and corruption so rife in municipalities, whereas there are supply-chain management regulations and procedures?
- (iii) Why are municipalities not complying with the national procurement and supply-chain management targets?
- (iv) What are the problems experienced in the implementation of South African supply-chain management regulations and policies and to what extent do these problems impact on service delivery?

#### **4.2 QUANTITATIVE ANALYSIS**

The findings of the research as per the respondents' contributions were analysed, using the following table:

**Table 4.1**

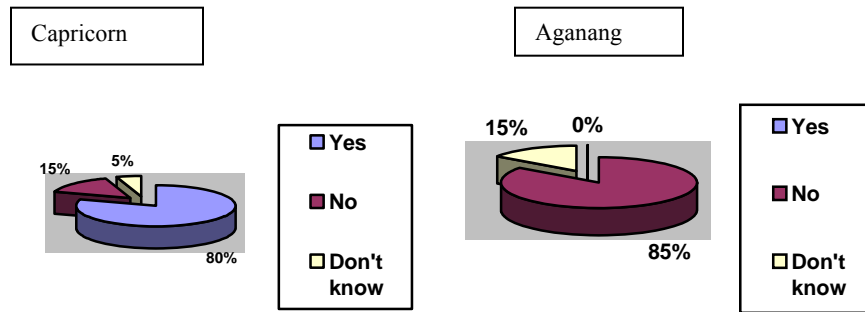
	<b>CDM</b>	<b>ALM</b>	<b>Notes</b>
Availability of approved Supply-Chain Management Policy	Yes	Yes	Both municipalities have an SCM policy adopted by council but not yet fully implemented.
Establishment of the Supply-Chain Management Unit	Yes	No	The organisational arrangement in ALM as per the adopted 2006/2007 does not cater for the establishment of the SCM unit.
SCM Unit established within the office of the CFO	Yes	No	Same as above
Availability of SCM implementation plan.	No	No	Although both municipalities have approved SCM policies, no implementation plans were in place.
Availability of bid-specification committees	No	No	Specifications are done by individual officials in various departments in both municipalities.
Availability of bid-evaluation committees	No	No	Evaluation is done by individual officials in various departments in both municipalities.
Availability of bid-adjudication committees	Yes	Yes	In ALM this committee is called 'Tender Committee' and is mainly responsible for bid adjudication but also does bid evaluations.
Procurement of goods and services centralised within the SCM Unit	No	Yes	In CDM procurement is decentralised. (Depts. are responsible for purchasing of goods and services). In ALM all procurements are done through procurement officers in the Expenditure unit (centralised)

Decisions on bid awards documented	Yes	Yes	Both municipalities keep records of the minutes and all supporting documents related to bid awards.
Are bid advertisements and awards advertised?	Yes	Yes	In both municipalities bids are advertised in the form of print media. Awards are advertised electronically in CDM.
Availability of a database for service providers.	Yes	Yes	Both municipalities have a database of service providers. A R150 fee is charged for registration on the ALM database whereas registration on CDM database of service providers is free.
Utilisation of the database of service providers.	No	No	There is a strong perception among respondents that the databases in both municipalities are not fully utilised.
Availability of a database established for redundant/obsolete store items	No	No	Neither municipality keeps a database of obsolete assets.
Availability of procedures for the disposal of movable assets	No	No	Although the SCM policies of the two municipalities cater for assets disposal, there are no set procedures for disposing of unwanted assets.
Are de-briefing sessions held with unsuccessful bidders?	No	No	De-briefing sessions are only held if and when required by service providers (in most cases during disputes).
Are there any training programmes for SCM practitioners in place?	Yes	Yes	
Is a fraud-prevention plan/policy in place?	Being developed	No	At CDM the policy is currently being developed.

The following is an analysis of the questionnaire responses in percentages for both municipalities.

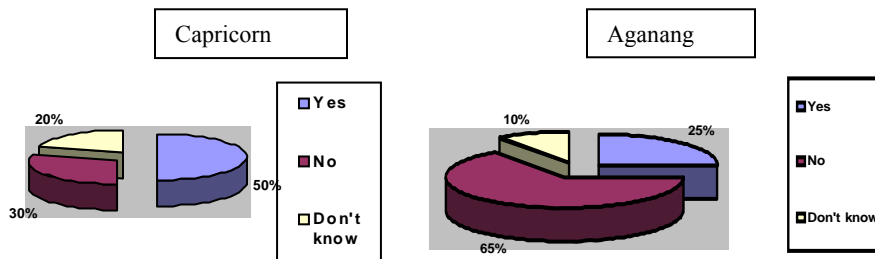
**Figure 4.1**

***1. Establishment of a Supply Chain Management Unit.***



*5% (Capricorn) and 15% (Aganang) of respondents have no idea of the establishment of the SCM unit in their municipalities. 85% of the respondents in Aganang and 15% in Capricorn indicated that there is no SCM Unit whereas 80% of the respondents in Capricorn indicated that there is SCM unit in their municipality.*

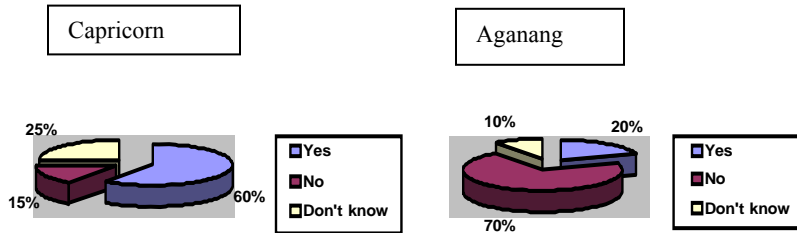
***2. Involvement of personnel holding relevant procurement qualifications.***



*20% (Capricorn) and 10% (Aganang) of respondents have no idea about the qualification of procurement personnel in their municipalities. 50% (Capricorn) and 25% (Aganang) of the respondents believe the procurement personnel possess relevant*

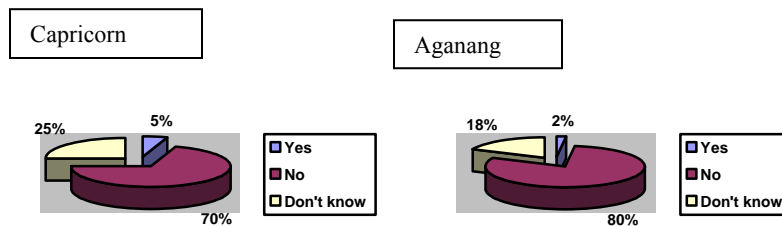
qualifications. 30% (Capricorn) and 65% (Aganang) of the respondents believe the procurement personnel do not possess relevant qualifications.

**3. Arrangements related to training of procurement staff.**



In terms of training arrangements, 60% of respondents (Capricorn) and 20% (Aganang) indicated that their organisations have training programmes for their procurement staff. 70% (Aganang) and 15% (Capricorn) of the respondents feel that there are no training interventions in place for their procurement personnel while 25% (Capricorn) and 10% (Aganang) of the respondents do not have an idea of what is happening in terms of training in their municipalities.

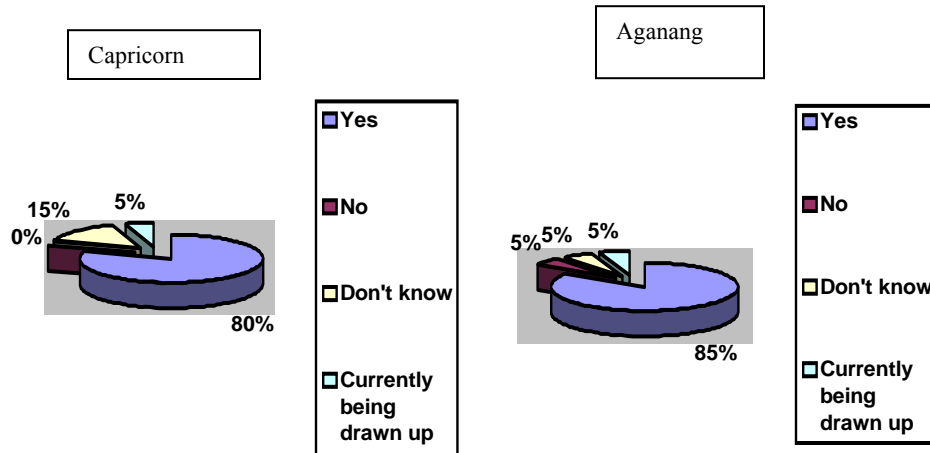
**4. Arrangements related to training of emerging service providers.**



In terms of emerging service providers' training arrangements, 5% of respondents (Capricorn) and 2% (Aganang) indicated that their organisations have training programmes for their service providers. 80% (Aganang) and 70% (Capricorn) of the respondents felt that there are no service provider training interventions in place while

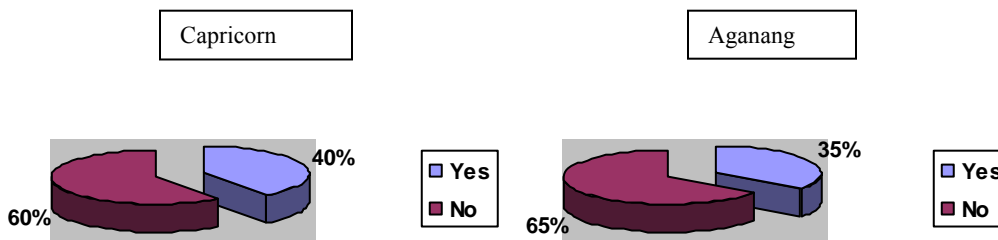
25% (Capricorn) and 18% (Aganang) of the respondents do not have an idea of what training plans their municipalities have for emerging service providers.

**5. Availability of an approved supply-chain management policy.**



5% of the respondents in both municipalities were of the opinion that their organisations were in the process of drawing up the SCM policies. 5% of the respondents in Aganang felt that there was no SCM policy in place. 80% (Capricorn) and 85% (Aganang) of the respondents believed SCM policies were in place while 15% (Capricorn) and 5% (Aganang) of the respondents did not know whether the SCM policies were in place or not.

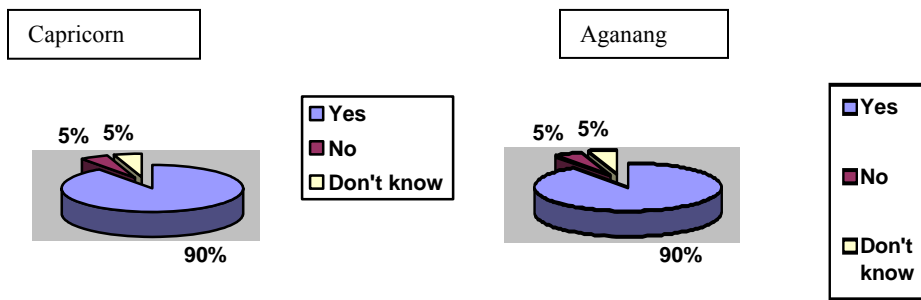
**6. Compliance with the SCM policy and other relevant legislation when procuring goods and services.**





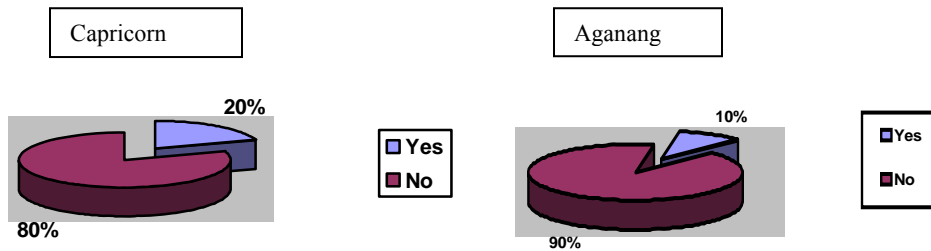
60% of respondents in Capricorn District municipality and 65% of the respondents in Aganang Local Municipality felt that their organisations were not complying with the SCM policies and other relevant legislation, while 40% of respondents in Capricorn District municipality and 35% of the respondents in Aganang Local Municipality believed their municipalities were complying.

**7. Availability of a (database) list of approved service providers.**



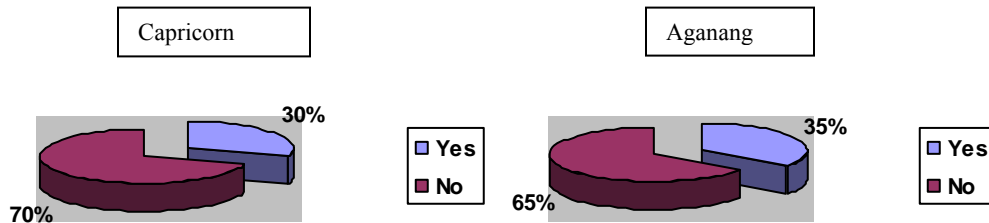
5% of the respondents in both municipalities indicated that their organisations did not have a database of service providers. 5% of the respondents in both municipalities had no idea of whether the database was kept or not. 90% of the respondents in both municipalities indicated that they had lists of approved service providers.

**8. Proper utilisation of the database of service providers.**



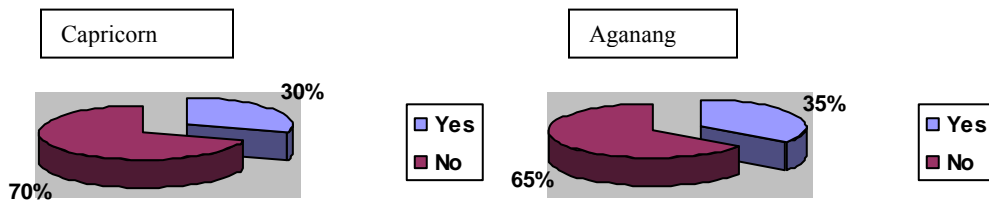
90% (Aganang) and 80% (Capricorn) of the respondents felt that the databases were not fully and properly utilised while 20% (Capricorn) and 10% (Aganang) of the respondents indicated that the databases were fully and properly used.

**9. Fairness and transparency of the purchasing system.**



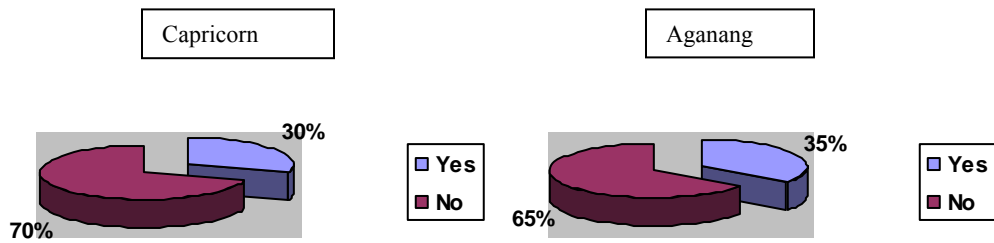
65% (Aganang) and 70% (Capricorn) of the respondents felt that there was no transparency and fairness in the purchasing processes while 30% (Capricorn) and 35% (Aganang) of the respondents felt that the purchasing systems were fair and transparent.

**10. Fairness and transparency in the drawing of bid (tender) specifications.**



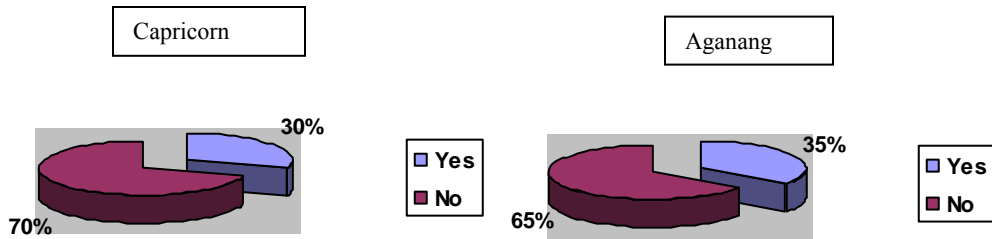
65% (Aganang) and 70% (Capricorn) of the respondents felt that there were no transparency and fairness in the way bid specifications were drawn while 30% (Capricorn) and 35% (Aganang) of the respondents felt that there were fairness and transparency in the way bid specifications were prepared.

**11. Fairness and transparency in the evaluation of bids (tenders).**



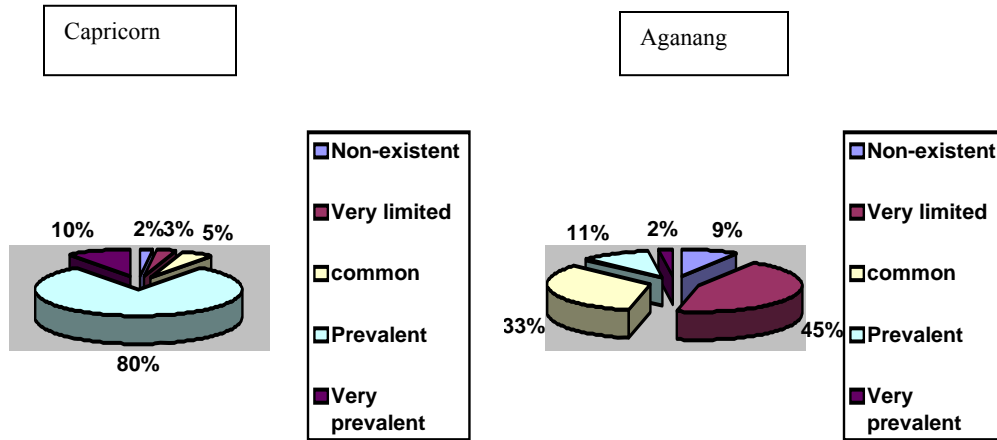
65% (Aganang) and 70% (Capricorn) of the respondents felt that there were no transparency and fairness in the way bids were evaluated while 30% (Capricorn) and 35% (Aganang) of the respondents felt that there were fairness and transparency in the way bids were evaluated.

**12. Fairness and transparency in the adjudication of bids (tenders).**



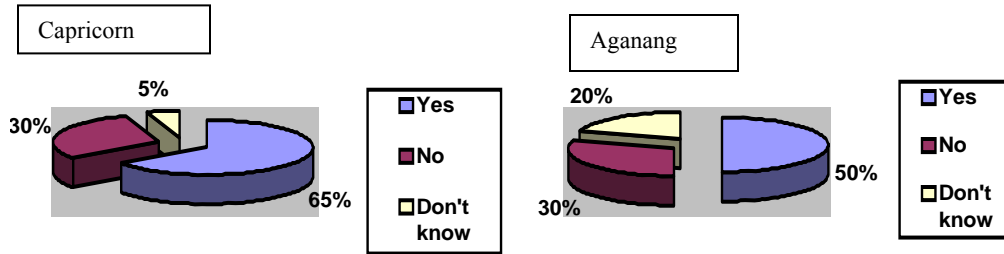
65% (Aganang) and 70% (Capricorn) of the respondents felt that there were no transparency and fairness in the way bids were adjudicated while 30% (Capricorn) and 35% (Aganang) of the respondents felt that there were fairness and transparency in the way bids were adjudicated.

**13. Existence of any form of procurement/tender-related corruption.**



2% of the respondents in Capricorn felt that procurement or tender-related corruption did not exist in their municipality and 9% of the respondents in Aganang felt the same. 3% of the respondents in Capricorn indicated that procurement or tender-related corruption was very limited in their municipality whereas 45% of the respondents in Aganang indicated the same. 5% of the respondents in Capricorn viewed procurement or tender-related corruption as common in their municipality and 33% of the respondents in Aganang felt the same. 80% of the respondents in Capricorn perceived procurement or tender-related corruption as prevalent in their municipality whereas 11% of the respondents in Aganang perceived it the same way. 10% of the respondents in Capricorn perceived procurement or tender-related corruption as prevalent in their municipality whereas 45% of the respondents in Aganang perceived it the same way.

**14. Record-keeping of procurement-process decisions.**



30% of the respondents in both municipalities indicated that their organisations did not have a database of service providers. 5% of the respondents in Capricorn and 20% in Aganang indicated that they had no idea of whether procurement decisions were kept or not. 65% of the respondents in Capricorn and 50% in Aganang indicated that they kept procurement-related decisions.

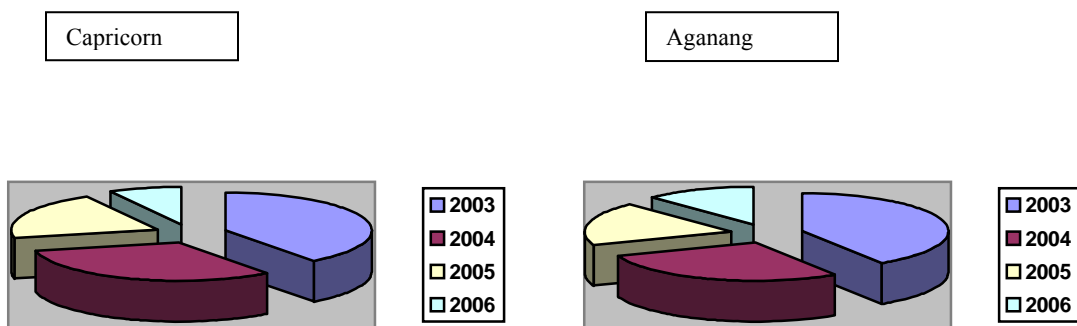
**15. Availability of procurement-related targets.**



55% of the respondents in Capricorn and 25% in Aganang indicated that their organisations do not have procurement targets. 15% of the respondents in Capricorn and 65% in Aganang indicated that they have no idea of whether their organisations have procurement targets or not. 30% of the respondents in Capricorn and 10% in Aganang indicated that their organisations have realistic procurement targets.

All the respondents acknowledged that the tender systems in both municipalities were not watertight. There was a strong perception from the service providers interviewed that the tendering processes were not fair and the service providers were not treated on the basis of fair discrimination and the systems did not encourage competition among service providers. The respondents were of the opinion that the tender systems favoured certain individuals, be it friends or relatives of certain officials. Others believed that bids were awarded on the basis of comradeship. Generally, many service providers have lost trust and confidence in these municipalities and this has resulted in a considerable decline in the sale of bills of quantities and terms of reference for bids. (refer to fig.4.2)

**Figure. 4.2 CDM and ALM yearly bid sales**



*The figures above show a considerable drop in the sale of bills of quantities and terms of reference for bids in both municipalities. The state of affairs is very unfortunate for a municipality like Aganang as it does not have a viable revenue base and revenue accrued from the sale of tender documents is an important source of income.*

### **4.3 QUALITATIVE ANALYSIS**

Although both municipalities have approved supply-chain management policies, implementation of those policies is a major problem. The respondents also felt that compliance with supply-chain management policies and regulations is still a major

challenge in both Aganang and Capricorn Municipalities. Hence the supply-chain management processes are vulnerable to abuse.

The organisational arrangements in both municipalities cannot adequately address the challenges and the requirements of supply-chain management. The recently adopted Aganang municipality IDP for 2006/2007 states that the organisational structure in its current state is not adequate to address all challenges that the Municipality is facing. The Municipality is unable to attract and maintain skilled professionals especially in the areas of Engineering, Town Planning and Finance due to its financial capacity to pay officials, limited number of engineers in the country and the fact that most of the engineers are absorbed by the private sector. This situation adversely affects the rolling out of service plans as well as the implementation of the municipal programmes and service delivery. There is no supply-chain management unit or procurement section established in Aganang Local Municipality. Officials in the expenditure unit perform all functions related to procurement. The same officials are also responsible for the payment of service providers. There is no clear separation of powers between the buying and the paying roles of the municipality.

Although many respondents interviewed claimed that a supply-chain management unit existed in Capricorn District Municipality, the unit does not meet the requirements and the standard of the SCM Unit as per the Municipal Finance Management Act and the Supply-Chain management regulations for municipalities. At the time of conducting this research, Capricorn District Municipality employed a Procurement Head who reports to the Head of Expenditure for its municipal procurement. Four employees work in the supply-chain management unit. The Unit is currently in charge of tender administration, generating purchases orders and goods-received notes. The warehouses, stores and asset disposal functions are currently located within the corporate services department.

Procurement of goods and services in CDM is currently decentralised. Departmental officials solicit quotations and finalise appointments of service providers without the involvement of the supply-chain management officials in the supply-chain management

unit. The officials in various departments undertake their own buying since each department has its own budget, yet not all departments are familiar with the details of the supply-chain management policy. There are concerns that this practice may not achieve the objectives of the supply-chain management policy.

#### **4.4 CONCLUSION**

The findings of the study show that there are many challenges confronting supply-chain management in municipalities. Issues such as compliance with the relevant legislation and policies, procurement-related corruption, capacity of bid-committee members and supply-chain management personnel should be aggressively addressed to help improve supply-chain management practices in municipalities. Based on the findings of the study, it is imperative that further research of this nature be conducted at another level.



## **CHAPTER 5**

### **CONCLUSION AND RECOMMENDATIONS**

In this chapter, the main conclusions of the study are drawn and recommendations are made against issues raised. Issues for further research are also identified. The study investigated the supply-chain management practices in Capricorn District Municipality and Aganang Local Municipality. Hence, the topic of this study is ‘the practice of supply-chain management in Capricorn District with particular reference to Aganang Municipality’. The study also looked at the implementation of the procurement policies in the said municipalities.

The study investigated and analysed possible non-compliance with supply-chain management legislation and policies, and purchasing and tender irregularities in Capricorn District and Aganang Local municipalities. It also investigated whether the evaluation and adjudication processes are in accordance with the applicable legislation. The study further recommended possible strategies and mechanisms to improve the situation on procurement and supply-chain management against fraud and corruption.

Chapter one outlined the background and rationale for the study, which formed a basis for understanding the proposed research. Statement of the problem and the research questions were outlined together with the objectives of the study.

Chapter two provided a brief review of the existing literature that presented the most authoritative scholarship on the research problem. This study mapped the regulatory framework to examine whether these municipalities comply with the supply-chain management legislation and regulations.

Chapter three outlined the research design and methodology that was followed in the research process to investigate the problem identified in chapter one. The chapter also identified the target group, sampling method, size of the population and also the research techniques.

Chapter four discussed how the collected data was analysed. It outlined the empirical results of the study. The analysis of the questionnaire, interviews conducted and the detailed discussion of the results were outlined in this chapter.

In chapter five, the main conclusions of the study are drawn and recommendations are made against issues raised with a view to providing these municipalities with possible strategies and mechanisms to improve procurement and supply-chain management against fraud and corruption. The study summarises all the discussions above, linking the aims and the objectives of the study, data collected and the reviewed literature. Issues for further research are also identified.

The recommendations are also not aimed at a specific municipality but are intended to serve the entire local government. Certain aspects of the research may, however, be indicative of a problem that a specific municipality is experiencing.

Based on the critical issues raised, the following recommendations are made to assist Capricorn District Municipality, Aganang Local Municipality and other municipalities in achieving supply-chain management excellence:

- The establishment of a fully-fledged autonomous supply-chain management unit under the CFO and the staffing thereof is crucial in both municipalities. The supply-chain management organisational arrangements should be realigned in order to maintain the separation of powers. The procurement officials who issue the orders should report to the head of the supply-chain management, while the expenditure officials who issue the cheques will report to the head of expenditure. Both the supply-chain management head and expenditure head must report to the CFO. The organisational structure of the municipality can, and often does, affect the way in which decisions are made and work is processed. For example because of the absence of an SCM unit until fairly recently, the Aganang Local Municipality has not had the opportunity to implement its supply-chain

management policy and to give effect to the vision of the municipality for its social and economic development.

- The centralisation of supply-chain management functions in both municipalities is critical. Purchasing functions and all other procurement roles must be performed only by those employed to play that role i.e procurement officers and supply chain management practitioners in the supply chain management unit.
- Both municipalities must make a concerted effort to develop a cadre of professional supply chain management practitioners and procurement officers in order to fully implement the supply chain management policies. In both municipalities, there is a need to build and strengthen the capacity of supply-chain management practitioners in areas such as stores and asset management. The functions of stores and asset management must be executed in the supply chain management unit.
- The supply chain management units, especially the Capricorn district municipality must be resourced and developed to a level of centre of expertise or advisory centre, to provide an integrated specialist procurement service to local municipalities and service providers across the district. Training of procurement and supply chain management staff must be specifically related to job requirements and must be provided by accredited training providers such as SAMDI.
- Compliance to the supply chain management legislation and policies and reporting on procurement activities as required by the legislation is a major challenge for both municipalities. The inability of these municipalities to establish functioning specifications and evaluation bid committees is a worrying factor. Establishment and the functioning of all bid committees and the reporting of supply chain management activities to the provincial Treasury department must be prioritised.

- Local emerging suppliers and contractors have not built enough capacity to participate in tenders advertised locally, particularly when the values are large and often do not have the capacity to raise credit and tender guarantees from banks. Supply chain management policies in both municipalities should address social responsibilities and there should be a special effort to develop and empower emerging suppliers and to create opportunities for local service providers to bid. Workshops and training programmes should be organised to develop emerging local suppliers and SMMEs.

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